Diploma in Business Analytics

DBA-101

PRINCIPLES OF BUSINESS MANAGEMENT

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Structure

1.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Explain the concept and nature of business
- Find the scope and importance of business
- Explain the forms of business
- Differentiate the business and commerce

1.1INTRODUCTION

Every human being is engaged in one activity or the other. The human activities that are undertaken with an objective to earn money or livelihood are called economic activities. Whereas the other types of activities that are undertaken to derive self-satisfaction, are called non-economic activities. A farmer growing crops, a worker working in a factory for wage/salary, a businessman engaged in buying and selling of goods are examples of economic activities. While activities like meditation, engaging in sports for physical fitness, listening to music, providing relief to flood victims etc., are examples of non-economic activities. Economic activity can be a one-shot affair or a continuous one. For example, you know how to stitch clothes and one day you stitch a shirt for your friend and he pays some money to you. Of course, this is an economic activity as you have some monetary gain but it is a one-shot affair. But, if you start stitching shirts on a continuous basis and charge money for that, you are said to be engaged in some continuous or regular economic activity. It may be noted that by getting themselves engaged regularly in a particular economic activity people try to earn their livelihood. So, the activities in which individuals engage themselves on a regular basis and earn their livelihood are known as their ‘occupations’. In fact everyone is engaged in one occupation or the other, and these can be broadly categorized as – (a) Profession; (b) Employment; and (c) Business.

1.1.1 CONCEPT OF BUSINESS

Individual lives in a business environment which is an indispensable part of society. The essence of this is to satisfy individual wants by providing variety of goods and services through wide networking of business activities. Lecturers teach in the lecture rooms, farmers work in the farmlands, workers work in the factories, drivers drive lorry/vehicles, shopkeepers sell goods, medical doctors attend to patients, etc. In this way, people are busy during the day and sometimes during the night depending on the nature of individual job or business. Now the question arises as to why we all keep ourselves busy day and night. The answer is to earn money that will be used to satisfy our wants by purchasing goods and services which will be produced by business organization.

Business is an integral part of modern society. It is an organized and systematic activity for earning profit. It is concerned with activities of people working towards a common economic goal. Modern society cannot exist without business. This is because business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place. Besides, business provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty. When business environment is conducive for business organization such business thrives well and this reduces poverty. Business improves national image of producing country by producing and exporting quality goods and services to foreign countries. By participating in international trade fairs and exhibitions it also demonstrates the progress and achievements of its own country to the outside world.

Hence, a number of innovative products and services are developed through industrial research. This section has been designed to enable the readers aware of the nature, purpose and scope of business. It also recognizes the different types of business activities along with the latest developments in business such as e-commerce, etc. People around us are engaged in various activities.

1.2.2 NATURE OF BUSINESS

Business refers to an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. Mining, manufacturing, trading, transporting, storing, banking, and insurance are examples of business activities. Business to mean, a commercial enterprise or establishment that trades in goods or services. However, the complication of using a general definition emerges again. For instance, the objective of 'trading' does not have to be for profit. Therefore the argument can be made that non-profit making organizations can also be regarded as businesses, at least a certain type of business. This would include public sector organizations, since there is increasing demand for these organizations to perform and be managed like profit-making businesses. Business can also be regarded as any economic activity which must focus on continuous and regular production and distribution of goods and services for the purpose of meeting the needs of people in the society. The implication of this reveals that business must involve continuous production and distribution of goods and services with the intention of making profits. Business is the activity of an individual or group of individuals in producing and distributing goods and services to customers.

Stephenson (2008) defines business as "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."

According to Dicksee (1980), “Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.”

Lewis (2011) sees business as “Human activity directed towards producing or acquiring wealth through buying and selling of goods”. He considered it as an economic system in which goods and services are exchanged for one another or money, on the basis of their perceived worth. It therefore means that every business requires some form of investment and a sufficient number of customers to whom its output can be sold at profit on a regular basis.

Besides, business organization can be defined as: an entity that is both commercial and social, which provides the necessary structures to achieve the central objective of trades in goods or services. There is need to understand that Institutions or organizations whose primary objective is profit-making are generally known as business enterprises.

Aremu (2012) posited that the success of any business regardless of its size depends on how well its management is able to plan. He further stressed that one of the most serious operational problems of business is lack of effective and formal planning. The seriousness of this problem is underlined by the number of businesses failure every year.

Characteristics or Features of Business

Thus, the main characteristics of business are:

(a) It is an occupation where a person is engaged in manufacturing or buying and selling of goods and services. The goods may be consumer goods or capital goods. Similarly the services may be in the form of transportation, banking, insurance etc.

(b) The activities must be carried on regularly. A single transaction is usually not treated as a business. For example, if a person sells his old car at a profit, it is not treated as a business activity. However, if he is engaged in the activity of buying old cars and selling them on a regular basis, he shall be treated as engaged in business activity.

(c) The sole objective of business is to earn profit. It is essential for the survival of business. Of course, it is through provision of some goods or some services.

(d) Every business requires some investment in cash or kind or both. It is usually provided by the owner or is borrowed by him at his own risk.

(e) The earnings are always uncertain, because the future is unpredictable and a businessman has no control over certain factors that affect his earnings. Thus, every business involves an element of risk and the same is borne by the businessman, the owner.

Apart from the main features of business are:

1. Exchange of goods and services: The major feature of any business is the exchange of goods and services. All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth.
2. Profit is the primary objective of business: There are different objectives of business, but the primary objective of any business is the profit objective. The purpose of individual or group of individuals involving in business is to make profit. The reward of business is profit.
3. Involvement in numerous transactions: Majority of the business usually involved in more than one transaction because the behaviors of consumers are unpredictable. Henceforth, in business, the exchange of goods and services is focused on different transactions.
4. Marketing and Distribution of goods: Marketing and distribution of goods is another importance feature of business. This feature is very important because regardless of the quality of goods if it is distributed to the appropriate consumer it will not be known. It must therefore be available in the right place at the right time.
5. Business Risks and Uncertainties: Another important feature of business is ability to withstand risks and uncertainties. There are different kinds of risks faced by the business owners, these include: risks of loss as a result of fire outbreak and risks of loss as a result of theft. There are business uncertainties, such as change in demand or fall in price which will negatively affect business. These uncertainties are uninsurable hence the business owners suffer the loss while the business risks can be insured by the business owners.
6. Availability of Buyer and Seller: In a business transaction there must be at least two parties involved. The two parties are buyers and sellers. A seller is an individual or entity that exchanges any type of good or service in return for payment. In financial markets, the seller is the investor who gives up his/her

investment to the buyer in return for payment. A buyer is a personwhopurchases things and is regarded as acustomer.

7. Production of goods and services: One major feature of business that cannot be contested is the production of goods and services. Goods and services are what the seller will present to the buyer. Goods and services are the business activity that the buyer will pay for, that is, what they will exchange for their money. Hence, the goods and services provided must worth its value.

8. Business skills for economic success: It is very clear that establishing of business is not just what anybody can dabble in to. Business requires a special skill and businessmen must possess special skills and qualities in order to have a successful business. This is because business is operating in volatile environment and for any business to survive in the operating environment there are needs have the required skills.

9. Social obligations: Business in modern times is service focused. Businesses are an integral part of the communities in which they operate. Businessmen know that their long-term success is based on continued good relations with a wide range of individuals, groups and institutions. Businessmen know that business cannot succeed in societies that are failing—whether this is due to social or environmental challenges, or governance problems. Moreover, the general public has high expectations of the private sector in terms of responsible behavior. Consumers expect goods and services to reflect socially and environmentally responsible business behavior at competitive prices.

10. Meeting human needs and wants: The essence of any business is to meet the needs and wants of its numerous customers. This will be achieved by giving out goods products and service that are not only safe for consumption but only worth the value of money paid for such goods and services.

1.2.3 SCOPE OF BUSINESS

The scope of business is very broad. It covers a large number of activities which may be looked into from two perspectives, namely: Industry and Commerce.

(A) **Industry:** The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories:

(i) Consumers Goods: Goods used by final consumers are called consumers goods. Example of consumer goods Laptop, handset, bags, pencil, biro, cleaner, edible Oils, Cloth, Jam, Television, Radio, Motor Car, Refrigerator, etc.

(ii) Capital Goods: Goods used in the production of other goods are described as capital goods. Steel produced by steel plant is used for fabrication into a variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc. Similarly machine tools and machinery used for manufacturing other products also come under this heading.

(iii) Intermediate Goods: There are certain materials which are the finished products of one Industry and become the intermediate products of other industries. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking, industrial activities may be classified into *primary and secondary* which are explained in the following lines.

Primary Industries: Primary industries include the followings as listed below:

- Extractive Industries
- Genetic Industries

- **Extractive Industries:** In extractive industries, the industries extract or draw their products from natural sources such as earth, sea, air. The products of such industries are generally used by other industries such as manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.
- **Genetic Industries:** Genetic simply means parentage or heredity. Genetic industries are engaged in breeding plants, and animals for their use in further reproduction. For breeding plants, the seeds and nursery are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and the hatchery come under the category of genetic industries.

Secondary Industries: Secondary industries include the followings as listed below:

- Manufacturing Industries
- Construction Industries

- **Manufacturing Industries:** These are engaged in producing goods through the creation of what is known as 'form utility' such industries are engaged in the conversion or transformation of raw materials or semi finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry. Manufacturing industries may take any one of the following forms: Analytical, Synthetic, Processing, and Assembly Line.

(i) Analytical: This is a situation where the basic material is analyzed and separated into a number of products. Oil refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, diesel, kerosene, gasoline, lubricating oil, etc.

(ii) Synthetic: In this type of industries at least two materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilizers, cosmetics are the products of this industry. A new product will be derived from the combination of two or more products mixed together.

(iii) Processing: In this type of industry, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles, sugar and steel are examples of this category of industries.

(iv) Assembly line: In assembly line industry, the finished product can be produced only after various components have been made and then brought together for final assembly to be converted into final or finished products. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of the industry.

- **Construction Industries:** These types of industries are focused on the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement, Lime, Mortar, etc., and also the products of extractive industry such as stone, marble, granite, etc. one of the remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

(B) Commerce: It isan interchange of goods or commodities, especially on a large scale between different countries (foreign commerce) or between different parts of the same country (domestic commerce) trade; business. It can also refer to the process of buying and selling. It covers wholesale, retail, import, export trade and all those activities which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the final consumers. The concept of commerce usually covers two important areas:

(i) Trade

(ii) Service business or Aids to trade

(i) Trade: The term trade refers the act or process of buying, selling, or exchanging commodities, at either wholesale or retail, within a country or between countries. It is also the process of transferring of goods and services. It is the central activity around which the ancillary functions such as banking, transportation, insurance, packaging, warehousing and advertising are surrounded. Trade can be categorized into two classifications:

(a) Domestic Trade: this is also refers to as internal trade. It is internal because, it only focuses on buying and selling of goods within the boundaries of a country and the payment for the same is made in national or local currency either directly or through the banking system. Domestic trade can be further sub-divided into wholesale trade - Buying of goods in large quantities from producers and selling the same in small quantities to retailers and retail trade - activities involved in the selling of commodities directly to consumers, i.e. an industry that sells primarily to individuals, not corporations

(b) Foreign Trade: it is also known as international trade. It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the domestic exporters in domestic currency, and for making payment of the price of the imported goods and services to the foreign exporter in that country’s national currency (foreign exchange). *International trade* allows expansion of markets for both goods and services that otherwise may not have been available.

(ii) Service businesses: These are usually regarded as Aids to Trade**.** As already highlighted earlier, there are certain function such as banking, transportation, insurance, ware-housing, advertising, communication, etc. which constitute the main auxiliary functions helping trade both internal and international. These auxiliary functions are discussed below.

(a) Banking: A financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks. In most countries, banks are regulated by the national government or central bank. Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Commercial banks are mainly concerned with managing withdrawals and deposits as well as supplying short-term loans to individuals and small businesses.

(b) Transportation: it is any device used to move business item from one location to another. Commonforms of transportation include planes, trains, automobiles, and other two-wheel devices such as bikes or motorcycles. It involved carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of business. It has linked all parts of the world together thereby enhancing international trade.

(c) Warehousing: A *warehouse* is a planned space for the storage and handling of goods and material. There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one location to another. Thus, warehousing assists in discharging the function of storing the goods both for manufacturers and traders for such time till they decide to move the goods from one point to another.

(d) Insurance: In any economy, the insurance industry plays significant roles in helping to smooth the business environment and shoring up investors' confidence. Insurance industry provides intangible products in the same way as banks, hotels, etc therefore the firms in the industry are regarded as service companies. Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered.

(e) Advertising: Advertising is any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor. When effectively advertising is better placed to meet the needs of its customers, consumers and stakeholders. First, it enables, other things being equal, successful execution, culminating in the profitable marketing of the advertised product. Too, it meets the socioeconomic needs of consumers, whose standard of living is enhanced, economically empowered and presented with better choices. Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods produced by businessmen would not have been sold to a widely scattered market and customers would not be aware of the new products because of the paucity of time, physical-spatial distance, etc.

(f) Communication: This is another service area that aid business. It helps because up-to- date information is required. This information can be accessed through computers, satellite links and fax machines

In addition to the above discussion as regards the scope of business, there are other several views among researchers on the scope of business. However, the following are the most important areas that are generally acceptable.

a) Demand Analysis and Forecasting
b) Cost and production Analysis
c) Pricing Decisions, policies and practices
d) Profit Management
e) Capital Management
f) E-commerce

These scopes of business are the principal issues that business activities must worked on because they are the core areas of business

a) Demand Analysis and Forecasting:

Demand analysis and forecasting provided the essential basis for business planning and occupies a strategic place in business organization. A business firm is an organization which converts productive resources into finished goods. These finished goods will be offered to the market. However, what will be produced for the market will be based on the market demand. This is because business decision making depends on accurate estimates of demand. A demand forecast will assist business owners in maintaining and strengthening market position and reduce wastage. Demands analysis helps identify the various factors influencing the product demand and thus provides guidelines for manipulating demand.

b) Cost and Production Analysis:

The essence of costs and the ability to measure them in business are the necessary steps for more effective profit planning, cost control and sound pricing practices. All business decisions will be influence by cost of production.

A study of costs, combined with the data drawn from the business records, can yield significant cost estimates which are useful for business decisions. Production analysis is narrower, in scope than cost analysis. Production analysis frequently proceeds in physical terms while cost analysis proceeds in monetary terms.

c) Pricing Decisions, Policies and Practices:

Pricing is an essential and pivot area of business. In fact, price is the genesis of business revenue and as such its performance mainly depends on how correctly the pricing decisions are taken. Business that is producing goods and services need to set the *price* for their product. Setting the price for an organization's product is one of the most important decisions a business manager faces. It is one of the most crucial and difficult decisions a Business's manager has to make. Pricing is a profit planning exercise. In pricing business owners must be knowledgeable about pricing method, differential pricing, price forecasting, etc.

d) Profit Maximization:

Profit maximization is another scope of any business. Profit of a business is the surplus remaining after total costs are deducted from total revenue, and the basis on which tax is computed and dividend is paid. Profit is the yardstick to measure of success in a business. Profit is reflected in reduction in liabilities, increase in assets, and/or increase in owners' equity. Profit maximization refers to the sales level where profits are the highest. Some people think that higher sales level translates to higher profits; this may not be the case in some situations. Although, the essence of business organizations are generally to make profits both in short and long run.

e) Capital Management:

Capital management focuses on planning and control of capital. In this scope of business, business organization strives to maintain sufficient and equal levels of working capital, current assets, and current liabilities. This helps a business to meet its expenseobligations while also maintaining sufficient cash flow and is primarily related to short term business financialdecisions. It is a managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other. Capital management ensures a business has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

f) E-commerce:

Electronic commerce, commonly known as *E-commerce or e-commerce,* is trading in products or services using computer networks, such as the Internet. *E-commerce (electronic commerce*or EC) is the buying and selling of goods and services, or the transmitting of funds or data, over an *electronic* network, primarily the internet. There are multiple types of sales scenario that e-commerce system can combine depending on a company's sales approach towards their customers. These business transactions are Business-to-Consumer (B2C), Business-to-Business (B2B), Consumer-to-Business (C2B) and Consumer-to-Consumer (C2C)

Beneficiaries of Business

There are many beneficiaries of business activities; however, the paper will only focus on the following under listed people:

(i) Business Owners: business owners are the individual that provide the capital for running the business. The principal beneficiaries of business success are the owners of the business. They enjoy the profit accrue from the business which lead to increase in income to the owners. They are the decision makers of the business and working for themselves.

(ii) Employees: Employees are the **w**orkers that receive wages and salaries. An employee is anyone who has agreed to be employed, under a contract of service, to work for some form of payment. This can include wages, salary, commission and piece rates. This includes: home workers, people who have been offered and have accepted a job, fixed-term employees, seasonal employees, casual and part-time employees, employees on probationary and trial periods.

(iii) Government: A group of people that governs a community or unit. It sets and administerspublic policy and exercisesexecutive, political and sovereign power through customs, institutions, and laws within a state. One of the responsibilities of government is to collect taxes from the businesses which in turn use to provide basic amenities to the citizens of the country.

(iv) Society: society is an organized group of persons associated together for religious, benevolent, cultural, scientific, political, patriotic, or other purposes. The totality of people regarded as forming a community of interdependent individuals: working for the benefit of *society.* The society benefits from the business activities in no small measure particularly with regard to corporate social responsibility of business. Business constructed roads, built schools and equipped schools, supplied text books to schools, provided pipe borne water or sinking of motorized borehole, etc.

Stakeholders of the Business

Stakeholders are persons or group of persons who have committed something in the business enterprise and, therefore, have expectations from it. This is totally different from beneficiaries of business.

Stakeholders are those involved in, affected by, or able to influence the business. The following are the general stakeholders of the business in any economy:

- Communities
- Competitors
- Customers and consumers
- Employees and agents
- Families
- Government
- Media and advocacy groups
- Owners / shareholders
- Society
- Suppliers

The subject of business has acquired an important status in the field of business administration and marketing at the University level. It embraces the study of the methods, techniques and practices of efficient organizations and management of business. The knowledge of this subject is essential not only for the management sciences and social sciences students, but also for all those who want to enter into any line of business. Business is an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. The business is set up to serve needs of individual and society through the production and distribution of goods and rendering of services at profit for the owners. A business unit cannot survive unless there are customers to buy the products and services. Again, a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. Hence, it needs to attract more customers for its existing as well as new products. This will be achieved with the help of various marketing activities. Business is highly dynamic and can continue to be successful only by adopting itself to change in its business environment. Finally, successful businesses are built on purpose and it should go without saying that part of business purpose is to make profit; but making profit should not be the sole purpose of business. There has to be a sense that the service or product of any forms of business provides and brings value to the market, and that because of that value, the business makes profit.

1.2.4 IMPORTANCE OF BUSINESS

Business is an integral part of modern society. It is an organised and systematic activity for earning profit. It is concerned with activities of people working towards a common economic goal. Modern society cannot exist without business. The importance of business can be described as follows:

(a) Business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place.

(b) It provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty.

(c) It utilizes the scarce resources of the nation and facilitates mass production of goods and services.

(d) It improves national image by producing and exporting quality goods and services to foreign countries. By participating in international trade fairs and exhibitions it also demonstrates the progress and achievements of its own country to the outside world.

(e) It enables the people of a country to use quality goods of international standard. This is possible by way of importing goods from foreign countries or by producing quality goods in the country by applying modern methods of production.

(f) It gives better return to the investors on their capital investment and also provides opportunities to grow and expand the business.

(g) It promotes social interest by providing tourist services; sponsoring cultural programmes, trade shows etc. in the country, which enable people of different parts of the country to exchange their culture, traditions and practices. Thus, it promotes national integration.

(h) It also facilitates exchange of culture among the people of different nations and thus, maintains international harmony and peace.

(i) It helps in the development of science and technology. It spends large amount of money on research and development in search of new products and services. Hence a number of innovative products and services are developed through industrial research.

1.2.5 OBJECTIVES OF BUSINESS

Business objectives are something, which a business organization wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, that is, to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of society as a whole. Business objectives also need to be aimed at contributing to national goals and aspirations as well as towards international wellbeing. There are several objectives of business however this paper focused on the following important objectives of any business.

(i). *Profit objective:* The primary objective of business is to make profit by identifying and effectively serving the needs of customers. Profit is the primary motive for establishing a business enterprise. Profit represents a reward for investing in a business. This implies that profit is a reward for assuming the risk of establishing a business enterprise. Profit also serves as a measure of performance. It is an index by which the performance of one enterprise can be compared with that of another or the performance of the same enterprise can be evaluated over time. Consequently, profit is an incentive for people to work harder and more efficiently.

*(ii) Growth Objective:*The growth of a business is another major objective of business. The growth of business is an expansion of the business enterprise. This may be in form of increased sales turnover, market share, number of people employed, capital employed, etc. Growth objective of business also benefit the employees because it gives security of jobs to employees.

(*iii) Market share objective***:** Business often wants to build a larger market share. The concern of some business owners is on how to increase the market share of their business. They usually achieve this objective by wining customers from competitors. The essence of increasing market share is to dominate the market and possibly increase their product prices.

(iv) Survival: Survival is another important objective of all forms of businesses. Survival is main objective of any business in today's competitive world and volatile environment. Every business organization tries to be different and accelerative from their competitors to achieve their goals and become market leaders. This usually commence from the process of launching new products and services that are relevant to the needs of the customers. This must be supported with strategic marketing activities to ensure that the product is acceptable to the consumers. The survival of a business might also be threatened when business environment is unfavorable.

*(iv) Employee Satisfaction:*Business organizations must ensure that they bring satisfaction to their employees. Past studies depict bidirectional relationship between employee satisfaction and job performance while recent studies give more insight of unidirectional relationship that employee satisfaction leads to job performance but weak relationship exists when job satisfaction was analyzed as a result of job performance. It is maintained that employee satisfaction and job performance are directly related and that job satisfaction is the result of job performance.

(v) Image and reputation: The important objectives of business that must also worthy of mentioning is improving image and develop a good reputation. This is achieved by recognizing the needs of other customers in order to not lose the customers to other businesses in the competitive environment. Thus, the business organization strives in various ways to improve its image and reputation by producing and distributing high quality products.

*(vi)Social Objectives:*Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society. If business activities lead to socially harmful effects, there is bound to be public reaction against the business in the short or long run. Other social objectives of business are: supply of quality goods and fair price, fair deal to workers, fair return to investors and fair deal to suppliers.

*(vii). National Objectives:*Businesses are operating in a country and therefore, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizen, earn revenue from tax, become self-sufficient in production of goods and services, promote social justice, etc. Business activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business.

(vii). Shareholder Satisfaction: **A**s business organizations increasingly believe in the truism that shareholder satisfaction is inexorably linked to long-term shareholder value. To guarantee continued support of investors, business enterprises need to improve the returns to shareholders while at the same time reducing their risk.

1.2.6 PURPOSE AND FUNCTIONS OF BUSINESS

Purpose refers to what the business intends to do. Purpose clarifies business behavior individually and collectively, and is based upon what the business values, instrumentally and terminally. The purpose of a University is to teach and carry out research because education is valued; the purpose of business is to make a profit because economic wealth is valued and so on. Understanding the value behind the purpose is fundamental if one wants to set any strategic direction. Without this information, a business is adrift and will move in the direction of each and every wave. If a businessman wants to take control of his own business and explicitly set a direction, he must firmly establish the purposes of such business. The purpose of business activity is to identify and satisfy the needs and wants of the people with the overall aim of earning profit. More also, in defining an appropriate business purpose, the 5 “Ws” (Why, Who, What, When, and Where) can help businessman to determine the information he/she to consider in the in the business purpose.

*Business has some basic functions*which must be performed in order for business to achieve its purpose; a business enterprise performs many functions which can be classified under the following headings: Production, Marketing, Finance and Personnel. In some business organisations, there are separate departments to look after these functional areas. It may be noted that these functions are interdependent and inter-related. For instance, production department depends upon marketing department to sell its output and marketing departments depends upon production department for the products of required quality to satisfy its customers. Thus, there must be proper integration of various functional areas of business to achieve its purpose. This can be achieved by the management of the enterprise by effective planning, organization, direction and control. The salient functions of a business are listed and discussed below.

(i) ***Production Function:***It is concerned with the transformation of inputs like manpower, materials, machinery, capital, information and energy by business into specified outputs as demanded by the market and society. The production department is entrusted with so many activities such as production planning and control, quality control, procurement of materials and storage of materials.

(ii) ***Marketing Function:***This focused on the distribution of goods and services produced by the business’ production department. It can perform this function efficiently only if it is able to satisfy the needs of the customers. For this purpose, the marketing department guides the production department in product planning and development. It fixes the prices of various products produced by the business. It promotes the sale of goods through advertisement and sales promotion devices such as distribution of samples and novelty items, holding contests, organizing displays and trade exhibitions, etc.

(iii) ***Finance Function:***This function is concernedwith arrangement of sufficient capital for the smooth running of business. It also assists in the proper utilization of resources. It considers business decisions such as sources of finance, investment of funds in productive ventures, and levels of inventory of various items, etc.

(iv) ***Personnel Function:***This is another important function which business must perform in order to achieve business purpose. It is concerned with finding suitable employees, giving them training, fixing their remuneration and motivating them. The quality of human resource working in the enterprise is a critical factor in the achievement of business purpose. Therefore, it is necessary that the employee is highly motivated and satisfied with the terms and conditions of service offered by the business enterprise.

Theories on Purpose of Business

There are two common theories on the purpose of business organization. Each of the theories provides a framework for evaluating compensation policies, corporate governance procedures, and the economic and social performance of business. These theories are: Shareholder theory and Stakeholder Theory.

Shareholder theory

Shareholder theory emanates from an economic perspective, focusing on the business purpose of creating wealth for its owners while minimizing both the importance of the firm's interaction with its other constituencies and its role in society. In general, shareholder theory encompasses the idea that the main purpose of business lies in generating profits and increasing shareholder wealth. Modern proponents of shareholder theory espouse three tenets from Smith,

a) the importance of "free" markets;
b) the "invisible hand of self-regulation"; and
c) the importance of "enlightened self-interest".

Shareholder theorists call for limited government and regulatory intervention in business, believing markets are best regulated through the mechanism of the invisible hand—that is, if all firms work in their own self interest by attempting to maximize profits, society at large will benefit. The proponents of the shareholder view are of the opinion that the invisible hand checks illegal activity, arguing that the market will punish, or weed out, firms that engage in illegal or unethical behavior. Therefore, they conclude that, in general, excessive oversight and regulation of industry is unnecessary.

The overriding purpose of the firm is to maximize shareholder wealth. It is believed in solving social problems is the responsibility of the state. Corporate philanthropy and other activities not directly related to generating shareholder wealth are both a waste of shareholders' money and, potentially, immoral because they amount to stealing from owners. Although this last statement seems strong, Friedman believed, in short, that the business of business is business. The primary purpose of any businesses is to generate profit, not oversee the social or moral development of society. Social and moral development, according to Friedman, is best handled by the government or (preferably) through Non Government Organisations (NGOs) and voluntary organizations. When business becomes involved in social or public policy issues, wealth is diverted to issues outside the core expertise of their managers. This inefficient use of wealth will negatively affect society in the long run. Friedman's negative view of socially involved companies went so far as to proclaim that such actions usurped the role of democratically elected officials. It is important to note that Friedman never espoused firms acting unethically, immorally, or illegally. In fact, while promoting the corporate goal of "maximizing shareholder wealth," he argued that this must be done within the moral, ethical, and legal boundaries of society. He asked only that government and the citizenry assume their rightful roles in creating those boundaries.

Stakeholder Theory

Stakeholder theory widen the firm's perspective, recognizing the importance of wealth creation as well as the business' relationships with its multiple constituent groups - shareholders, creditors, employees, customers, suppliers, regulators, and local communities - and impact on society at large.

The idea that a business should have an expanded role and responsibilities to other stakeholders besides its owners is much newer than shareholder theory. Although tenets of shareholder and stakeholder theories differ, both are concerned with the purpose of the firm and strategies to improve its competitive position. Thus, the two theories are *not* diametrically opposed, as it sometimes appears. Each is concerned with the firm's best interests—one may say self interest but each differs on the most effective approach to realize those interests.

For example, stakeholder theory does not view maximization of shareholder wealth as the most efficient way to generate competitive advantage for the firm. The theory holds that firms can best generate competitive advantage and wealth by taking more than just their shareholders into account.

Nonetheless, economic responsibility is still primary—that is, "the business of business is business." Similarly, profit generation should be the outcome of a well-managed business; both Carroll and Freeman believe that that if a business creates value for its stakeholders, it will create value for its shareholders, as well. Thus, unlike the assumptions of classical economics and shareholder theory (that a business can only maximize value on one dimension), stakeholder theorists believe that taking all constituent groups into account is the better way to maximize overall business performance.

1.3 FORMS OF OWNERSHIP

(a) Sole Proprietorship

The sole proprietorship is the simplest business form under which individual can operate a business. The sole proprietorship is not a legal entity. It is a situation where one person owns the business and is personally responsible for its operations. It is considered as the simplest and most common form of business chosen by people when starting a business. A *sole proprietor* is someone who owns an unincorporated business by himself or herself. The sheer quests for status, independent, and lack of honestly and trust are accountable for the negative attitude toward combining with another person(s) to form a business organization. One important thing to note in sole proprietorship is that the owner subscribes solely to all of the equity capital of the business. The owner usually raised money for the business from his/her personal savings and also approach relations and friends to get soft loans. It is a form of business where one man sows, reaps, and harvests the output of his effort. The following are the salient features of sole proprietorship:

- The structure is fairly simplistic in nature
- Sole proprietorship is the simplest and easiest to form
- Sole proprietorship structure is fairly simple than any other forms of business.
- It does not require legal recognition and attendant formalities.
- There is no distinction between the business and the proprietor/owner. Even when the business is registered by the Corporate Affairs Commission under the Companies and Allied Matters Act, as required by the law, Sole proprietor and the business cannot be separated.
- In proprietorship, management rests with the proprietor himself/herself. This implies that there is no separation between ownership and management.

- The owner has Unlimited Liability. This implies that in case the business suffer losses, the private property of the proprietor can also be utilized for meeting the business obligations to outside parties involved.
- The proprietor enjoys all the profits earned and bears all losses incurred by the business.

The following are the benefits that that accrued to sole proprietorship form of business:

- It is easy to form because no formal registration is statutorily needed. The owner only need license and permits to start the business.
- There is independent and freedom in decision making.
- There is high secrecy is the sole proprietorship business this is because the business is majorly manage and control by one person. All the business secrets are known to the owner alone.
- The sole proprietor usually have tax advantage particularly when compare with other forms of business. For example, a proprietor's income is taxed only once while corporate income is, at occasions taxed twice which is double taxation.
- Dissolution of the business is very easy because the owner has no co-owners. This means that he will not consult anybody before dissolve the business.

Despite the above benefits sole proprietorship form of business suffers from some limitations among which are:

- A sole proprietor has limited resources at his/her disposal. This is because he/she depends on personal savings and borrowings from relations and friends.
- There is constraint in ability of the sole proprietor. It is will be the difficult for the owner to good in all areas of business such as production, finance, marketing, personnel, etc.
- He enjoys unlimited liability. This implies that he suffers the loss alone and his personal belonging can be used to settle the business loss.
- The life span of the business is usually limited. The death, insolvent, insane, etc of the owner usually affect the business negatively.

(b) Partnership

A partnership is an arrangement where parties, known as partners, agree to cooperate to advance their mutual interests. It is a legal relationship between two or more persons where each person invests his/her money in order to carry on a lawful business with a view of earning profit. The profit will be shared based on the agreement between the partners. The partnership reports the income it earns to the internal revenue service; however, the partnership itself does not pay taxes. One important thing to recognize in partnership business is that each partner report their own shares of the partnership's income on their personal tax returns and pay any taxes owned.

A partnership agreement may be either in written form or unwritten form. It is advisable that any agreements between the partners be reduced to writing as this will tend to lead to fewer possibilities of misunderstandings and disagreements between partners. The partnership agreement establishes a legal relationship between or among the partners; the partnership itself is not a legal entity. The following are the salient features of a partnership:

- ❖ Profits of the business are share according to partners' contribution to the business.
- ❖ Partnership is not separated from the partners.
- ❖ It is easy to form because initial starting cost is low.
- ❖ In most cases the death of a partner can negatively affect the business which can lead to dissolution of the partnership.
- ❖ The partners' risk all their personal assets, even those not invested in the business since each partner is accountable to business debt.

The following are the benefits that that accrued to partnership form of business:

- ➢ It is easy to form because partnerships are generally an inexpensive business structure. The majority of time spent starting a partnership is often spent developing the partnership agreement.
- ➢ Shared Financial Commitment: There is share financial commitment since each partner invested in the success of the business. Partnerships have the advantage of pooling resources to obtain capital.
- ➢ Complementary Skills: There are opportunity of being able to utilize the strengths, resources, and expertise of each partner.
- ➢ Employees Incentive: Partnerships have employment opportunities.

Despite the above benefits, partnership form of business suffers from some limitations among which are:

- Joint and Individual Liability: Partners are not only liable for their own actions, they are also liable for the business debts and decisions made by other partners. In addition, the personal assets of all partners can be used to satisfy the partnership's debt.
- Possibility of disagreement among the partners. Situation where there are too many cooks in a chicken, there are bound to be disagreements among them.
- Discord among partners on shared profit: Each partner must share the successes and profits of the business with the other partners. If there is no equal contribution of time, effort, or resources, this can cause discord among them.

(c) Limited Liability Company

It is increasingly becoming mandatory for the sole trader and other businessman to arrange to form either partnership or limited liability companies because of high rate of business failures. A limited liability company (or company) may be defined as an artificial creature, invisible, intangible, and existing only in contemplation of law. As a legal (artificial) person, it is separate from the owners. It can enter into a contract, sue and be sued in its name, can affiliate with another company, and open subsidiaries. Examples are: United Bank for Africa Plc, Cadbury, United Foam Product (Nig.) Ltd, Lever Brother UAC, PZ, and First Bank.

A company is legally formed by meeting the conditions stipulated in the Companies and Allied Matters Act (Decree), 1990. The promoters must apply for registration at the Corporate Affairs Commission together with both a Memorandum and Articles of Association.

The Memorandum of Association usually contains the following important details:

- name of the company, with the term “Limited” as the last word of the name;
- objects for which the company is formed;
- amount of the share capital with which the company proposes to be registered and the division into shares of a fixed amount;
- address of the registered office of the company; and
- a statement to the effect that the ‘liability’ of the members or shareholders is ‘limited’.

The Articles of Association, on the other hand, setting out the regulations for internal organization, and contains provisions relating to:

- proceedings at meetings;
- alteration of capital;
- appointment of directors;
- borrowing powers of directors;
- transfer or transmission of shares;
- Winding-up procedure; etc.

The Memorandum and Articles of Association, duly stamped for stamp duties and fees, and accompanied by certain other forms, are lodged with the Registrar-General, who if everything is in order, issues a Certificate of Incorporation. At that point, a Limited Liability Company is formed, and those who signed the memorandum are its "foundation members".

Features of a company as follows:

- ❖ Separate legal entity, which is not affected by changes in its ownership;
- ❖ Can own assets and incur liabilities in its own right;
- ❖ Can sue or be sued in its own name;
- ❖ Has perpetual succession – does not cease to exist upon the death of any or all of the owners;
- ❖ Liability of owners/shareholders is limited to the amount paid for shares allocated;
- ❖ Has the right to borrow on its own account;
- ❖ External audit is compulsory;
- ❖ Profits are subject to Company Income Tax;
- ❖ Statutory annual returns to the Corporate Affairs Commission.

Nature of business will be influenced by the business environment. Hence, if the business owners want to formulate and establish valid decision rules for their business, they must thoroughly understand their environment and have appropriate knowledge to use. The business environment includes customers, competitors, government regulatory agencies, legal and political framework and institutions, technological development and social and cultural factors that influence business behavior.

1.4 DIFFERENCE BETWEEN BUSINESS AND COMMERCE

There are following difference between Business and Commerce.

1) *Meaning:* - Business is a systematic attempt by business persons to produce goods and services and sell them in the market, with a view to earn the reward in the form of profit, while Commerce is that part of business activity which is concerned with distribution of goods and services produced by industry (business).
2) *Concept:* - Business is a broader concept as it includes commerce, while commerce is a narrow concept as it is a part of business.
3) *Skill:* - Business requires technical as well as marketing skills, while commerce requires only marketing skills.
4) *Classification:* - Business is classified into industry and commerce, while commerce is classified as trade and auxiliaries to trade.
5) *Involvement:*- Business consists of all industries, commerce and services occupation, while commerce consists of only commercial occupation
6) *Aims:* - Business is any activity carried out with an intension of making profit while standing of a risk less where by commerce is only activities related to trade and aid to trade.

1.5 CHECK YOUR PROGRESS

(1)In extractive industries, the industries………………. or draw their products from natural sources such as earth, sea, air.

(2) Business is a broader concept as it includes commerce, while commerce is a……………. concept as it is a part of business.

(3) Stakeholders are………………………… who have committed something in the business enterprise and, therefore, have expectations from it.

(4) Business is concerned with…………………….working towards a common economic goal.

(5) A partnership is an………………………where parties, known as partners, agree to cooperate to advance their mutual interests

1.6 SUMMARY

Business refers to an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. Mining, manufacturing, trading, transporting, storing, banking, and insurance are examples of business activities. Business to mean, a commercial enterprise or establishment that trades in goods or services. However, the complication of using a general definition emerges again. For instance, the objective of 'trading' does not have to be for profit. There are different forms of Ownership. First issole proprietorship, it is the simplest business form under which individual can operate a business. The sole proprietorship is not a legal entity. It is a situation where one person owns the business and is personally responsible for its debts.Second is partnership, it is an arrangement where parties, known as partners, agree to cooperate to advance their mutual interests. It is a legal relationship between two or more persons where each person invests his/her money in order to carry on a lawful business with a view of earning profit.Third is limited liability company (or company) which is defined as an artificial creature, invisible, intangible, and existing only in contemplation of law.

1.7 KEYWORDS

Sole proprietorship: It is the simplest business form under which individual can operate a business.

Limited liability Company: It may be defined as an artificial creature, invisible, intangible, and existing only in contemplation of law.

Services: It is intangible thing that being offered to people.

Business: Itrefers to an occupation in which goods and services are produced and sold in return of money.

Trade: It is concerning with all the process of buying and selling of goods and provision of services with the exchange.

Aids to Trade: These are all human activities that help or facilitate people to exchange goods and provision of services. They involve banking, insurance, warehousing, transport, communication and advertising etc.

Commodity Exchange: It is the exchange of goods by the use of selected commodity or goods which have chosen by the society to be used as a medium of exchange.

1.8 SELF-ASSESSMENT TEST

Q1. What do you mean by business?

Q2. Explain the forms of ownership.

Q3. What is the scope of business? Explain the nature of business.

Q4. What are the objectives of business? Explain in details.

Q5. Differentiate between Commerce and Business.

Q6. Explain the importance of business.

1.9 ANSWERS TO CHECK YOUR PROGRESS

(1)Extract

(2)Narrow

(3)Persons or group of persons

(4)Activities of people

(5)Arrangement

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INTRODUCTION TO MANAGEMENT

Structure

2.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the concept of management
- Explain the characteristics of management
- Explain the significance of management

2.1 INTRODUCTION

In any business organization one of the most important activities is management. It has its place not only in business organizations but also in charitable trusts, religious bodies, politics, military, financial institutions, hospitals, hostels, social and educational institutions etc. In fact, it has its place in any organized activity. It is a group activity and not a one man show. Every organization has objectives/goals of its own. These goals can be achieved with the group efforts of several employees. The work of a number of persons is properly co-ordinate to achieve the objectives through the management process. So, management can be considered as the proper utilization of people and other factors of production in an organization to attain the predetermined goals and objectives. Management is a universal process. In the present era of increasing global competition, rapid changes in technology, and changes in business practices as well as increasing social responsibility of business concerns, importance of management has increased. Management plays an important role in the welfare of any organization, people and the destiny of the country. This has been rightly stated by Marshall E.Demock, “The management is not a matter of pressing a button, pulling a lever, issuing orders, scanning profit and loss statements, promulgating rules and regulation. Rather it is the process to determine what shall happen to the personalities and happiness of entire people, the power to shape the destiny of a nation and all the nations which make up the world.”

2.1.1 CONCEPT OF MANAGEMENT

Concept is the idea or image or understanding about things, activity or a person that emerges in the mind of a person. There are several different concepts about management. Economists have treated management as a factor of production; sociologists have treated it as a class or group of persons; practitioners have treated it as a process comprising different activates.

There are three basic concepts of Management

Management as a Discipline: Discipline refers to a field of study having well-defined concepts and principles. When we refer to management as a discipline, we include in it the various relevant concepts and principles, the knowledge of which aids in managing.

Management as a Group of People: We refer to management as a group of people in which we include all those personnel who perform managerial functions in organizations. We refer to two distinct classes or groups of personnel in the organization. In the first category, we include all those persons who are responsible for managerial functions and in the second category, we include non-managerial personnel.

Management as a process

In studying management discipline, we generally refer to management as a process. A process can simply be defined s systematic method of handling activates. However, the management process can be treated as a complex one which can be referred to as an identifiable flow of information through interrelated stages of analysis directed towards the achievement of an objective or set of objective. It is a concept of dynamic rather than static existence in which events and relationships must be seen as dynamic, continuous, and flexible, and as such, must be considered as a whole. Thus, management as a process includes various activities and sub activities. The new concept of management is to build a long term relationship based on professionalism, communication, integrity and trust.

Management is a vital aspect of the economic life of man, which is an organized group activity. A central directing and controlling agency is indispensable for a business concern. The productive resources - material, labor, capital etc. are entrusted to the organizing skill, administrative ability and enterprising initiative of the management. Thus, management provides leadership to a business enterprise. Without able managers and effective managerial leadership the resources of production remain merely resources and never become production. Under competitive economy and ever-changing environment the quality and performance of managers determine both the survival as well as success of any business enterprise.

Meaning of Management: No organization can run successfully unless there is management. Harold Knoots says, “Management is the art of getting things done through and with people.” It indicates that management is the essential part of any group activity. It is important activity to control/manage men, machines, material and money in direction towards predetermined objectives. Management is concerned with planning, policy formulation and coordinating functions. It also includes quality control of product.

According to E.F.L. Brech “Management is the process of controlling the whole productive machinery.”So, management is an important factor in the business. It is considered as important as brain in human body. Without brain human body is only collection of bones and fleshes which is of no use; likewise if management is not in business it is only collection of money, machines, material and men which is not useful in achieving the objectives.

From the above information we can understand the meaning of management that it is the art of getting things done by a group of people with the effective utilization of available resources. The management is thus the dynamic life-giving element in each and every organization. Without it the resources of production will remain resources only and never change in the production. Management is the art of getting things done by a group of people with the effective utilization of available resources. It is the group of activities, which drafts plans, prepares policies, and arranges men, money, machines and materials required to achieve the objectives. Management is the activity of man who struggles for better living in the complex and competitive world. Management is the process consisting of the functions of planning, organizing, staffing, directing and controlling the operations to achieve specified objectives. It rewards those who are engaged in this process to ensure an excellent performance with continual improvement.

2.1.2 DEFINITIONS OF MANAGEMENT

Management may be defined in many different ways. Many eminent authors on the subject have

Defined the term “management”, some of these definitions are reproduced below:

- According to Lawrence A. Appley, “Management is the development of people and not the direction of things”.
- According to Joseph Massie, “Management is defined as the process by which a co-operative group directs action towards common goals”.
- In the words of George R Terry, “Management is a distinct process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources”.
- According to James L Lundy, “Management is principally the task of planning, co-ordinating, motivating and controlling the efforts of others towards a specific objective”.
- In the words of Henry Fayol, “To manage is to forecast and to plan, to organize, to command, to co-ordinate and to control”.
- According to Peter F. Drucker, “Management is a multi-purpose organ that manages a business and manages managers and manages worker and work”.

- In the words of J.N. Schulze, "Management is the force which leads guides and directs an organization in the accomplishment of a pre-determined object".
- In the words of Koontz and O'Donnell, "Management is defined as the creation and maintenance of an internal environment in an enterprise where individuals working together in groups can perform efficiently and effectively towards the attainment of group goals".
- According to Ordway Tead, "Management is the process and agency which directs and guides the operations of an organization in realizing of established aims".
- According to Stanley Vance, "Management is simply the process of decision-making and control over the actions of human beings for the express purpose of attaining pre-determined goals".
- According to Wheeler, "Business management is a human activity which directs and controls the organization and operation of a business enterprise. Management is centered in the administrators of managers of the firm who integrate men, material and money into an effective operating limit".
- In the words of William Spriegel, "Management is that function of an enterprise which concerns itself with the direction and control of the various activities to attain the business objectives".
- In the words of S. George, "Management consists of getting things done through others. Manager is one who accomplishes the objectives by directing the efforts of others".
- In the words of Keith and Gubellini, "Management is the force that integrates men and physical plant into an effective operating unit".
- According to Newman, Summer and Warren, "The job of management is to make cooperative endeavor to function properly. A manager is one who gets things done by working with people and other resources".
- According to John F M, "Management may be defined as the art of securing maximum results with a minimum of effort so as to secure maximum results with a minimum of effort so as to secure maximum prosperity and happiness for both employer and employee and give the public the best possible service".
- In the words of 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. The group of officials in primary control of an enterprise is referred to as management".

- In the words of E.F.L. Brech, "Management is a social process entailing responsibility for the effective and economical planning and regulation of the operations of an enterprise, in fulfilment of a given purpose or task, such responsibility involving: (1) Judgment and decision in determining plans and in using data to control performance, and progress against plans; and (2) The guidance, integration, motivation and supervision of the personnel composing the enterprise and carrying out its operations".
- According to E. Peterson and E.G Plowman, Management is "a technique by means of which the purpose and objectives of a particular human group are determined, classified and effectuated".
- According to Mary Cushing Niles, "Good management or scientific management achieves a social objective with the best use of human and material energy and time and with satisfaction for the participants and the public".

From the definitions quoted above, it is clear the "management" is a technique of extracting work from others in an integrated and co-ordinate manner for realizing the specific objectives through productive use of material resources. Mobilizing the physical, human and financial resources and planning their utilization for business operations in such a manner as to reach the defined goals can be referred to as "management". If the views of the various authorities are combined, management could be defined as "a distinct ongoing process of allocating inputs of an organization (human and economic resources) by typical managerial functions (planning, organizing, directing and controlling) for the purpose of achieving stated objectives namely –output of goods and services desired by its customers (environment). In the process, work is preformed with and through personnel of the organization in an ever-changing business environment".

Management is a universal process in all organized social and economic activities. It is not merely restricted to factory, shop or office. It is an operative force in all complex organizations trying to achieve some stated objectives. Management is necessary for a business firm, government enterprises, education and health services, military organizations, trade associations and so on.

2.1.3 SCOPE OF MANAGEMENT

The scope of management is too wide to be covered in a few pages. It is very difficult to precisely state the scope of management. However, management includes the following aspects:-

1. Economic Resource
2. System of Authority
3. Class or Elite
4. Subject-matter of Management
5. Functional Areas of Management
6. Management is an Inter-Disciplinary Approach
7. Principles of Management
8. Management is an Agent of Change
9. The Essentials of Management

1. ***Economic Resource:*** Business Economics classifies the factors of production into four basic inputs, viz. land, labour, capital and entrepreneur. By the use of all these four, basic production can be done. But to turn that into a profitable venture, an effective utilization of man, money, material, machinery and methods of production has to be ensured. This is guaranteed by application of management fundamentals and practices. The better is the management of an enterprise; the higher is its growth rate in terms of profit, sales, production and distribution. Thus management itself serves as an economic resource.

2. ***System of Authority:*** As already discussed, management is a system of authority. It formalizes a standard set of rules and procedure to be followed by the subordinates and ensures their compliance with the rules and regulations. Since management is a process of directing men to perform a task, authority to extract the work from others is implied in the very concept of management.

3. ***Class or Elite:*** Management is considered to be a distinct class that has its own value system. Managerial class, often referred to as a collective group of those individuals that perform managerial activities is essential component of each organization. The importance the class has become so huge that the entire group of mangers is known as "management "in every organization.

4. *Subject-matter of Management:* Management is considered as a continuing activity made up of basic management functions like planning, organizing, staffing, directing and controlling. These components form the subject-matter of management.

5. Functional Areas of Management: Management covers the following functional areas:-

Financial Management: Financial management includes forecasting, cost control, management accounting, budgetary control, statistical control, financial planning etc.

Human Resource Management: Human Resource Management covers the various aspects relating to the employees of the organization such as recruitment, training, transfers, promotions, retirement, terminations, remuneration,labour welfare and social security, industrial relations etc.

Marketing Management: Marketing management deals with marketing of goods, sales promotion, advertisement and publicity, channels of distribution, market research etc.

Production Management: Production Management includes production planning, quality control and inspection, production techniques etc.

Material Management: Material management includes purchase of materials, issue of materials, storage of materials, maintenance of records, materials controlled.

Purchasing Management: Purchasing management includes inviting tenders for raw materials, placing orders, entering into contracts etc.

Maintenance Management: Maintenance Management relates to the proper care and maintenance of the buildings, plant and machinery etc.

Office Management: Office management is concerned with office layout, office staffing and equipment of the office.

6. Management is an Inter-Disciplinary Approach: Though management is regarded as a separate discipline, for the correct application of the management principles, study of commerce, economics, sociology, psychology, and mathematics is very essential. The science of management draws ideas and concepts from a number of disciplines making it a multi-disciplinary subject.

7. Principles of Management: The principles of management are of universal application. These principles are applicable to any group activity undertaken for the achievement of some common goals.

8. Management is an Agent of Change: The techniques of management can be improved by proper research and development.

9. The Essentials of Management: The essentials of management include scientific method, human relations and quantitative techniques.

2.2 CHARACTERISTICS OF MANAGEMENT

An analysis of the various definitions of management indicates that management has certain characteristics. The following are the salient characteristics of management.

(1) *Management is universal:* Management is applicable to all forms of human organizations whether it is profit- making or non- profit making. Management is not applicable to business undertakings only. It is applicable to political, social, religious and educational institutions also. Management is necessary when group effort is required.

(2) *Management is a social process:* To get things done from the people manager has to establish inter-personal relations with them. He has to understand the behaviour of all as individual members as well as members of a group. Management is a process, function or activity. This process continues till the objectives set by administration are actually achieved. "Management is a social process involving co-ordination of human and material resources through the functions of planning, organizing, staffing, leading and controlling in order to accomplish stated objectives".

(3) *Management is an integrating / unifying force:* Management is integrating people into a single working force with available physical resources. The essence of management is integration of human and other resources to achieve the desired objectives. Managers seek to harmonize the individuals' goals with the organizational goals for the smooth working of the organization.

(4) *Management is objective/ target oriented:* Management is purposeful or goal-oriented activity. The success of management is measured by the extent to which organization goals are achieved.

(5) *Management is dynamic, and not static:* Management is not a stereotype activity but is ever changing. It is a complex and dynamic activity. Management adapts itself to changes in environment, and also initiates and introduces changes i.e. Innovations, change in methodology etc. 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. Management is concerned with directing and controlling of the various activities of the organization to attain the pre-determined objectives. Every managerial

activity has certain objectives. In fact, management deals particularly with the actual directing of human efforts.

(6) *Management is a system of authority:* In management scalar- chain indicates system of authority. Everybody in the organization knows under whom he is working, whose orders he has to follow and to whom he is answerable. Authority means power to make others act in a predetermined manner. Management formalizes a standard set of rules and procedure to be followed by the subordinates and ensures their compliance with the rules and regulations. Since management is a process of directing men to perform a task, authority to extract the work from others is implied in the very concept of management.

(7) *Decision-making:* Decisions are taken in all the activities of management. The success is judged by the quality of decisions taken by the managers. Management implies making decisions regarding the organization and operation of business in its different dimensions. The success or failure of an organization can be judged by the quality of decisions taken by the managers. Therefore, decisions are the key to the performance of a manager.

(8) *Continuous process:* Management is not one time activity, but it is continuous activity. The cycle of management continues to operate so long as the organizations continue to exist.

(9) *Management is born as well as acquired ability:* Management is considered not only as an inborn ability but also an acquired ability by proper training.

(10) *Proper utilization of resources:* Management is concerned with the best and proper utilization of the resources.

(11) *Intangible:* Management is intangible, it cannot be seen with eyes, it is evidenced or measured only by the quality results of organization, such as increased productivity, the increased morale of the employees etc. Management has been called an unseen force. Its presence is evidenced by the result of its efforts – orderliness, informed employees, buoyant spirit and adequate work output. Thus, feeling of management is result-oriented.

(12) *Management is a science as well as an art:* Management has an organized body of knowledge consisting of well-defined concepts, principles and techniques which have wide applications. So it is treated as a science. The application of these concepts, principles and techniques requires specialized knowledge and skills on the part of the manager. Since the skills acquired by a manager are his personal possession, management is viewed as an art.

(13) *Modern management can be regarded as a profession:* Management is gradually becoming a profession because there are established principles of management which are being applied in practice, and it involves specialized training and is governed by ethical code arising out of its social obligations.

(14) *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. Management enjoys the separate status in the organization, so, management is a distinct activity.

(15) *Management aims at reaping rich results in economic terms:* Manager's primary task is to secure the productive performance through planning, direction and control. It is expected of the management to bring into being the desired results. Rational utilization of available resources to maximize the profit is the economic function of a manager. Professional manager can prove his administrative talent only by economizing the resources and enhancing profit. According to Kimball - "management is the art of applying the economic principles that underlie the control of men and materials in the enterprise under consideration". Management is an important economic resource together with land, labour and capital. As industrialization grows, the need for managers 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.

(16) *Management also implies skill and experience in getting things done through people:* Management involves doing the job through people. The economic function of earning profitable return cannot be performed without enlisting co-operation and securing positive response from "people". Getting the suitable type of people to execute the operations is the significant aspect of management. In the words of Koontz and O'Donnell - "Management is the art of getting things done through people in formally organized groups". The managers cannot do everything themselves. They must have the necessary ability and skills to get work accomplished through the efforts of others. They must motivate the subordinates for the accomplishment of the tasks assigned to them.

(17) *Management is a group activity:* Management comes into existence only when there is a group activity towards a common objective. Management is always concerned with group efforts and

not individual efforts. To achieve the goals of an organization management plans, organizes, co-ordinates, directs and controls the group effort.

(18) Management implies good leadership: A manager must have the ability to lead and get the desired course of action from the subordinates. According to R. C. Davis - "management is the function of executive leadership everywhere". Management of the high order implies the capacity of managers to influence the behavior of their subordinates.

(19) Management draws ideas and concepts from various disciplines: Management is an interdisciplinary study. It draws ideas and concepts from various disciplines like economics, statistics, mathematics, psychology, sociology, anthropology etc.

(20) Different Levels of Management: Management is needed at different levels of an organization namely top level, middle level and lower level.

(21) Need of organization: There is the need of an organization for the success of management. Management uses the organization for achieving pre-determined objectives.

(22) Management need not be owners: It is not necessary that managers are owners of the enterprise. In joint stock companies, management and owners (capital) are different entities.

2.3 SIGNIFICANCE OF MANAGEMENT

Management acts as a creative and life giving force in the organization. Management byright men through right methods may give better results. It is properly said that business is built not by the technical ability of specialists but largely by good managers who can effectively utilize human skill, energy and efficiency for transforming resources with higher productivity. Management is considered to be the brain of business, which plans, co-ordinates resources of production, gets the things done through other people and accomplishers objectives. Hence, management is inevitable element in every enterprise. It is rightly said that organization without management is like a temple without deity. Management is everywhere like a god, like an air (without which we cannot live), like shadow (it is always with us). Management is always with us without which, we cannot live as a common person in society. Furthermore, the survival and success of an organization largely depends on the competence of its management. More significance or importance of management can be explained with the help of the following points.

1) Management meets the challenge of change: In the modern business world, there are frequent changes; business operates in an environment created by demographic, political, legal, technological, social, natural, economic and cultural factors. The business environment is highly dynamic and it has far-reaching impact on business. The management can gear-up the business in such a way that the opportunities are grabbed and threats are fought against successfully.

2) Accomplishment of various interests of different groups: There are various groups such as shareholders, society, which have various interests in the business. The survival of the business depends on the satisfaction of these stakeholders. Management can skillfully integrates the interests of these different groups and obtain their support.

3) Effective utilization of resources: The efficient management can make optimum use of resources, (i.e. - Men, Money, Materials, Machines, Methods, Motivation, Markets and Management.)Underutilization or over utilization of resources should be avoided and this can be done by management only because Management has control over other remaining ‘M’s.

4) Stability to society: If there is no smooth supply of goods and services to the society, the society becomes vibrant. There fluctuations in supply can be stabilized by the management.

5) Innovation: New ideas are developed by the management and implemented in the business for better performance.

6) Co-ordination and team-spirit: Management co-ordinates the activities of different department and establishes team- spirit to achieve the objectives.

7) Social responsibilities: No organization can run its function in isolation from society. A number of responsibilities have to be discharged for the upliftment of the society. The management plays an important role in discharging the responsibilities towards society.

8) *Development of country:* The management helps in infrastructural development of the nation, in increasing GDP, capital formation, national income etc.

9) Effective functioning of business: Ability, experience, mutual understanding, coordination, motivation and supervision are the factors responsible for effective functioning of the business.

10) Resource development: The resources viz. men, machines, materials and money have to be developed by the management.

11) Sound organizational structure: It clearly defines the authority and responsibility relationship of employees. Care must be taken to appoint right persons to the right job.

12) Management directs the organization: Similar to human mind directing and controlling human body, management directs and controls the organization.

13) It integrates various interests: Management takes steps to integrate various interests of employees working in the organization.

14) It stabilizes the fluctuations: The business always has ups and downs. These fluctuations are stabilized by the management.

15) Tackling and solving problems: Good management acts as a friend and guide to the employees to solve the day-to-day problems for effective performance.

16) Management is a tool for personality development: New methods and techniques are taught to workers. Training facilities are arranged by the management. Thus, there is personality development in the employees.

2.4 CHECK YOUR PROGRESS

(1)When we refer to management as a discipline, we include in it the various relevant………………….. and principles, the knowledge of which aids in managing.

(2) Management is the art of getting things done through and…………………. people.

(3)Management is a process of………………….. Men to perform a task, authority to extract the work from others are implied in the very concept of management.

(4) Managers seek to harmonize the individuals' goals with the……………………. goals for the smooth working of the organization.

(5)New ideas are developed by the management and……………………. in the business for better performance.

2.5 SUMMARY

Management is an essential activity of every organization. Not only in business organization but management is every-where in human and business life. It is just like air without which we cannot live.

Management means getting things done successfully from others. Theo Haiman has defined this term (1) Management as a noun, (2) Management as a discipline and (3) Management as process/functions. As per this third definition of Management, it's a functional term; Luther Gallic also stated this term in keyword'POSDCORB'+'C'. It means from planning to control all functions together or group of these functions is called management. There are different characteristics of Management: Management is, (1) Universal (2) a social process (3) getting thing done (4) unifying force (5) target oriented (6) dynamic (7) system of authority (8) Decision-making (9) continuous process (10) born as well as acquired ability (11) proper utilization of resources (12) Intangible (13) science as well as an art (14) regarded as a professional mgt. (15) a distinct activity. The significance of Management is, Management is considered to be the brain of business. Without management a person or business cannot live properly.

2.6 KEYWORDS

Concept: It is the idea or image or understanding about things, activity or a person that emerges in the mind of a person.

Discipline: Discipline refers to a field of study having well-defined concepts and principles.

Management: It is the art of getting things done by a group of people with the effective utilization of available resources. It is the group of activities, which drafts plans, prepares policies, and arranges men, money, machines and materials required to achieve the objectives.

Profession: It means established principles of management which are being applied in practice, and it involves specialized training and is governed by ethical code arising out of its social obligations.

Dynamic process: Management adapts itself to changes in environment, and also initiates and introduces changes i.e. Innovations, change in methodology etc.

2.7 SELF-ASSESSMENT TEST

Q1. What do you mean by 'Management'? Explain it

Q2. Explain the characteristics of management.

Q3. Explain the significance of Management.

Q4. What is the scope of management?

Q5. Explain the term “Management” with various definitions.

2.8 ANSWERS TO CHECK YOUR PROGRESS

(1)Concepts

(2)With

(3)Directing

(4)Organizational

(5)Implemented

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FUNCTIONS AND PROCESS OF MANAGEMENT

Structure

3.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the functions of management
- Explain management as a science, art and profession
- Explain the concept of Coordination

3.1 FUNCTIONS OF MANAGEMENT

More popular and widely accepted is the classification given by *Henry Fayol*. According to him, the managerial functions may be broadly classified into five categories: planning, organizing, directing, staffing and controlling. Managers perform these functions within the limits established by the external environment and must consider the interests of such diverse groups as government, employees, unions, customers, shareholders, competitors and the public. For theoretical purposes, it may be convenient to separate the management functions and study them independently but practically speaking, they defy such categorizations. They are highly inseparable. Management is an activity consisting of a distinct process which is primarily concerned with the important task of goal achievement. No business enterprise can achieve its objectives until and unless all the members of the enterprise make an integrated and planned effort under the directions of a central coordinating agency. This central coordinating agency is technically known as 'management' and the methodology of getting things done is known as 'management process’. The process of management involves the determination of objectives and putting them into action. According to McFarland, "Management is the process by which managers create, direct, maintain and operate purposive organizations through systematic, coordinated and cooperative human effort".

According to G. R. Terry -"Management is a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish stated objectives by the use of human beings and other resources".

Under management as a process, management is considered as a continuing activity made up of basic management functions. The process is ongoing and continuing. It assumes a cyclical character. It involves planning, organizing, directing and controlling.

We have an ongoing cycle of planning - action - control - replanting. Control function closes the system loop by providing adequate and accurate feedback of significant deviations from planned performance in time. Feedback can affect the inputs or any of the managerial functions or the process so that deviations can be removed and goals cane accomplished.

FUNCTIONS OF MANANGEMENT

Management is an activity consisting of process which is mainly concerned with important task of goal achievement. No business enterprise can achieve its objective until all the members of the organization work in planned and integrated way .Therefore the process of management involves the determination of objectives and putting them in action. According to G.R. Terry ‘Management is a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish stated objectives by the use of human beings and other resources’’ Management is considered a continuing activity made up of basic management functions which are Planning , Organizing, Staffing, Directing and Controlling. The managers have to perform all these functions in order to achieve the desired organizational goals. The list of management functions varies from scholar to scholar with number of functions ranging from three to eight. Particularly 'Luther Gullik states seven such functions; we can add one more function as +'C' to the catchword 'POSDCORB' +'C'which stands for planning, organizing, staffing, directing, coordinating / communicating, reporting, budgeting and +'c' indicates 'controlling'. The important functions of management are briefly explained below:

1) 'Planning'- 'P'

The first and the most important function of management is Planning. It is the primary function of management. All other functions are based on it. Planning is the beginning of all managerial work. Planning determines the course of future action. It serves as a compass and shows the right direction that an organization should take action to attain its goal. It is a blue print of future actions. Planning means deciding in advance what to do in future. In other words it is looking ahead. Planning is performed generally at all levels, but particularly at top level only. It is an intellectual task; which is to be carried-out scientifically. Planning involves setting objectives in advance, a goal which is to be achieved within a stipulated time. Various alternatives are formulated in order to achieve the goals. The best alternative courses of action is then selected which will help the organization to achieve its objectives? Planning is the most basic function of management. It is deciding in advance what to do and how to do when to do and by whom it is to be done. It bridges the gap between where we are and where we want to go. All the other functions of management like organizing, staffing, directing, controlling are dependent on planning. Planning is related to future and is a continuous process.

Definition of Planning:

According to Theo Haiimann "Planning is deciding in advance what is to be done .When a manager plans, he projects a course of action for the future, attempting to achieving a consistent, coordinated structure of operation aimed at desired result ".

Importance of Planning:

Planning increases the efficiency of an organization. All business organizations would like to be successful, have goodwill in the market, and have higher profits. For attaining these attributes the thinking process has to be very effective.

1. Planning increase efficiency –Planning makes optimum utilization of all available resources. It helps to reduce wastage and avoids duplication of work.

2. Planning reduces business related risks- Planning helps to forecast the business related risk and also helps to take necessary precautions to avoid these risks and prepare for future uncertainties

3. Planning provides direction – Direction means to give proper information, accurate instructions and guidance to the subordinates. Planning tells us what to do, how to do and when to do. It helps the organization to achieve the goals through systematic coordination of the employees.

4. Planning encourages creativity and innovation- Planning helps the managers to express their creativity and innovation. It brings satisfaction to the managers and eventually success to the organization.

5. Planning helps in motivation- A good plan provides various financial and non-financial incentives to both managers and employees. These incentives motivate them to work hard and achieve the objectives of the organization.

6. Planning helps in decision making – A manager makes many different plans. Then they evaluate every course of action and choose the best strategy. So decision making is facilitated by planning.

7. Planning helps to achieve objectives- Without Planning each and every activity will be based on trial and error which will give rise to confusion. Every organization has certain targets. Planning helps an organization to achieve their aims by avoiding overlapping, confusion and misunderstanding.

8. Planning provides basis of control-Planning is the first function of management. The other functions like organizing, staffing, directing and controlling etc. are organized for implementing plans. Controlling records the actual performance and compares it with standards set. In case the performance is less than the standards set then deviations are ascertained and proper corrective measures are taken to improve the performance in future. Planning and controlling both are dependent on each other. Planning establishes standards for controlling. Therefore, Planning is necessary for effective and efficient functioning of every organization irrespective of its size, type and objectives.

Steps in Planning Process:

1. Establishing verifiable goals- The first step in planning is to determine the enterprise objectives. These are more often set by upper level managers. The objective may vary from a desired sales volume or growth rate to development of a new product.

2. Establishing Planning Premises- Plans are made to operate in the future. The second step in planning is to establish planning premises i.e. assumption on the basis of which plans will be ultimately formulated. Planning premises are vital to the success of planning as they supply important facts and information related to future like population trends, economic condition, production cost, government control etc.

3. Deciding the Planning Period –The next task is to decide the period of the plan whether it's a yearly plan or a plan which is spread over for longer span of time. Choice of planning period is decided based on time required in development of new product, time required to recover capital investment and length of commitments already made.

4. Finding alternative course of action – The next in planning is to search for and examine alternative course of action. For Ex-Products may be sold directly to the consumers by the company's salesman or through exclusive agencies.

5. Evaluating and selecting a course of action- Having searched the alternative courses, the next step is to evaluate and analyze them in the light of premises and goals and select the best alternative. This is done with the help of quantitative techniques and operations research.

6. Implementing the Plan- The best possible course of action has now to be implemented i.e. putting the plan into action. For this the managers have to develop derivative plans for each department. A draft version of the action plan should be communicated to inform those directly affected and gain their cooperation.

7. Measuring and Controlling the Programme –The process of controlling is a critical part of any plan. Managers need to check the progress of their plans i.e. follow up, so that they can take remedial action if the plan is not working as per schedule or change the original plan if it is unrealistic.

Terms related with organization:

1. Objectives - Objectives may be defined as the goals which an organization tries to achieve. Objectives are the ends towards which the activities of the enterprise are aimed. Objectives provide direction to various activities and serve as benchmark of measuring the efficiency and effectiveness of the organization.

2. Strategies - A strategy is a special kind of plan formulated to meet the challenge of the policies of the competitors. Strategy can be shaped by the general forces operating in an industry and the economy. The strategy must be consistent with external environment.

3. Policies - Policies may be described as plans which are meant to serve as broad guidelines to decision making in a firm. Policies exist at various levels of the enterprise. A policy should be definite, positive and clear. A policy is a standing plan which assist decision making and should be referred as a general statement of the established rule. For example –A firm has a policy of promotion from within the organization. If a vacancy arises; the first preference is given to existing employees.

4. Procedure – Procedure lays down the manner or method by which work is to be performed in a standard and uniform way. Procedure is a standing plan acting as a means of implementing a policy. For Example –Sales department lays down a policy to execute all orders within 48 hours. So a procedure has to be followed in a chronological and systematic order to fulfill the orders.

5. Programmes – Programmes are precise plans which need to be made to discharge a non –repetitive task. The essential ingredients of every programme are time phasing and budgeting. Specific dates should be laid down for the completion of each successive stage of a programme. For Example –An enterprise has a programme of opening 5 branches in different parts of a country so they have to allocate funds and time period for - a) Securing the necessary accommodation b) Recruiting personnel to manage business c) Arrange the supply of goods that are to be sold through the branches Often a single step in a programme is set up as a project.

6. Rules – Rules are an explicit statement that tells the members of the organization what they can or cannot do. Rules do not allow any room for interpretation because it clearly specifies the action needed to be done in a particular situation. Rules enforce discipline. For e.g. - Use of Mobile Phone at workplace during office hours is restricted.

7. Budgets - Budgets are plans for future period of time containing statements of expected results in numerical terms. Budgets are very useful for an enterprise. Being expressed in numerical terms, they facilitate comparison of actual results with planned ones and serve as a control devise. The important budgets are sales budget, production budget, cash budget, Revenue –Expense Budget.

2) Organizing – 'O'

Planning done by manager will remain on paper only if further steps are not taken. Hence, the second function of management process 'organizing' should be followed. Organizing means collecting/assembling factors of production together. For this purpose organization creates order and system by bringing various elements such as capital, machinery, materials, executive personnel, workers etc. together and coordinating them. It involves decisions about the division of work, allocation of authority and responsibility and the coordination of tasks. The function increases in importance as a firm grows. A structure is created to cope with problems created by growth. Through this formal structure, the various work activities are defined, classified, arranged and coordinated. Thus, organizing refers to certain dynamic aspects: What tasks are to be done? Who is to do them? How the tasks are to be grouped? Who is to report to whom?

Where the decisions have to be made?

Definition of Organizing: According to Louis Allen "Organizing is the process of identifying and grouping the work to be performed defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

According to the Haiimann "Organizing is the process of defining and growing the activities of the enterprise and establishing authority relationships among them." With reference to above definitions, it's clear that organizing refers to the way in which the work of a group of people is arranged and distributed among group members.

Importance of Organizing:

The following points highlight the crucial role that organizing plays in any business enterprise

1. It facilitates efficient management - Organizing is necessary for the performance of other functions of management .Poor organization may result in duplication of work and efforts.

2. It facilitates coordination and communication - Organization creates a clear cut relationship between the departments and helps in laying down balanced emphasis on various activities. It also provides channels of communication and coordination of activities of different departments.

3. It facilitates growth and diversification- Sound organization helps in the growth and expansion of the enterprise by facilitating its efficient management .It also increases the capacity of the enterprise to undertake more activities.

4. It ensures optimum use of resources -Organizing leads to the optimum use of all material, financial and human resources. It matches the jobs with the individuals and vice versa and ensures that job position is clearly defined. It minimizes confusion and wastage of resources.

5. It provides for optimum use of technological innovations-Sound organization structure is not rigid. It is flexible and provides adequate scope for adoption of new technology.

6. It facilitates specialization- Organizing provides a great scope for bringing specialization in every department of an enterprise through proper allocation of jobs among the employees.

Steps in the process of organizing:

The process of organizing involves the following steps:

1. Determination of objectives - The purpose of the organization must be identified. Objectives determine resources and various activities which should be done to achieve the organizational goals.

2. Identification and grouping of activities- If group members are to pool their efforts successfully, there must be proper division of the major activities. Each job should be accurately classified and grouped. This will avoid duplication of work.

3. Assignment of duties- After grouping the activities into various jobs, as per the nature of work, similar activities should be placed under one department. Each individual should be given a particular task according to his ability and skills.

4. Establishing relationship among individuals and group- The activities which are performed by person holding different positions must be related. Every person in the organization should know about his responsibility, authority and accountability so that there is coordination, among individuals and departments. The organizing process results in organization structure with precisely defined authority and responsibilities.

Organization Structure:

An Organization Structure shows the authority responsibility relationship between the various positions in the organization by showing who reports whom; it lays down the pattern of communication and coordination in the enterprise. It facilitates growth of the enterprise by increasing capacity to handle diversified situations. Organization structure is usually shown on an organization chart. There are basically 2 types of organization structure.

1. Functional structure- This type of organization structure is formed by grouping together all activities into functional department and putting each department under one head. Functional structure leads to specialization. It promotes efficiency and results in increased profits. It is suitable to organization where operations require high degree of specialization. For example –A steel manufacturing Company .has divided its structure into Manufacturing, Finance, Marketing Personnel, Research and Development, as it has diversified activities and its operation require a high degree of specialization.

2. Divisional Structure- Large Companies often find it to operate as one large unit under a functional organizational structure. The size of the company makes it difficult for managers to oversee operations and screen customers. To overcome this problem, most large companies are now structured as divisional organizations. Each division functions relatively autonomously because it contains most of the functional expertise under each unit. Division can be formed according to product, customers, processes or geographical division. For Example Samsung has multiproduct based division Each Product division has its own Manufacturing, Research and Development, Marketing, Finance departments.

Types of Organization:

1. Formal organization – Formal organization refers to a structure which is consciously designed to enable people of the organization to the work together in accomplishing the common objectives. It is predetermined by top management to facilitate smooth functioning of the organization. The authority responsibility relationship created by the organization structure is to be followed by all the employees in the organization. It is created as result of Company’s rules and policies.

2. Informal Organization – Informal Organization refers to the relationship between the people in the organization based on personal likes, dislikes, emotions, attitude etc. These relationships are not in terms of procedure and regulation laid down in the formal organization. These groups are not preplanned; they develop automatically within the organization. The membership in informal organization is voluntary. It originates as a result of social interaction.

3) Staffing – 'S'

After planning and organizing the next function of management is 'Staffing' .It is important to have a good organization structure, but it is even more important to fill the jobs with the right people. Staffing involves finding the right person for the right place, allotting the right job and at right time. Staffing also includes training to personnel to increase their efficiency and avoid waste of material and machinery. It includes not only the movement of individuals into an organization, but also their movement through (promotion, job rotation, transfer) and out (termination, retirement) of the organization.

Definition of staffing:

According to Koontz and O'Donnell, "Staffing involves manning the organization structure through proper and effective selection appraisal and development of personal to fill the roles designed into the structure."

Importance of Staffing:

Staffing is people centered. Success in dealing with people will depend upon the degree to which they are perceived as making realistic contribution to the solution of management's problems. It should be remembered that every manager is expected to perform this function because he is engaged in getting things done through and with the help of people. There are various benefits of proper and efficient staffing. These are as under:

a) Helps in finding efficient worker- Staffing helps in discovering talented and competent workers and develops them to work more efficiently for achievement of organizational goals.

b) Helps in increased Productivity – Staffing ensures greater production by putting right man at the right job. It helps in improved organizational productivity through proper selection according to requirement *c) Maintains Harmony*- Staffing maintains harmony in the organization. Through proper staffing, individuals are not just recruited and selected but their performance is regularly appraised and promotions are done. This gives everyone an equal opportunity for getting better compensation which finally results in peace and harmony

d) Helps in morale boosting- Job satisfaction keeps the morale high of the employees. Through training and development programmers their efficiency improves and they feel assured of their career advancement

e) Helps in Optimum utilization of human resources- Staffing helps in proper utilization of the available personnel .Manpower forecasting provide a basis for recruitment, transfer and training of employees. Shortage or surplus of manpower will be revealed by proper manpower planning.

Staffing process:

Staffing function is performed by all managers at all levels. However, its scope is different in small and large organization. In large organization there is a separate department called Human Resources Department (HRD), with specialists to manage the people. Staffing is an inherent part of Human Resources Management as it is the practice of finding evaluating and establishing a working relationship with people. Following are the steps involved in staffing process:

1. Manpower planning- Estimation of manpower requirements in the future is the first stage in the staffing process. It is known as manpower or human resources planning. Its purpose is to make right kind of personnel available so that there is no surplus or shortage of people in any department. To determine the qualifications needed to meet the requirements of jobs, the organization first of all has to analyze the jobs, write the jobs description and prepare job specifications.

2. Recruitment - Once the requirement of manpower is known, the process of recruitment starts. It is the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. It is a positive process as it attracts suitable candidates to apply for available jobs. The process of recruitment and the cost involved in it depends on the size of the undertaking and the type of persons to be recruited. The sources of recruitment can be a) Internal sources (recruitment from within the enterprise) b) External Sources (recruitment from outside).

3. Selection -The process of selection leads to employment of persons who possess the ability and qualifications to perform the jobs which have fallen vacant in the organization. Selection is frequently described as a negative process as it eliminates all the candidates those who do not match up to the requirements of the job offered. As the employees are placed in the jobs for which they are best suited, they derive maximum job satisfaction reducing the labor turnover and increasing the overall efficiency of the organization. The candidates have to go through the whole selection process of an organization i.e. interviews, tests, medical examination etc.

4. Placement- The candidate selected for appointment are to be offered specific jobs. Personnel should be placed on a position where there is full use of his strength and capabilities. Proper placement reduces absenteeism and turnover.

5. Induction and Orientation-Induction is the process of familiarizing a new employee to the new workplace, surroundings, company's rule and regulations. Induction programmed is generally informal in case of small organization. But in large organization the orientation or induction is carried on formally so that the new employee develops a favorable attitude towards the company.

6. Training and Development- Training is an organized activity for increasing the knowledge and skills of people for a definite purpose .Its purpose is to achieve a change in the behavior of the employees and to enable them to do their jobs better. The initiative for training usually comes from the management. Development emphasizes on growth of an individual. It's a continuous process Development helps in overall growth of the employee.

7. Performance Appraisal- It refers to all the formal procedures used in an organization to evaluate the employees and their contributions. It also reveals as to how efficiently the subordinate is performing his job and to know his aptitudes and other qualities necessary for performing the job assigned to him.

8. Promotion and Transfers- Promotion refers to being placed at a higher job position with more salary, job satisfaction and responsibility. On the basis of feedback report of employees' performance they are given promotion and other opportunities Transfer means shifting of an employee from one job to another or one department to other. Transfer may take place due to change in organization structure or changes in the volume of work.

9. Compensation- Compensation of employees for their services is an important responsibility of any organization. Every organization must offer good wages, pay, salary and other rewards to attract and retain talented employees. Compensation to workers will vary depending upon the nature of jobs, skills required, risk involved, nature of work etc.

4) Directing – ‘D’

The actual performance of a work starts with the function of Direction. Direction deals with making the workers learn techniques to perform the job assigned to them. The function of guiding and supervising the activities of the subordinates is known as directing. Acquiring physical and human assets and suitably placing them on jobs does not suffice; what is more important is that people must be directed towards organizational goals. Direction includes guidance, supervision and motivation of employees. Directing is concerned with the initiation of organized action and stimulating people to work. It involves issuance of orders, instructions and leading and motivating the employees to execute them. Directing is the inter-personal aspect of management which deals directly with influencing, guiding, supervising and motivating the subordinates for the accomplishment of pre-determined objectives. Planning, organizing, staffing are merely preparations for doing the work but the work actually initiates through directing function.

Definition of Directing:

According to Koontz and O’donnell “Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives.” The manager must stimulate action by giving direction to his subordinates through orders and also supervise their work to ensure that the plans and policies achieve the desired actions and results.

Importance of directing:

Direction is one of the most complex functions of management which can be learned and perfected only through long experience. It is the central point around which accomplishment of goals take place. It is also called an activity function of management because it is through direction the operation of an enterprise actually starts. It provides many benefits to an organization which are as under:

1) Initiates action: Direction initiates action that motivates people to convert the resources into productive outputs. It gives substance to managerial function of planning, Organizing, Staffing and controlling. People learn to manage the resources in the most effective way that results in their optimum utilization.

2) Creates a Sound work environment: If direction is issued in consultation with employees, it creates an environment of understanding where people work to their maximum potential, willingly and enthusiastically to contribute towards organizational goals.

3) Develops managers: Managers who are personally motivated to work can also direct others to work. Managers develop their skills and competence. Motivation, leadership and communication help in bringing people together. This is beneficial for both the employees and organization. Direction, thus, prepares future managers.

4) Behavioral satisfaction: Since direction involves human behavior and psychology, employees feel behaviorally satisfied and personally inspired to achieve organizational goals.

5) Increase in productivity: Personally satisfied employees contribute towards output and efficiency of the organization. Direction gets maximum out of subordinates by exploiting their potential and increasing their capabilities to work.

6) Achieves coordination: Directing aims at continuous supervision of activities. It achieves coordination by ensuring that people work towards planned activities in a coordinated manner. It integrates the action of employees that increase their understanding of mutual interdependence and their collective effort to achieve the organizational goals.

7) Facilitates control: Coordination brings actual performance in conformity with planned performance. The controlling function is, thus, facilitated through effective direction.

8) Facilitates change: Direction helps in introducing change in the organization structure and adapting the organization structure to external environment. People are not easily receptive to changes. Direction helps in changing attitude of people in a positive way.

9) Facilitates growth: Organization open to change is responsive to growth. Direction harmonizes physical, financial and human resources, balances various parts of the organization and creates commitment amongst people to raise their standards of performance.

<u>Elements of Directing:</u>

Directing deals with inter-personal relations. It is the doing or implementing phase of management. Hence it is also called management-in-action. All the activities related to directing can be categorized into four different elements of directing. They are Supervision, Communication, Motivation and Leadership.

1) Supervision – Supervision is an important element of directing. It implies overseeing the work of subordinates in order to guide and regulate their efforts. Supervision is very important at the operating level of management. The Supervision is in direct contact with the workers and acts as the link between workers and management. The purpose of supervision is to ensure that subordinates perform their tasks according to prescribed procedures and as efficiently as possible.

2) Communication- It is the process of passing information view point, facts, ideas , opinion and understanding from one person to another .It is a two way process and is complete when there is some response from the receiver of information. Communication may take several forms like order, instructions, report, suggestion etc.

3) Leadership- Leadership may be defined as the process by which a manager guides and influences the work of his subordinates. The success of every enterprise is dependent upon the quality of its leadership. For example Reliance would not have attained their present success but for the able leadership of Dhiru Bhai Ambani. A leader exercises his influence over the followers through the use of informal authority or power.

4) Motivation- Motivation means inspiring the subordinates with zeal to do work for accomplishment of organizational objectives. A manager should make appropriate use of motivational tools to actuate the subordinates to work harmoniously towards achievement of organizational goals. Different people are motivated by different type of rewards, which can be financial incentives or non-financial incentives.

5) Co-ordinating and communicating - ‘CO’

a) Co-ordinating:

Co-ordinating is the process of harmonization of different activities within the enterprise with reference to time, progress of work, performance standards etc. It is the essence of management. It ensures that all groups and persons work efficiently, economically and in harmony. Co-ordination requires effective channels of communication. Person-to-person communication is most effective for coordination. All personnel and departmental activities are directed towards achieving common goals of the organization. The management of a modern enterprise is based on the principle of specialization or division of labor. Jobs are broken down into single repetitive tasks and are entrusted to individual either working in the same department or in different departments. To attain the desired results with so much diversification, coordination becomes necessary. So, Coordination is the management of interdependence in work situations. Coordination leads to blending the activities of different individuals and group of individuals for the achievement of certain objectives. In an enterprise which consists of number of departments, such as production, purchase, sales, finance etc. there is a need for all of them to work in synchronization and achieve the organizational objectives.

Definition of Coordination:

According to Henri Fayol "Coordination harmonizes synchronizes and unifies individual efforts for better action and for the achievement of the business objectives."

Coordination is the essence of management. Some writers in the area of administration and management consider Coordination as a separate managerial function. However, coordination might be considered as an essential part of all the managerial functions of planning, organizing, directing and controlling. It is a managerial activity which is needed at all the levels of management

Importance of Coordination:

When a number of people are working to carry out a task, coordination is the only method of synchronization. Through coordination, duplication of work and excessive burden on a single department can be eliminated. The task of coordination is becoming increasingly complex and difficult. The need for coordination arises because of the following factors

1) Division of labour – When managers divide work into specialized function or departments, they at the same time create a need for the coordination for these activities .Greater the division of labour, greater the need for the coordination.

2) Growth in size - With the growth in size of an enterprise and large employment of people, the task of integrating the activities becomes more complicated. To achieve the desired results it's important to harmonize individual goals with organization goals through coordination.

3) Interdependence of units - The need for coordination in an organization also arises because of the interdependence of various units. Greater the interdependence of the units, the greater the need for coordination. As the entire department have their own set of policies and procedures, but to achieve the organization goals the activities of various departments, they have to be coordinated.

4) Growing specialization - Modern business has become increasingly complex as various functions are to be performed by specialists. Specialization brings about need for more coordination because of diversity of tasks to be performed.

b) Communicating:

Communication is a mutual transfer of information and understanding. Through proper communication by using simple, local and unambiguous language, a manager can create a feeling of belongingness on the part of the subordinates. Communication also leads to sharing of information, ideas and knowledge. It enables group to think together and act together.

6) Reporting – 'R'

Informing about the work done, problem faced and results achieved to the boss/head of Department/ to management is called reporting. Reporting in proper timing helps to solve problems; which makes easy process to achieve the target.

7) Budgeting – 'B'

Budgeting means preparing a receipt/resources and payment/applications statement in advance before starting any plan. It helps in numerical terms the requirements of various resources such as money, men, materials, machinery, methods and time with which the management deals.

8) Controlling - +'C'

Controlling is looking behind. Controlling function ensures that the achieved objectives conform to pre-determined objectives. Necessary corrective action may be taken if there is any deviation. The control is very easy when the organization has fixed standards. Controlling is seeing that actual performance is guided towards expected performance .All other functions of management cannot be completed effectively without performance of the control function. It implies measurement of accomplishment against the standards and correction of deviation, if any, to ensure achievement of organizational goals. The efficient system of control helps to predict deviation before they actually occur.

Definition of Controlling:

According to Henry Fayol, “Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established.

According to Theo Haimann "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation.” Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the organizational goals. Controlling has two basic purposes a) If facilitates coordination b) It helps in planning

Importance of Controlling:

A Good control system provides timely information to the manager which is very much useful for taking various operations. The road signals at a road crossing illustrates the significance of control. Road signals are necessary to ensure accident free and smooth traffic management controls are essential in any organization for its smooth functioning. Significance of good control system is as follows:

1) Basis of future action- Control provides the basis for future actions. It will reduce the chances of mistakes being repeated in future by suggesting preventive steps.

2) Facilitates decision making- The process of control is complete only when corrective measures have been taken. This requires taking a right decision as to what type of follow up action is to be taken.

3) Facilitates discipline and order – The existence of control system has a positive impact on the behavior of the employees. They are cautious while performing their duties as they know they are being observed by their superiors.

4) Facilitates Coordination- Control helps in Coordination of the activities of various departments of the enterprise. It provides them unity of direction.

5) Facilitates motivation – A control system is most effective when it motivates people to high performance. Since most people respond to a challenge, successfully meeting a tough standard may provide a greater sense of accomplishment.

6) Effective plan Implementation-Controlling and planning are interdependent. Control is the only means to ensure that the plans are being implemented control points out short comings of not only planning but also other functions of management. Comparison can be done through various Performance report, Personal Observation.

Controlling Process:

Controlling as a management function involves following steps:

1) Establishment of standards- Standards are the plans or the targets which have to be achieved in the course of business function. It acts as a basis of evaluations of actual performance. Standards can be set in quantitative or qualitative terms. Quantitative or measurable standards can be informed of cost, output, time, profit etc. Qualitative or no measurable standards can be in form of performance of a manager, attitude of worker improving motivational level of employees. Standards should be flexible i.e. capable of being changed according to the circumstances.

2) Measurement of Performance –This step involves measuring of actual performance of various individuals, group or units. Measurement of tangible standards is easy as it can be expressed in quantitative terms. Frequency of measurement depends on the nature of task being controlled Qualitative.

3) Comparison of Actual and Standard Performance-Comparison of actual performance with the planned targets is very important. Deviations can be defined as the gap between actual performance and the standards laid down. The manager has to find out extent of deviation and cause of deviation. The manager has to exercise control by exception. He has to target those deviations which are critical and important for business.

4) Taking remedial action-Once the causes and extent of deviation are known, the manager has to detect those errors and take remedial measures so that these deviations don't occur again. Remedial or corrective actions can be replanting of standards, classification of duties, training of workers etc.

Successful management involves active participation by managers in the above basic managerial functions. These functions are interrelated and most managers use a combination of the all of them simultaneously to solve the problems facing their companies.

3.2 MANAGEMENT AS AN ART, SCIENCE OR PROFESSION

A question often arises whether management is a science or art. It is said that “management is the oldest of arts and the youngest of sciences”. This explains the changing nature of management but does not exactly answer what management is? To have an exact answer to the question it is necessary to know the meanings of the terms “Science” and “Art”.

MANAGENENT AS AN ART

An art is practical skill. It is a way of doing things for getting desired results. Its application is guided by certain principles which are provided by science. Further, an art is practice-based and perfection in it requires continuous practice over a long period of time. Examples of an art: Singing, Dancing, Drawing and Painting etchant implies application of knowledge & skill to trying about desired results. An art may be defined as personalized application of general theoretical principles for achieving best possible results. Management fulfils all important criteria of an art. Managers require certain qualities and knowledge of psychology and so on. Art has the following characters –

Practical Knowledge: Every art requires practical knowledge therefore learning of theory is not sufficient. It is very important to know practical application of theoretical principles. E.g. to become a good painter, the person may not only be knowing different color and brushes but different designs, dimensions, situations etc to use them appropriately. A manager can never be successful just by obtaining degree or diploma in management; he must have also known how to apply various principles in real situations by functioning in capacity of manager.

Personal Skill: Although theoretical base may be same for every artist, but each one has his own style and approach towards his job. That is why the level of success and quality of performance differs from one person to another. Like, there are several qualified painters but M.F. Hussain is recognized for his style. Similarly, management as an art is also personalized. Every manager has his own way of managing things based on his knowledge, experience and personality, that is why some managers are known as good managers whereas others as bad.

Creativity: Every artist has an element of creativity in line. That is why he aims at producing something that has never existed before which requires combination of intelligence and imagination. Management is also creative in nature like any other art. It combines human and non-human resources in useful way so as to achieve desired results. It tries to produce sweet music by combining chords in an efficient manner.

Perfection through practice: Practice makes a man perfect. Every artist becomes more and more proficient through constant practice. Similarly, managers learn through an art of trial and error initially but application of management principles over the years makes them perfect in the job of managing.

Goal-Oriented: Every art is result oriented as it seeks to achieve concrete results. In the same manner, management is also directed towards accomplishment of pre-determined goals. Managers use various resources like men, money, material, machinery & methods to promote growth of an organization. Thus, we can say that management is an art therefore it requires application of certain principles rather it is an art of highest order because it deals with moldings the attitude and behavior of people at work towards desired goals.

MANAGEMENT AS A SCIENCE

Science is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon. It establishes cause and effect relationship between two or more variables and underlines the principles governing their relationship. These principles are developed through scientific method of observation and verification through testing.

Science is characterized by following main features:

1. **Universally acceptance principles –** Scientific principles represents basic truth about a particular field of enquiry. These principles may be applied in all situations, at all time & at all places. E.g. – law of gravitation which can be applied in all countries irrespective of the time. Management also contains some fundamental principles which can be applied universally like the Principle of Unity of Command i.e. one man, one boss. This principle is applicable to all type of organization – business or non business.

2. **Experimentation and Observation –** Scientific principles are derived through scientific investigation & researching i.e. they are based on logic. E.g. the principle that earth goes round the sun has been scientifically proved. Management principles are also based on scientific enquiry & observation and not only on the opinion of Henry Fayol. They have been developed through experiments & practical experiences of large no. of managers. E.g. it is observed that fair remuneration to personal helps in creating a satisfied work force.

3. **Cause and Effect Relationship –** Principles of science lay down cause and effect relationship between various variables. It means when metals are heated, they are expanded. The cause is heating and result is expansion. The same is true for management; therefore it also establishes cause and effect relationship. It shows the lack of parity (balance) between authority & responsibility will lead to ineffectiveness. If you know the cause i.e. lack of balance, the effect can be ascertained easily i.e. in effectiveness. Similarly, if workers are given bonuses, fair wages they will work hard but when not treated in fair and just manner, reduces productivity of organization.

4. **Test of Validity & Predictability –** Validity of scientific principles can be tested at any time or any number of times i.e. they stand the test of time. Each time these tests will give same result. Moreover future events can be predicted with reasonable accuracy by using scientific principles. For example, H_2& O_2 will always give H_2O. Principles of management can also be tested for validity. Similarly, the principle of unity of command can be tested by comparing two persons – one having single boss and one having 2 bosses. The performance of 1^{st} person will be better than 2^{nd}.

It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry etc. The main reason for the inexactness of science of management is that it deals with human beings and it is very difficult to predict their behavior accurately. Since it is a social process, therefore it falls in the area of social sciences. It is a flexible science and that is why its theories and principles may produce different results at different times and therefore it is a behavior science. Ernest Dale has called it as a *Soft Science*.

Management is both an art as well as a science

Management is both an art and a science. The above mentioned points clearly reveal that management combines features of both science as well as art. It is considered as a science because it has an organized body of knowledge which contains certain universal truth. It is called an art because managing requires certain skills which are personal possessions of managers. Science provides the knowledge and art deals with the application of knowledge and skills. A manager to be successful in his profession must acquire the knowledge of science and the art of applying it. Therefore management is a judicious blend of science as well as an art because it proves the principles and the way these principles are applied is a matter of art. Science teaches to 'know' and art teaches to 'do'. E.g. a person cannot become a good singer unless he has knowledge about various ragas and he also applies his personal skill in the art of singing. Same way it is not sufficient for manager to first know the principles but he must also apply them in solving various managerial problems that is why, science and art are not mutually exclusive but they are complementary to each other (like tea and biscuit, bread and butter etc.).The old saying that ―Manager are Born has been rejected in favor of ―Managers are Made. It has been aptly remarked that management is the oldest of art and youngest of science. To conclude, we can say that science is the root and art is the fruit.

MANAGEMENT AS A PROFESSION

Due to increasing size, widening market, severe competition, changing technology the need for proper management of four Ms. i.e. men, machine, material and markets is underlined. Now-a-days it is no longer possible to manage the organizations by experience, intuition or on trial and error method (i.e. traditional management.). So, there is the necessity of trained managers to run the organizations unprofessional base. The professional management is 20th century practice. Up to 19^{th}century, family management practice was followed. Today, professional management is getting importance due to complex nature of business.

Concept:

In the words of Fredric Habison & Charls Mayor, "Professional Management is a type of management in which major policy making positions and nearly all other positions in the hierarchy are held by persons on the basis of alleged or demonstrated technical competence."

According to L. M. Prasad, "Profession is an occupation for which specialized knowledge, skills and training are required and use of these skills is not meant for self-satisfaction but these are used for larger interests of the society and the success or these skills is measured not in terms of money alone."

It is understood that all professions are occupation. The reason is that they provide means of livelihood. But at the same time, all occupations are not professions because some of them lack certain characteristics of a profession.

Characteristics and Need of Professional Management:

a) Characteristics of Professional Management:

A profession may be defined as an occupation backed by specialized knowledge and training, whose code of conduct is regulated by a professional body and which is duly recognized by the society. The basic requirements of a profession are as follows:

1. ***Knowledge:*** A substantial and expanding body of knowledge and information in the concerned field.

2. ***Competent Application:*** Skilled and judicious utilization of knowledge in the solution of complex and important problems. This requires education and training in the specified field.

3. ***Professional Body:*** Regulation of entry into the profession and conduct of member's byte representative body.

4. ***Self Control:*** An established code of conduct enforced by the profession's membership.

5. ***Social Responsibility:*** Primarily motivated by the desire to serve others and the community.

6. ***Community Approval:*** Recognition of professional status by the society.

Does management satisfy the tests of a profession? The application of the above tests or criteria to management is examined below:

1. ***Specialized Knowledge:*** There exists a rapid expanding body of knowledge underlying the field of management. Since the beginning of this century, many thinkers on management have contributed to the field of management. Now we have systematic body of knowledge that can be used for the development of managers. Management is widely taught in the universities and other educational institutions as a discipline.

2. ***Competent Application-Education and Training:*** MBAs are generally preferred for managerial jobs, though MBA degree is not necessary to enter this profession. Persons with degree in psychology, engineering, etc., can also take up managerial jobs. Thus, there are no standard qualifications for managers.

3. ***Managerial Skills can't be learnt by Trial and Error Method:*** To be a successful manager, it is essential to acquire management skills through formal education and training. Many institutes of management have been functioning in India and other countries which offer MBA and other courses in management.

4. ***Professional Body:*** For the regulation of any profession, the existence of a representative body is a must. *Example:* The Institute of Chartered Accountants of India lays down the standards of education and training for those who want to enter the accounting profession. Some organizations such as the Indian Management Association and the All India Management Association have been set up in India. But none of these have any legal authority to prescribe minimum qualifications for taking up managerial posts or to regulate the conduct of managers as is the case with the Medical Council of India and Bar Council of India. Management Association has prescribed a code for managers, but it has no power to take action against any manager who does not follow this code.

5. ***Social Responsibility:*** Managers of today recognize their social responsibilities towards customers, workers and other groups. Their actions are influenced by social norms and values. That is why; managers enjoy a respectable position in the society as is the case with doctors, chartered accountants, etc.

6. ***Society's Approval:*** The managers of modern organizations enjoy respect in the society. There is typically a positive correlation between a manager's rank and his status in the organization where he is working. This status tends to affect the manager's status outside the organization. Thus, community approves management as a profession.

It seems presumptuous to classify management as a profession. By all the bench marks, the professionalization of management is still far from complete. It meets the above criteria of profession only partially as discussed below:

1. Though management has a well defined body of knowledge, it is difficult to say whether management meets the criterion of competent application. It is not obligatory to possess specific qualifications for being appointed as a manager. But to practice law one has to be a graduate in the Laws. Similar is the position with the medical profession. Education and training in management are also getting importance day by day in the industrial world.

2. There is no professional body to regulate the educational and training standards of the managers. For instance, there is Bar Council of India to regulate the legal profession. It is encouraging to note that management associations are growing fast throughout the world. It is expected that they will be able to develop norms of behavior for the practicing managers.

3. Management does not satisfy the test of self-controls as there is no central body to lay down and enforce professional standards and code of conduct for the managers. Thus, it may be concluded that management does not fulfill all the requirements of a profession. Therefore, it can’t be fully recognized as a profession.

b) Need of Professional Management:

Today in the present era, the competition has become more intensive than ever before. Business operations have been internationalized. So, in this globalised economy, the business organizations in India need professional management especially for the following reasons.

1. Major chunk of our economy is unorganized.

2. Due to Industrial/organizational poor infrastructure, Professional management is required to cope with these complexities.

3. There is less utilization of modern technology. The professional management can adapt fast developing technology.

4. Industry is having low productive efficiency.

5. To reduce the wide spread poverty and unemployment in India.

6. For efficient management of funds invested by public in corporate sector.

7. The procurement and disbursement of funds has become IT based. The rapidity of transactions has increased and their regulation has changed. The professional management can successfully manage the finance function in today’s environment.

8. LPG policy has impacted almost all fields of human and business life. LPG policy has offered a number of opportunities to business. The professionally managed companies can take advantage of these opportunities at proper time and can overcome from many problems.

After considering all above reasons, situation and problems in this globalised era, the importance and need of professional management has been constantly increasing. The professionals enjoy high status in every society. Individuals desire to join a profession like medicine, chartered accountant, engineering and law. There has been a growing trend towards professionalization of management, primarily, because of the desire to be business leaders for social status and recognition.

3.3 Concept of Co-ordination

According to Mooney and Reiley, "Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of a common purpose."

According to Henry Fayol, "To coordinate means to unite and correlate all activities".

According to McFarland, "Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of common purpose."

<u>Elements of coordination:</u>

There are following essential elements of coordination:

1. Coordination implies deliberate efforts to bring fulfillment of goal.

2. Coordination applies to the synchronized arrangement of the productivity of a group and not any individual.

3. Coordination is needed only when there is an involvement of a group over a task. It would not be required if an individual were to work in isolation.

4. Coordination is a continuous effort which begins with the very first action, the process of establishment of business and runs through until its closure.

5. Coordination is necessary for all managerial functions. In organizing work, managers must see that no activity remains unassigned. In staffing, managers must ensure the availability of competent people to handle assigned duties. In directing organizational activities, managers must synchronize the efforts of subordinates and motivate them through adequate rewards. In controlling organizational activities, managers must see that activities are on the right path, doing right things, at the right time and in the right manner. Thus, coordination transcends all managerial functions.

<u>Need for Coordination:</u>

The need for coordination arises from the fact that literally all organizations are a complex aggregation of diverse systems, which need to work or be operated in concert to produce desired outcomes. In a large organization, a large number of people process the work at various levels. These people may work at cross purposes if their efforts and activities are not properly coordinated. To simplify the picture, one could decompose an organization into components such as management, employees, customers, suppliers and other stakeholders. The components perform interdependent activities aimed at achieving certain goals. To perform these activities, the actors require various types of inputs or resources. It may be difficult to communicate the policies, orders and managerial actions on a face-to-face basis. Personal contacts, rather, impossible and formal methods of coordination become essential. Usually, in an organization, work is divided along functional lines, resulting in specialists taking care of manufacturing, financing, personnel, marketing functions. Over a period of time, these specialists tend to limit their ability to look beyond their own narrow specialty and become are more interested in developing their own departments. Coordination between such employees is must so as to let them mingle with the others in various departments.

<u>Importance of Coordination:</u>

Coordination is important to the success of any enterprise. It helps an organization in the following ways:

Coordination pulls all the functions and activities together: Waste motions, overlapping and duplication of efforts, misuse of resources are, thus, prevented. Coordination enables an organization to use its resources in an optimum manner. The resources should flow through productive channels, paving the way for required quality and quantity of output. Efficiency thus can be improved.

Coordination brings unity of action and direction: Members begin to work in an orderly manner, appreciating the work put in by others. They understand and adjust with each other by developing mutual trust, cooperation and understanding. They move closer to each other. In short, it improves human relations.

According to Fayol, where activities are well-coordinated, each department works in harmony with the rest. Production knows its target; maintenance keeps equipment and tools in good order; Finance procures necessary funds; Security sees to the protection of goods and service personnel and all these activities are carried out in a smooth and systematic manner. Coordination, thus, creates a harmonious balance between departments, persons and facilities. This in turn, helps in meeting goals efficiently and effectively.

The importance of coordination largely lies in the fact that it is the key to other functions of management like planning, organizing, staffing, directing and controlling. The different elements of a plan, the various parts of an organization and phases of a controlling operation must all be coordinated. Coordinating makes planning more purposeful, organization more well-knit, and control more regulative and effective.

Principles of Coordination:

Mary Parker has brought forth various principles of coordination in the following fashion:

1. ***Principle of direct contact:*** In the first principle, Mary Parker states that coordination can be achieved by direct contact among the responsible people concerned. She believes that coordination can be easily obtained by direct interpersonal relationships and direct personal communications.

2. ***Early stage:*** Coordination should start from the very beginning of planning process. At the time of policy formulation and objective setting, coordination can be sought from organizational participants. Obviously, when members are involved in goal-setting, coordination problem is ninety percent solved.

3. ***Reciprocal relationship:*** As the third principle, Mary states, that all factors in situation are reciprocally related. In other words, all the parts influence and are influenced by other parts.

4. ***Principle of continuity:*** The fourth principle, advocated by Follet, is that coordination is continuous and never-ending process. It is something which must go on all the times in the organization. Further, coordination is involved in every managerial function.

5. ***Principle of self-coordination:*** In addition to the four principles listed by Follet above, Brown has emphasized the principle of self-coordination. According to this principle, when a particular department affects other function or department, it is in turn, affected byte other department or function. This particular department may not be having control over the other departments.

Coordination Process:

Coordination cannot be achieved by force or imposed by authority. Achieving coordination through executive orders is a futile exercise. It can be achieved through person-to-person, side by-side relationships. Achieving effective coordination is a sequential process. It is possible only when the following conditions are fulfilled.

1. ***Clearly defined and understood objectives:*** Every individual and each department must understand what is expected from them by the organization. Top management must clearly state the objectives for the enterprise, as a whole. As pointed out by Terry, "there must be commonness of purpose, in order to

unify efforts". The various plans formulated in the enterprise must be interrelated and designed to fit together.

2. ***Proper division of work:*** The total work must be divided and assigned to individuals in proper way. Here, it is worth noting the principle, a place for everything and everything in its place.

3. ***Good organization structure:*** The various departments in the organization must be grouped in such a way that work moves smoothly from one phase to another. Too much specialization may complicate the coordination work.

4. ***Clear lines of authority:*** Authority must be delegated in a clear way. The individual must know, what is expected of him by his superior(s). Once authority is accepted, the subordinate must be made accountable for results, in his work area. There should be no room for overlapping of authority and wastage of effort(s).

5. ***Regular and timely communication:*** Personal contact is generally considered to be the most effective means of communication for achieving coordination. Other means of communication such as records, reports, may also be used in order to supply timely and accurate information to various groups in an organization. As far as possible, common nomenclature may be used so that individuals communicate in the 'same language'.

6. ***Sound leadership:*** According to McFarland, real coordination can be achieved only through effective leadership. Top management, to this end, must be able to provide (me) a conducive work environment, (ii) proper allocation of work, (iii) incentives for good work, etc. It must persuade subordinates, to have identity of interests and to adopt a common outlook.

Types of Coordination:

On the basis of scope and flow in an organization, coordination may be classified as internal and external; vertical and horizontal.

1. ***Internal and external coordination:*** Coordination between the different units of an organization is called 'internal coordination'. It involves synchronization of the activities and efforts of individuals, in various departments, plants and offices of an organization. The coordination between an organization and its external environment, consisting of government, customers, investors, suppliers, competitors, etc., is

known as 'external coordination'. No organization operates in isolation. In order to survive and succeed, it must set its house in order, and interact with outside forces in a friendly way.

2. ***Vertical and horizontal coordination:*** Coordination between different levels of an organization is called 'vertical coordination'. It is achieved by top management, through delegation of authority. When coordination is brought between various positions, at the same level in the organization (i.e., between production, sales, finance, personnel, etc.) it’s called 'horizontal coordination'. Horizontal coordination is achieved through mutual consultations and cooperation.

Issues and Systems Approach to Coordination:

The systems approach decomposes an organization into three broad components of actors, goals and resources. The actors, comprising of entities such as management, employees, customers, suppliers and other stakeholders perform interdependent activities aimed at achieving certaingoals.Multiple actors and interactions, resources and goals need to be coordinated if common desired outcomes are to be achieved. Viewed from the need to maintain perspective and solve problems that might arise from these multiplicities, coordination links hand in glove with the concept of systems thinking. Actors in organizations are faced with coordination problems. Coordination problems are a consequence of dependencies in the organization that constrain the efficiency of task performance.

Organizations are systems in the sense that they comprise of elements that interact to produce predetermined behavior or output. Change in a constituent part of a system may constrain efficient functioning of other parts of the same system or alter required input or output specifications. The solution to coordination problems, according to coordination theory, lies in the actors performing additional activities called coordination mechanisms. The theory maintains that dependences and mechanisms to counter them are general in the sense that they arise in one form or another in nearly every organization. A simplified typology of the kind of dependences that call for coordination in an organization may be:

1. ***Task-task:*** Tasks may have overlapping, conflicting or outputs with the same characteristics; Common inputs for tasks may be shareable, reusable or non-reusable; the output of one task may be the input of other tasks or a prerequisite for performing subsequent tasks. There may be conflict in specifications that need coordination.

2. ***Task-resource*** i.e. resources required by a task one or more times.

3. ***Resource-resource:*** A situation in which one resource depends on another resource. Each of these dependences requires an appropriate coordination mechanism to manage it. In conclusion, solution to organizational problems, implementation of change or formation of a new organization involves the management of numerous dependences among tasks, resources and goals.

Techniques of Coordination:

The following are the important techniques of co-ordination which are widely used by modern management:

1. ***Co-ordination by common purpose:*** The oldest as well as the most important device for achieving co-ordination is the supervisor. The main duty of a supervisor is to see that his subordinates are working in an efficient manner. He directs them, commands them and controls their efforts. According to Webber, by commanding, managers and supervisors can co-ordinate the efforts of their instructions and by direction and motivation they can co-ordinate their efforts. If the span of management is limited, this technique will be very effective in comparison to others. In the words of L.A. Allen, "A manager, in managing, must co-ordinate the work for which he is accountable, by balancing, timing and integrating it."

2. ***Co-ordination through managerial functions:*** Of the different phases of managerial functions, some aspects like communication, leadership and authority delegation also have unique contribution towards co-ordination. Effective communication is basic to proper co-ordination. Communication of information is necessary both for making adjustments in plans and for preparing programmes for future.

(A) *Planning* is necessary to ensure proper utilization of human and non-human resources. In this pursuit, it brings about coordination in the organization.

(b) *Organizing* relates to determining and providing human and non-human resources tithe organizational structure. For this, coordination is needed.

(c) *Staffing* involves manning the organization structure through proper and effective selection, appraisal and development of personnel to fill the roles designed in the structure. Effective staffing involves coordinating these sub-functions effectively.

(d) *Direction* is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals, one of which is coordination.

(e) *Controlling* is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished. Effective controlling paves way for effective coordination.

3. ***Co-ordination by simplified organization:*** Organization is a very important device for achieving co-ordination. In the modern large-scale organizations, there is tendency towards over-specialization. It leads to bureaucracy and division in different departments. So, some benefits of specialization should be sacrificed and such an organizational structure should be developed in which the authority and functions of several departments will be clearly defined but interacting. Re-arrangement of departments may also be considered to bring about a greater harmony among the various wings of the organization.

4. ***Harmonized programmers and policies:*** Excellent opportunities for co-ordination are provided by the process of planning. The plans prepared by different individuals and departments should be checked up for consistency. The management must ensure that all plans add up to the unified programme.

5. ***Co-ordination by group meetings:*** Group meetings are also effective for achieving a high quality of co-ordination. Such meetings bring the officials together and provide opportunities for co-ordination.

6. ***Co-ordination through liaison men:*** For external co-ordination it is a very important and popular device nowadays. Mostly, large organization employs liaison officers to maintain relations with government and other agencies.

7. ***Voluntary co-ordination:*** Co-ordination by self-co-ordination was proposed by Brown and Sinon. Co-ordination should not be imposed from the above. Ideal co-ordination is the voluntary co-ordination. This can be secured by installing dominant objectives among people, developing, generally accepted customs, encouraging informal contacts, providing for inter-personal and inter-departmental contacts and using committees for informal exchange of ideas and views.

3.4 CHECK YOUR PROGRESS

(1)There are seven functions of management; which is known as‘POSDCORB’ +‘C’which stands for planning, organizing, staffing, directing, coordinating / communicating, reporting, budgeting and +‘c’ indicates…………………………………

(2) Planning is deciding in……………………….. what is to be done?

(3)An Organization Structure shows the authority responsibility………………………… between the various positions in the organization by showing who reports whom.

(4)Deviations can be defined as the gap……………….. actual performance and the standards lay down.

(5)Scientific principles represent basic truth about a particular field of………………………….

3.5 SUMMARY

Management is an activity consisting of a distinct process which is primarily concerned with the important task of goal achievement. No business enterprise can achieve its objectives until and unless all the members of the enterprise make an integrated and planned effort under the directions of a central coordinating agency. This central coordinating agency is technically known as 'management' and the methodology of getting things done is known as 'management process'. The process of management involves the determination of objectives and putting them into action. More popular and widely accepted managerial functions may be broadly classified into five categories: planning, organizing, directing, staffing and controlling. Managers perform these functions within the limits established by the external environment and must consider the interests of such diverse groups as government, employees, unions, customers, shareholders, competitors and the public. For theoretical purposes, it may be convenient to separate the management functions and study them independently but practically speaking, they defy such categorizations. They are highly inseparable. The importance of coordination largely lies in the fact that it is the key to other functions of management like planning, organizing, staffing, directing and controlling. The different elements of a plan, the various parts of an organization and phases of a controlling operation must all be coordinated. Coordinating makes planning more purposeful, organization more well-knit, and control more regulative and effective. Management is a judicious blend of science as well as an art because it proves the principles and the way these principles are applied is a matter of art. Now-a-days it is no longer possible to manage the organizations by experience, intuition or on trial and error method (i.e. traditional management.). So, there is the necessity of trained managers to run the organizations unprofessional base.

3.6KEYWORDS

Planning: Planning is deciding in advance what is to be done .When a manager plans, he projects a course of action for the future, attempting to achieve a consistent, coordinated structure of operation aimed at desired result.

Organizing: It is the process of defining and growing the activities of the enterprise and establishing authority relationships among them.

Staffing: It involves manning the organization structure through proper and effective selection appraisal and development of personal to fill the roles designed into the structure.

Direction: is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives.

Coordination: It harmonizes synchronizes and unifies individual efforts for better action and for the achievement of the business objectives.

Communication: It is a mutual transfer of information and understanding.

Reporting: Informing about the work done, problem faced and results achieved to the boss/head of Department/ to management is called reporting.

Budgeting: It means preparing a receipt/resources and payment/applications statement in advance before starting any plan.

Control: It consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established.

Art: It may be defined as personalized application of general theoretical principles for achieving best possible results.

Science: It is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon.

Profession: It is an occupation for which specialized knowledge, skills and training are required and use of these skills is not meant for self-satisfaction but these are used for larger interests of the society and the success of these skills is measured not in terms of money alone.

3.7 SELF-ASSESSMENT TEST

Q1. Explain the various functions of management.

Q2. Why management is considered as an art? Comment on it.

Q3. Management is called as a 'soft science'. Explain it.

Q4. Write a short note on the following:

(1) Importance of Planning
(2) Types of Organization
(3) Elements of Directing
(4) Process of controlling

Q5. What do you mean by coordination? Explain the principles of coordination.

Q6. Explain the process of coordination.

3.8 ANSWERS TO CHECK YOUR PROGRESS

(1)'Controlling'

(2)Advance

(3)Relationship

(4)Between

(5)Enquiry

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APPROACHES TO MANAGEMENT

Structure

4.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the classical approach of Management
- Understand the neo-classical approach of Management
- Explain the behavioral approach of management

- Explain the Management approach of Management
- Explain system and Contingency approach of Management

4.1INTRODUCTION

Management knowledge is as old as human civilization. But from the beginning of the 20th century serious efforts were made to develop management as a separate discipline. Contribution of Taylor, Gantt, Gilbert, Emerson, Henri Fayol, Sheldon, Mooney, Mary Parker and Max Weber gave birth to the classical approach to management. From this classical approach the development of management thought started. Then the neo-classical approach evolved. The contributors to this approach attempted to study the human relations and human behavior in the organization. Some advocates of this approach were Elton Mayo, Douglus McGregor, Mary Parker, Chester Bernard etc. After neo-classical approach, there evolved the modern approach. The evolution of management thoughts a continuous process and newer approaches like system approach, contingency approach are developed in present era.

4.1.1 CLASSICAL APPROACH

The classical theory signifies the beginning of the systematic study of management organization.

It is often called the traditional theory. It can be traced historically to the 19th century prototype industrial and military organizations. Several writers contributed to the classical thought in the early years of the 20th century. They include Taylor, Fayol, Weber, Luther Gulick, Urwick,Mooney and Reiley and may others. The classical theory incorporates three viewpoints: (1) Taylor’s Scientific Management (2) Fayol’s Administrative Management; and (3) Weber’s Ideal Bureaucracy (an organization based on rules and regulations, formal relations, specialization, etc.). All the three concentrated on the structure of organization for greater efficiency. Several other trailblazers have also contributed to the classical theory. For instance, Mooney and Reiley published ‘Onward Industry’ in 1931 in which they attempted to find organizational universals. Subsequently, notable contributions came from Gullick, Oliver, Urwick and many others. All these theorists were concerned with the structure of organizations and that is why their approach is also sometimes labeled as ‘structural theory of organization’. Salient features of classical approach are as follows:

1. The classical theory 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.

2. The classical theorists' emphasis organization structure for co-ordination of various activities. They ignored the role of human element.

3. The classical theory ignored the impact of external environment on the working of the organization. Thus, it treated organizations as closed systems.

4. The efficiency of the organization can be increased by making each individual efficient.

5. The integration of the organization is achieved through the authority and control of the central mechanism. Thus, it is based on centralization of authority.

6. There is no conflict between the individuals and the organization. In case of any conflict, the interests of the organization should prevail.

7. The people at work could be motivated by the economic rewards as they were supposed to be 'rational economic persons'.

SCIENTIFIC MANAGEMENT APPROACH

Frederick Winslow Taylor, known popularly as the 'Father of Scientific Management' is one of the great contributors of the classical theory of management. He was the first person to insist on introduction of scientific methods in management. His contribution is largely regarding improvement of productivity at shop level. Born in 1856 at Philadelphia, Taylor took his early education at French and German Schools. Later he obtained degree in engineering from Stevens Institute of Technology at New Jersy. Taylor started his career as an apprentice in a small machinery making shop. Afterwards he became the Chief Engineer in Midvale Steel Company at Philadelphia. He also worked as a consultant engineer in BethelhamSteel Company. He developed the scientific management theory from his observations and experiments conducted mostly in Midvale and Bethlehem Steel companies. His famous works are Shop Management (1903) and Principles of Scientific Management (1911). The great management thinker Taylor died in 1915.While working in Midvale Steel Company, Taylor observed that neither management nor workers knew their duties and responsibilities. Workers worked slowly. They used different techniques to do the same job. No effective work standards existed. Workers choose their own work and trained themselves. They were placed on jobs without considering their abilities and attitude. Management depended on intuition and trial and error basis. This affected the output, increased cost and wastages. Taylor, therefore, decided to correct the situation by applying scientific method to the jobs on the shop floor. He devoted more than two decades for defining ‘One Best Way’ for a job to be done. His book "Principles of Scientific Management" was accepted all over the world. He did many experiments, introduced new scientific methods.

Scientific management means “the use of scientific method to define ‘one best way’ for a job to be done”. Taylor’s philosophy of scientific management is based on the following principles.

1) Science, not rule of thumb: The manager should develop a science for each element of man’s work and replace the old rule of thumb method. Decisions should be based on facts and not on intuition.

2) Harmony, not discord: There should be complete group harmony in the organization. This can be achieved through satisfying the needs of group members and eliminating their dissatisfaction and frustration. Clashes or conflicts should be avoided as far as possible and proper co-ordination should be established among the different groups/departments.

3) Co-operation, not individualism: For achieving the objectives of organization there should be co-operation between the management and workers. Importance should be given to co-operative efforts and not individual efforts.

4) Maximum not restricted output: Instead of giving restricted output, workers should be asked to give maximum output. As output increases the cost per unit will decrease and productivity will improve.

5) Development of each man to his greatest efficiency and prosperity: The workers should be scientifically selected, properly trained and developed to their maximum potential. This will not only increase workers' efficiency but also their wages and prosperity. Prosperity to workers will bring prosperity to the employers.

Techniques of Scientific Management:

Based on his experience at shop floor Taylor has suggested the following techniques to bring the philosophy of scientific management into practice.

1) Scientific Study and Planning of Work: The management should study each element of work scientifically and decide the daily standard output for each worker. For this purpose time and motion study should be conducted. Time study will help to determine the standard time required to do a job. Motion study will help to remove unnecessary movements of workers in doing the job. With the help of this technique the management can give precise idea to the workers on what is to be done and how it can be done efficiently.

2) Scientific Selection, Placement and Training: The workers should be selected by using scientific methods and not relying on intuition and judgment of the foreman. They should be placed on the right job by matching job requirements with their capacity and attitude. Further, they should be trained on a regular basis to do the task in the best manner and give maximum output at minimum cost.

3) Standardization: Taylor advocated the importance of standardization of tools, equipments, raw materials, quality of work and physical working conditions.

4) Separation of Planning from Doing: Planning function should be separated from doing function to secure the benefits of division of work and specialization. Planning of work should be the responsibility of management. The management should plan, organize and direct the work where as the workers should implement the plans.

5) Functional Foremanship: Taylor was the first to introduce and practice the concept of functional foremanship. According to Taylor, instead of having one foreman, there should before Supervisors in the shop room namely, the gang boss, the speed boss, the repair boss and inspector. In the planning office there should be four specialists namely the time and cost clerk, the instruction card clerk, the order of work and route clerk and the shop disciplinarian. Under functional foremanship each worker should receive orders directly from these eight different supervisors dealing with different aspects of his job.

6) Wage Incentives: Taylor suggested paying workers according to their efficiency. Workers producing more should be given higher wages. He devised differential price rate plan which implies different rates of wages for different levels of efficiency of workers. The efficient worker should get more wages than the average worker. Introduction of wage incentive scheme will reward the efficient worker and punish the inefficient worker.

7) Mental Revolution: For getting the desired results of scientific management Taylor emphasized the need of a mental revolution i.e. a fundamental change of outlook on the part of both employer and employees. The workers should change their attitude, outlook and behaviour as to their duties, their work, their fellowmen and their employer. At the same time the management should change its attitude, outlook and behavior towards the workers and their problems. Instead of having a hostile attitude and engaging in continuous conflict, management and workers should co-operate each other and work for their mutual benefit. They should give up the perception that any gain by one is at the expense of other. Their relationship should be cordial, cooperative and positive. There should be no hostility, distrust and suspicion between them.

Criticism on Scientific Management:

Taylor's philosophy of scientific management was criticized on the following grounds.

1. Taylor treated worker just as a factor of production. He neglected the social and psychological needs of workers. Thus, he ignored the 'human' element.

2. Taylor concentrated on improving productivity at shop floor. His philosophy is confined to operative personnel only. It is not concerned with the overall organization and improving its effectiveness.

3. Functional foremanship would result into over specialization and create confusion in the minds of workers.

4. Adoption of principles of scientific management may result in exploitation of workers. Hence, it may be opposed by workers and their union.

5. Scientific management is anti-democratic. It does not seek participation of workers in decision making process.

ADMINISTRATIVE APPROACH

The credit of developing the administrative theory of management goes mainly to Henri Fayol. Henri Fayol was born in 1841 in France. He studied engineering in France. He worked first as a mining engineer in a large French mining and metallurgical company. Later on he became its Managing Director. Based on his rich administrative experience he wrote a monograph titled as General and Industrial Management, published in UK. It is a short-book containing four parts. First part deals with classification or business activities. Second part deals with basic functions of management performed by the managers in all types of organization. Third part deals with 14 principles of management. Fourth part deals with the managerial qualities and skills.

Henri Fayol's Principles of Management:

Henri Fayol was the first thinker to point out basic principles of management. He made a distinction between ‘General Principles of Management’ and ‘Elements of Management’. According to Fayol these principles have universal application.They are applicable to all types of organization - business, government, military, religious etc. They are fundamental or universal truths and can be taught in schools and universities. Fayol made it clear that these principles were flexible and capable of adoption to every need. These principles are briefly discussed below:

1) Division of Work: It involves dividing the work among various departments and employees according to their abilities and skills. The object of this principle is to obtain the benefit of specialization i.e. produce more and better goods.

2) Authority and Responsibility: Authority must be in proportion to responsibility. Authority and responsibility should go together. When managers are given authority, their responsibility should also be decided.

3) Discipline: Discipline means obeying and respecting the rules of the organization. Fayol considered discipline as absolutely essential for the smooth running of business. For maintaining discipline there should be good supervisor sat all levels, clear and fair agreements with employees and judicious use of penalties.

4) Unity of Command: This principle states that every employee should receive orders from one Supervisor only. Dual command leads to confusion and conflict.

5) Unity of Direction: According to this principle “there should be one head and one plan” for a group of activities having the same objective.

6. Subordination of Individual Interests to General Interest: The interest of any one employee or group of employees should not proceed over that of the concern. Individual employees should not give priority to their own interest; rather they should work for the interest of the organization.

7) Remuneration: Employees should get fair remuneration for their services. Air remuneration provides satisfaction to both the employees and the firm.

8) Centralization: This principle refers to the extent to which authority should be centralized or decentralized in an organization. The degree of centralization depends upon individual circumstances. It should be such as to give the best results to the organization.

9) Scalar Chain: The line of authority from top management to the lowest management is known as the scalar chain. Orders and feedback follow this chain. It creates superior-subordinate relationship among the employees in the organization. For effective management the scalar chain should be as short as possible.

10) Order: For ensuring smooth flow of work and efficient use of physical and human resources, people and materials should be in the right place at the right time. Everything and everyone should be in the right places.

11) Equality: This principle states that managers should give equal, fair and kind treatment to their employees.

12) Stability of tenure of personnel: Since instability is both the cause and effect of bad running, the management should provide stability of employment to its personnel. This will create a feeling of security among the employees and reduce their tension.

13) Initiative: Management should allow the employees to develop and use initiative for ‘solving work-related problems'. This will help employees to develop better in the organization.

14) Espirit Corps: According to this principle “unity is strength”. Managers should, therefore, try to build team spirit and unity among the employees for achieving the organizational goals.

Management principles have universal application. Some of Fayol’s principles have stood the test of time and have been reproduced in almost all standard books on general management and organization theory.

BUREAUCRATIC APPROACH

Max Weber, a German Social Scientist and Philosopher made valuable contribution to the general administration theory through his concept of Bureaucracy. According to Weber there are three types of authority systems as follows.

1) Charismatic Authority System: It is based on the extra-ordinary qualities or magnetic personality of the leader, e.g. Henri Ford of Ford Motors. However, this type of authority structure suffers from the problem of instability. It comes to end with the leader. People may not accept the successor of such person as leader.

2) Traditional Authority: Here a person enjoys authority because of his status derived by inheritance. The extent of authority is decided by the custom. Traditional authority system ignores whether the particular person has necessary leadership qualities and competencies.

3) Bureaucracy: According to Weber both the charismatic and traditional authority systems are not suitable to large business organizations because they are person-centered and instable in nature. Hence, Weber has advocated Bureaucracy model based on rationality and legality.

Characteristics of bureaucratic Approach.

1) Division of Labour: In bureaucracy jobs are broken into simple routine and well-defined tasks and assigned to various employees on the basis of their abilities, skills and aptitudes.

2) Hierarchy of authority: Bureaucracy works on a well-defined hierarchy of authority. Higher officials or offices supervise lower officials or offices and the lower officials/offices have the right of appeal.

3) Formal selection: All persons in the organization are selected and placed on the basis of their technical qualifications.

4) Formal rules and regulations: The organization functions according to formal rules and regulations. These rules and regulations are in written form and communicated to all employees. Use of formal rules and regulations ensures uniformity in action and helps the management to control the employees.

5) Impersonality: There is no place for emotions, sentiments and personal attachment. Rules and regulations supersede the persons in the organization and are applied uniformly avoiding involvement with personalities and personal preferences of employees.

6) Career orientation: In bureaucratic organization the officers are 'professionals' rather than owners of the organization. They derive authority because of the office/post they hold and work for fixed salary. They have the prospects of regular advancement in the organization. They are appointed on fulltime basis.

7) Continuity: The official business is conducted on continuous basis. The organization enjoys continuity of operations because of rational-legal authority structure.

8) Separation between official business and personal affairs: The official business of employees and their personal affairs are treated as two separate things. There is separation between official revenue and personal incomes. Officials do not own the resources required for performing their duties. However, they are accountable for the use of official resources.

9) Rational-legal Structure: Weber's bureaucracy model is characterized by rationality and legality. It is rational in the sense that means are expressly allotted for achieving predetermined goals. It is called 'legal' because authority is attached to the office and is exercised impersonally through the system of rules and regulations.

Criticism on bureaucracy model:

1 Bureaucracy model fails to meet the need of job satisfaction and creativity and hence it is not useful in modern times.

2. Bureaucracy is overridden by rules and regulations, losing the 'human element'.

3. The rules and procedures may be misused by the higher authority to punish the employees.

4. Officials give excessive importance to following rules and procedures. They pay less attention to achievement of overall goals.

5. According to Peter Drucker, "procedures are wrongly considered as substitute for judgment".

6. Bureaucracy does not consider the existence of informal organization and its role in management.

7. The human resources may not be fully utilized due to dishonor, fear of reprisals etc.

Appraisal of Classical Theory

The fundamental objections against the classical theory are discussed below:

1. ***Narrow View of Organization:*** The value of classical theory is limited by its narrow concentration on the anatomy of formal organization. In order to achieve rationality, the classical writers ignored the human relations aspect. The interplay of individual personality, informal groups and inter organizational conflicts in the formal organization were neglected. It is said that the focus of classical theory is on 'organization without people'.

2. ***Assumption of Closed System:*** Classical theorists viewed organization as a closed system, i.e. having no interaction with environment. This assumption is totally unrealistic. A modern organization is an open system which has continuous interaction with the environment through the exchange of inputs and outputs and various types of information.

3. ***Assumptions about Human Behavior:*** The human beings were treated like any other factor of production. They were supposed to obey their superiors. The classical writers ignored the social, psychological and motivational aspects of human behavior.

4. ***Economic Rewards as Main Motivators:*** The assumptions that people at work can be motivated solely through economic rewards are also wrong. Several researches in human behaviour have contradicted this assumption. Non-monetary factors like better status and job enrichment can also motivate the workers.

5. ***Lack of Empirical Verification:*** The classical principles are mostly based on the personal experiences and limited observations of the practitioners. They are not based on empirical research. They lack precision and comprehensive framework for analysis. Moreover, it is not clear whether these principles are action recommendations or simply definitions.

6. ***Lack of Universality of Principles:*** Classical theorists claimed that their principles have universal application. This suggests that the same principles can be applied in: (I) different organizations, (ii) different management levels in the same organization, and (iii) different functions of the same organization. The empirical researches, however, suggest that none of the principles has such characteristics. Moreover, there are many of the principles which contradict with other principles. For example, principle of specialization is quite in conflict with the principle of unity of command.

7. ***Excessive Emphasis on Rules and Regulations:*** Weber's 'ideal' bureaucracy, a major constituent of classical theory, suggested strict adherence to rules and regulations. The scope for individual initiative is thus limited. The result is red-tapism in the organization. Observation of rules and regulations becomes the main objective while the real objectives for which these rules and regulations are formed are forgotten.

4.1.2 NEO-CLASSICAL APPROACH

Neo-classical Theory is built on the base of classical theory. It modified, improved and extended the classical theory. Classical theory concentrated on job content and management of physical resources whereas, neo-classical theory gave more emphasis on individual and group relationship in the workplace.

The neo- classical theory pointed out the role of psychology and sociology in the understanding of individual and group behaviour in an organization.

HUMAN RELATIONS APPROACH

The classical writers including Weber, Taylor and Fayol neglected the human relations aspect. The neo-classicists focused on the human aspect of industry. They modified the classical theory by emphasizing the fact that organization is a social system and the human factor is the most important element within it. They conducted some experiments (known as HawthorneExperiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of informal leadership, etc. This led to the development of human relations approach. Elton Mayo is generally recognized as the father of the Human Relations School. Other prominent contributors to this school include Roethlisberger, Dickson, Dewey, Lewin, etc. 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 workers' productivity and satisfaction. It was instrumental in creating a new image of man and the work place. The neo-classical or human relations approach put stress on inter-personal relations and informal groups at the work-place.

The human religionists argued that achievement of organizational objectives is impossible without the willing cooperation of people and such cooperation cannot be automatically secured or ordered. It has to be consciously achieved. The neo-classical approach advocated people oriented organization structure which will integrate both informal and formal organizations.

The basic tenets of neo-classical theory or human relations approach are as under:

1. The business organization is a social system.

2. The behavior of an individual is dominated by the informal group of which he is member.

3. An individual employee cannot be motivated by economic incentives alone. His social and psychological needs must be satisfied in order to improve the level of motivation.

4. In an organization, it is ultimately cooperative attitude and not the more command which yields result.

5. Management must aim at developing social and leadership skills in addition to technical skills. It must take interest in the welfare of workers.

6. Morale and productivity go hand in hand in an organization

HAWTHRONE STUDIES

In 1927, a group of researchers led by George Elton Mayo and Fritz J. Roethlisberger at the Harvard Business School were invited to join in the studies at the Hawthorne Works of Western Electric Company, Chicago. The experiment lasted up to 1932. Earlier, from 1924 to 1927, the National Research Council made a study in collaboration with the Western Electric Company to determine the effect of illumination and other conditions upon workers and their productivity.

1. ***Illumination Experiment:*** This experiment was conducted to establish relationship between output and illumination. The output tended to increase every time as the intensity of light was improved. But the output again showed an upward trend when the illumination was brought down gradually from the normal level. Thus, it was found that there is no consistent relationship between output of workers and illumination in the factory. There were some other factors which influenced the productivity of workers when the intensity of light was increased or decreased.

2. ***Relay Assembly Room Experiment:*** In this experiment, a small homogeneous work-group of girls was constituted. Several new elements were introduced in the work atmosphere of this group. These included shorter working hours, rest pauses, improved physical conditions, friendly and informal supervision, free social interaction among group members, etc. Productivity and morale increased considerably during the period of the experiment. Morale and productivity were maintained even if improvements in working conditions were withdrawn. The researchers concluded that socio-psychological factors such as feeling of being important, recognition, attention, participation, cohesive workgroup, and non-directive supervision held the key for higher productivity.

3. ***Bank Wiring Observation Room Experiment:*** This experiment was conducted to study group of workers under conditions which were as close as possible to normal. This group comprised of 14 workers. After the experiment, the production records of this group were compared with their earlier production records. There were no significant changes in the two because of the maintenance of ‘normal conditions’. However, existence of informal cliques in the group and informal production norms were observed by the researchers.

The Bank Wiring Experiment led to the following observations:

(a) Each individual was restricting output.

(b) The group had its own “unofficial” standards of performance.

(c) Individual output remained fairly constant over a period of time.

(d) Departmental records were distorted due to differences between actual and reported output or between standard and reported working time.

4. ***Mass Interview Programme:*** The researchers interviewed a large number of workers with regard to their opinions on work, working conditions and supervision. Initially, a direct approach was used whereby interviewers asked questions considered important by managers and researchers. Later, this approach was replaced by an indirect technique where the interviewer simply listed to what the employees had to say. The findings confirmed the importance of social factors at work in the total work environment.

Contributions of Human Relations Approach or Hawthorne Studies

The human religionists proposed the following points as a result of their findings of the Hawthorne experiments:

1. ***Social System:*** The organization in general is a social system composed of numerous interacting parts. The social system defines individual roles and establishes norms that may differ from those of the formal organization.

2. ***Social Environment:*** The social environment on the job affects the workers and is also affected by them. Management is not the only variable. Social and psychological factors exercise a great influence on the behaviour of workers. Therefore, every manager should adopt a sound human approach to all organizational problems.

3. ***Informal Organization:*** The informal organization does also exist within the frame work of formal organization and it affects and is affected by the formal organization.

4. ***Group Dynamics:*** At the workplace, the workers often do not act or react as individuals but as members of groups. The group determines the norms of behaviour for the group members and thus exercises a powerful influence on the attitudes and performance of individual workers. The management should deal with workers as members of workgroup rather than as individuals.

5. ***Informal Leader:*** The informal leader sets and enforces group norms. He helps the workers to function as a social group and the formal leader is rendered ineffective unless he conforms to the norms of the group.

6. ***Communication:*** Two-way communication is necessary because it carries necessary information downward for the proper functioning of the organization and transmits upward the feelings and sentiments of people who work in the organization. It will help in securing workers' cooperation and participation in the decision-making process. Workers tend to be more productive when they are given the opportunity to express their feelings, opinions and grievances. This also gives them psychological satisfaction.

7. ***Non-economic Rewards:*** Money is only one of the motivators, but not the sole motivator of human behaviour. The social and psychological needs of the workers are very strong. So non-economic rewards such as praise, status, interpersonal relations, etc. play an important role in motivating the employees. Such rewards must be integrated with the wages and fringe benefits of the employees.

8. ***Conflicts:*** There may arise conflicts between the organizational goals and group goals. Conflicts will harm the interest of workers if they are not handled properly. Conflicts can be resolved through improvement of human relations in the organization.

Criticism of Human Relations Approach

The human relations approach has been criticized on the following grounds:

1. ***Lack of Scientific Validity:*** The human religionists drew conclusions from Hawthorne studies. These conclusions are based on clinical insight rather than on scientific evidence.

2. ***Over-emphasis on Group:*** The human relations approach over-emphasizes the group and group decision-making.

3. ***Over-stretching of Human Relations:*** It is assumed that all organizational problems are amenable to solutions through human relations.

4. ***Limited Focus on Work:*** The human relations approach lacks adequate focus on work.

5. ***Over-stress on Socio-psychological Factors:*** The human relations approach undermines the role of economic incentives in motivation and gives excessive stress on social and psychological factors.

6. ***Conflict between Organizational and Individual Goals:*** It views conflict between the goal of the organization and those of individuals as destructive.

4.1.3 MODERN APPROACH (SYSTEM APPROACH)

In the 1960s, a new approach to management appeared which attempted to unify the earlier schools of thought. This approach is commonly referred to as 'Systems Approach'. Basically, it took up where the functional process management school let off to try to unify management theory. "A system viewpoint may provide the impetus to unify management theory. By definition, it could treat the various approaches, such as the process, quantitative and behavioral ones, as subsystems in an overall theory of management. Thus, the systems approach may succeed where the process approach has failed to lead management out of the theory jungle". The systems 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. It is simply an assemblage or combination of things or parts, forming a complex whole. Its important feature is that it is composed of hierarchy of sub-systems. The world as a whole can be considered to be a system in which various national economies are sub-system. In turn, each national economy is composed of its various industries, each industry is composed of firms, and of course, a firm can be considered a system composed of sub-systems such as production, marketing, finance, accounting and so on". Thus, each system may comprise several sub-systems and in turn, each sub-system be further composed of sub-systems.

An organization as a system has the following characteristics:

1. A system is goal-oriented.

2. A system consists of several sub-systems which are interdependent and inter-related.

3. A system is engaged in processing or transformation of inputs into outputs.

4. An organization is an open and dynamic system. It has continuous interface with the external environment as it gets inputs from the environment and also supplies its output to the environment. It is sensitive to its environment such as government policies, competition in the market, technological advancement, tastes of people, etc.

5. A system has a boundary which separates it from other systems.

Open Vs. Close System

A system may be closed or open. 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 subsystems only. Because of lack of interaction with environment, it is unable to monitor changes occurring in the external environment. On the other hand, an open system has active interface with the environment through the input-output process. It can respond to the changes in the environment through the feedback mechanism. That is why modern authors consider organization as an open system. An open system obtains inputs, such as raw materials, layout, capital, technology and information, from the environment. Operations are performed upon the inputs and combined with the managerial process to produce desirable outputs which are supplied to the environment (i.e., customers). Through a feedback process, the environment's evaluation of the output becomes part of the inputs for further organizational activity. 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.

Features of Systems Approach

The systems approach is far more superior to classical and neo-classical approach because of the following features:

1. ***Interdependent Sub-systems:*** An organization is a system consisting of several sub-systems. For example, in a business enterprise, production, sales and other departments and subsystems. All these sub-systems are functionally interacting and interdependent. They are used together into an organic whole through goals, authority flows, and resources flows and so on.

2. ***Whole Organization:*** The system approach provides a unified focus to organizational efforts. It gives managers a way of looking at the organization as a whole that is greater than the sum of its parts. The stress is laid on integration of various sub-systems of the organization to ensure overall effectiveness of the system.

3. ***Synergy:*** The output of a system is always more than the combined output of its parts. This is called the law if synergy. The parts of system become more productive when they interact with each other than when they act in isolation.

4. ***Multi-disciplinary:*** Modern theory of management is enriched by contributions from various disciplines like psychology, sociology, economics, anthropology, mathematics, operations research and so on.

Appraisal of Systems Approach

The system approach is an attempt to design an overall theory of management. Interdependency and inter-relationships between various sub-systems of the organization is adequately emphasized. A pressure for change in one sub-system generally has a direct or indirect influence on the other sub-systems also. Thus, the systems approach acknowledges environmental influences which were ignored by the classical theory.

The systems approach represents a balanced thinking on organization and management. It stresses that managers should avoid analyzing problems in isolation and rather develops the ability for integrated thinking. It recognizes the interaction and interdependence among the different variables of the environment. It provides clues to the to the complex behavior of an organization. It warns against narrow fragmented and piecemeal approach to problems by stressing inter-relationships. The systems approach is criticized as being too abstract and vague. It cannot easily be applied to practical problems. It does not offer specific tools and techniques for the practicing manager.

4.1.3.1 BEHAVIORAL APPROACH

Under behavioral science approach, the knowledge drawn from behavioral science, namely, psychology, sociology and anthropology, is applied to explain and predict human behavior. It focuses on human behavior in organizations and seeks to promote verifiable propositions for scientific understanding of human behavior in organizations. It lays emphasis on the study of motivation, leadership, communication, group dynamics, participative management, etc.

Characteristics of behavioral science approach

1. Data must be objectively collected and analyzed.

2. Findings must be presented so that the distinction between cause and effect, as opposed to chance occurrences, is clear.

3. Facts must be systematically related to one another within a systematic framework. Data collection alone does not constitute a science.

4. The findings of a study must always be open to further examination and question.

The distinguishing feature of the behavioral sciences approach is the methodology employed in developing the research in the management discipline. The crux of the methodology lies in the collection and analysis of the relevant data. It is in this sense that this approach differs from the human relations approach.

Further, the behavioral scientists made the following propositions:

1. An organization is a socio-technical system.

2. Individuals differ with regard to attitudes, perceptions and value systems. As a result, they behave differently to different stimuli under different conditions.

3. People working in the organization have their needs and goals which may differ from the organizational goals. Attempts should be made to achieve fusion between organizational goals and human needs.

4. A wide range of factors influence inter-personal and group behavior of people in organizations.

The behavior school has drawn heavily on the work of Maslow. His development of need hierarchy to explain human behavior and the dynamics of motivation process is an important contribution. Douglas McGregor built on Maslow's work in explaining his 'Theory X' and 'Theory Y'. Frederick Herzberg developed a two-factor theory of motivation. He made distinction between the factors which either cause or prevent job dissatisfaction (hygienic factors), and those factors which actually lead to motivation (motivational factors).

To sum up, the behavioral sciences approach gives emphasis on increasing productivity through motivation and leadership. The central core of this approach lies in the following aspects of human behavior: motivation, leadership, communication, participative management and group dynamics. The behavioral sciences have provided managers with a systematic understanding of one of the most critical factors in the process of management-the human element. Insights evolving from that understanding have been used to design work situations that encourage increased productivity. It has enabled organizations to formulate programmes to more efficiently train workers and managers, and it has effects in numerous other areas of practical significance.

Appraisal of Behavioral Science Approach

1. The study of human behavior is of great significance in management. Since an individual is a product of social system, his behavior is not determined by organizational forces alone, but many forces like perception, attitudes, habits, and socio-cultural environment also shape his behavior. Therefore, in understanding human behavior in the organization, all these factors must be taken into account.

2. The behavioral approach suggests how the knowledge of human behavior can be used in making people more effective in the organization.

3. Behaviorists have enriched management theory through their contributions in the areas of group dynamics, motivation communication and leadership. However, they have failed in developing an integrated theory of management. Although, study of human behavior in organizations is extremely important yet management cannot be confined only to this area.

4. There are other variable such as technology and environment which have an important bearing on the effectiveness of an organization.

5. The behavioral science, refined as they might be, has not achieved the precision of the physical sciences.

6. Often the complexities of the human factor and the organizational setting make exact predictions impossible. It is not uncommon for programmes based on sound behavioral principles to have unexpected results.

7. It should also be noted that the finding of behavioral science research are tentative and require further investigation. They should not be treated as applicable to all situations.

8. Behavioral guidelines can be helpful and profitable, but are not complete, valid and applicable to all situations.

4.1.3.2 MANAGEMENT SCIENCE APPROACH

Koontz, O'Donnell and Weihrich have advocated the operational approach to management. This approach recognizes that there is a central core of knowledge about managing which exists in management such as line and staff, patterns of departments, span of management, managerial appraisal and various managerial control techniques.

Operational approach to management regards management as a universally applicable body of knowledge that can be brought to bear at all levels of managing and in all types of enterprises. At the same time, the approach recognizes that the actual problems managers face and the environments in which they operate may vary between enterprises and levels. It also recognizes that application of science by perceptive practitioner must take this into account in designing practical problem solutions. The operational approach to management is based largely on the following fundamental beliefs that:

1. Management is an operational process initially best dissected by analyzing the management functions.

2. If the knowledge of management is to be presented effectively, clear concepts are necessary.

3. Experience with managing in a variety of situations can furnish grounds for distillation of basic truths-theory and principles-which have a clarifying and predictive value in understanding and improving practice.

4. Principles of management can become the focal points for useful research both to ascertain their validity and to improve their applicability.

5. Managing is an art (like medicine and engineering). It should rely on underlying science concepts, theory and principles and techniques.

6. While the total culture and the physical and biological universe variously affect the manger's environment, as they do in every other field of science and art, management science and theory need not encompass all knowledge in order to serve as a useful foundation of management practice.

George R. Terry has advocated the use of "modified management process" approach. This approach is quite similar to operational approach suggested by Koontz, ODonnell and Weihrich. Terry feels that such an approach should be followed which can be termed the electric process school of management, featuring the basic frame work of the process approach modified by certain theories from other appropriate schools of management thought. Electric means" consisting of what is selected" and this term has been interpreted to indicate taking the best from what is available in the management thought and working it into a single theory moulded around the process framework as the central core.

4.1.3.3CONTINGENCY APPROACH

A review of the earlier schools of management helps us to place the current approach to management in perspective. The performance results of the management process school's Universalist assumptions were generally disappointing. The behavioural approach to management was incomplete. Certain quantitative techniques worked in some situations and not in others. Many authors believe that systems based theory could solve this dilemma. But this approach is also as yet incomplete. The latest approach to management which integrates the various approaches to management is known as 'contingency' or 'situational' approach.

The contingency approach is not new. Pigors and Myers propagated this approach in the area of personnel management as early as in 1950. However, the work of Joan Woodward in the 1950smarked the beginning of the contingency approach to organization and management. Other contributors include Tom Burns, G.W. Stalker, Paul Lawrence, Jay Lorsch, and James Thompson.

They analyzed the relationship between the structure of the organization and the environment. Thus, contingency approach incorporates external environment and attempts to bridge the theory-practice gap. It does so in the systems framework. In other words, a contingency approach regards organization as an open and dynamic system which has continuous interaction with environment. Contingency approach analysis and understands these interrelationship so that managerial actions can be adjusted to demands of specific situations or circumstances. Thus the contingency approach enables us to evolve practical answers to problems demanding solutions. Organization design and managerial actions most appropriate to specific situations will have to be adopted to achieve the best possible result under the given situation. There is no one best way (as advocated by Taylor) to organize and manage. Thus, Contingency Approach to management emphasizes the fact that management is a highly practice-oriented discipline. It is the basic function of managers to analyze and understand the environments in which they function before adopting their techniques, processes and practices. The application of management principles and practices should therefore be contingent upon the existing circumstances. Contingency approach guides the manager to be adaptive to environment. It tells the manager to be pragmatic and open minded. The contingency approach is an improvement over the systems approach. It not only examines the relationships between sub-systems of the organization, but also the relationship between the organization and its environment.

The contingency theory stresses that there is no one best style of leadership which will suit every situation. The effectiveness of a particular leadership style will vary from situation to situation. For instance, participative leadership may be more effective in an organization employing professional personnel in a high technology operation in an atmosphere of non-materialistic orientation and free expression. On the other hand, authoritarian leadership would be more effective in an organization which employs unskilled personnel on routine tasks in social values oriented towards materialism and obedience to authority.

Evaluation of Contingency Approach

Contingency approach guides the managers to be adaptive to environmental variables. In other words, the managers should develop situational sensitivity and practical selectivity. Contingency approach suggests the managers to condone environmental contingencies while choosing their style and techniques. Contingency approach is an improvement over systems approach. It not only examines the relationships of sub-systems of the organization, but also the relationship between the organization and its environment.

Systems Approach Contingency Approach

1. It lays emphasis on the interdependencies and interactions among systems and sub-systems.

2. It identifies the nature of inter-dependencies and the impact of environment of organizational design and managerial style.

3. It treats all organizations alike. Size of the organization and its socio-cultural setting are not considered.

4. Each organization is to be studied as a unique entity.

5. It studies organization at the philosophical level.

6. It follows an action-oriented approach and so is pragmatic. It is based on empirical studies.

7. It does not comment on the validity of the classical principles of management.

8. It rejects the blind application of the classical principles of management.

9. It simply lays down that the organization interacts with the environment.

10. The impact of environment on the organization structure and managerial style is the major concern of contingency approach.

However, the contingency approach suffers from two limitations:-

1. It does not recognize the influence of management concepts and techniques on environment.

2. Literature on contingency management is yet not adequate.

4.2 MANAGEMENT THOUGHT IN ANCIENT INDIA

Management thought could be categorized as four eras like: Scientific management era, Humanistic era, Ethics and Values era and Spirituality in Management era. During these transitions, Management thinking has been shifting from scientific management to MBO (Management by Objectives) to MBHO (Management by Higher Objectives) to HOPE: Higher Order Purpose of Existence (Sharma, 2013). The emergence and development of Indian Management coincide with regards to the above mentioned historical perspective. With the recognition of Yoga, Meditation, and Spirituality (YMS) in Management and Leadership, the idea of Indian Management received intellectual acceptance and legitimacy. Like Japanese Management evolved in response to integration of culture and technology, Indian Management is evolving in response to new challenges that corporations are facing particularly with respect to stress management, well-being, and quality of work life, social and environmental concerns. In these areas yoga, meditation and consciousness studies have found global acceptance in the organization context. Another significant change leading to emergence and development of the idea of Indian Management was as per the economic expectance. A transition happened from the industrial economy having roots in Industrial revolution, service and knowledge economy. Now the world is moving towards consciousness revolution, and this has facilitated the emergence of Indian Management. These revolutionary changes ensured transition from Time and Motion based roots of Management thought to Emotion& Transformation oriented mindset with roots in Knowledge revolution and new Consciousness(such as environmental, social consciousness and consciousness). This also led to the recognition of Culture, Ethics & Values (Conscience) and Spirituality (Consciousness) as new ideas for the development of management thought. The Scientific Management and Human aspect of Management paved way to innovative ideas in Management & Leadership emerging from Culture paradigm of knowledge creation (e.g. Japanese Management & Indian Management) and Conscience paradigm (Ethics and Values) and Consciousness paradigm (Spirituality) as new frontiers in Management paving way for Indian ideas in Management & Leadership. It may be indicated that in comparison to Japanese cultural paradigm, the essence of Indian cultural paradigm lies in diversity. This difference in cultural paradigms of two nations should be kept in mind while learning from Japanese management and implementing Japanese management ideas in the Indian context. The essence of Indian Ethos is in three Cs viz. Culture, Conscience, and Consciousness. With the recognition of these three Cs in Management &Leadership, Indian Management has many new ideas to contribute to the future development of management thought.

Holistic Perspective of development: The root of Indian Management is in comprehensive development as indicated through sustainable approach of living and development. Following are the significant influences from ancient Indian wisdom on the emergence of Indian Management under the influence of 3 Cs viz. Culture, Conscience, and Consciousness:

- Vedic sciences (Yoga, Meditation and Consciousness & Spirituality) in Management: This impact is now recognized worldwide.
- Indian ethos in Management: This is reflected in terms of the primacy of the heart over head spirituality over rationality. It is also reflected in the significance of human values in Management.
- Indian Philosophy in Management: This is reflected in terms of Holistic approach to Management and Leadership.

Initial development in the evolution of Indian Management thought and concepts came from its ancient texts like Vedas, Upanishads, Ramayana, Mahabharata, Bhagwat Gita, Manusmiriti,Panchtantra, and Arthasastra, because these ‘Noble and Notable Books of India’ provide conceptual foundations for the development of analytical models and frameworks that are useful to managers and leaders. Ideas from these noble books found expression in thoughts of many spiritual thinkers such as Shankar, Swami Vivekananda, Raman Maharishi, Sri Arrobindo and others. In modern times, they also found expression in writings of many spiritual gurus and thus influenced the management and social thought. Thus, there has been historical connectivity. Ancient Indian Scriptures have a long history that can be traced between 4000 - 1100 Bethought historians differ on time periods. It is quite difficult to define the period of Vedas but assumed to be several thousands of years old. The ancient scriptures provided direction for thievery aspect of life. Influence of these scriptures could be seen not only in Indian Management but also in America (through Indian Spirituality) and Japan (through Zen Buddhism). During recent years, some well-known, influential books have been written that are changing our world view. For example, 'American Veda' by Goldberg Philip (2010) documents the impact of Indian Spirituality on developed nations, particularly on America. The impact of such writings is slowly and silently percolating to Management, Leadership, and Social sciences literature and the corporate world in general. Further, studies on ancient text have become important to academic and business world as they provide a vast knowledge of life, business, and society.

Evolution of management thought process can be traced back to periods of Mahabharata, Chanakya etc. and broadly classified into three major realms: Scientific, Human sideband Spiritual eras. Scientific management widely focuses on core management and theoretical engineering issues.

Human side spreads over softer aspects of mankind with psychology and philosophy involved in it. With the entrance of yoga and meditation activities as stress management tools in corporate world, spiritual points are also touching Indian management thought process.

Indian management is like a bible of vast ocean of thoughts and views pouring down on the Indian soil continuously influencing and improving the Indian civilization. The bottom line behind any management thought is "pure consciousness" through which one learns how to manage oneself and then manages to run society. Indian management thinking is based on the ideology of consciousness and on ancient Indian culture which was deeply influenced by Vedas, Upanishads and other holy writings. Indian management reflects a part of culture where we live and where we originated from. Personality development of Indians is based on the attributes, skills and knowledge collectively called as ASK. Holistic learning and motivation to excel in any field has its inspiration from Bhagavad Gita learning and control of body, mind and soul. Indian Management process also instills the quality of leadership through skills, knowledge and you (attributes) of leader. Basically, Indian management is an amalgamation of all ancient effective learning, conscience, organizational effectiveness, personality traits, spirituality, and potential divinity, balancing life-related attitudes, creativity, productivity and nature beauty. There are many macro and micro level changes that have seeped into Indian management thought process but despite that the core of Indian management stands still.

Certainly, Indian management reflects the ethos, beliefs and intellect of ancient Indian culture. "Shukraniti" emphasized that head of the state had to be self disciplined and virtuous to manage his people. Chanakya, the advisor of Chandragupta Maurya, in his "Arthashashtrachanakyaniti"revealed the precious social, political and economic management ideas of running the state. Managing the body of knowledge which derives its solutions from the rich and huge Indian code of beliefs and moral values is known as Indian Ethos Management (IEM). Indian management draws its roots from the lessons, salient ideas written in ancient Sanskrit-typed scriptures of management.

4.3 CHECK YOUR PROGRESS

(1) …………………………..suggested principles of management.

(2) Elton mayo is known for.......................studies.

(3) ………………………………is regarded as the father of scientific management.

(4) The concept of Bureaucracy is proposed by……………………………

(5) ……………………………means unity in strength.

4.4 SUMMARY

From the beginning of the 20th century serious efforts were made to develop management as a separate discipline. Contribution of F. W. Taylor, Gantt, Gilbreth, Emerson, Henri Fayol, Sheldon, Mooney, Mary Parker Follet and Max Weber gave birth to the classical approach to management. From this classical approach the development of management thought started. Taylor, Fayol and Weber laid the foundation of classical approach to management theory. Taylor concentrated on improving the productivity at shop floor by adopting scientific methods. His scientific management theory proved to be an eye opener to the management which hither to depended on intuition, trial and error, and rule of thumb methods. Taylor's scientific management is concerned with finding one Best way for doing a job. He has stated certain principles of scientific management and also prescribed the techniques for putting scientific management in practice. He has stressed the need of mental revolution on the part of both the employer and employees. Henri Fayol, was the first thinker to point out basic principles of management and their universal application in all types of organizations. Fayol's fourteen principles of management and functions of management gave him recognition as father of principles of management. MaxWeber developed the ideal model of authority system based on rationality and legality and called it as bureaucracy. It is an impersonalized authority structure characterized by formal rules and regulations and professionalization. Mayo brought to notice the importance of human relations and informal groups at work setting.

Hawthorne experiments conducted during the period from 1924 to 1932 provided new insights into group norms and behavior. These experiments made the beginning of human relations movement in management and changed the traditional thinking of management towards workers from economic man to social man. Mayo was one of those thinkers who developed the neoclassical approach. Then the neo-classical approach evolved. The contributors to this approach attempted to study the human relations and human behavior in the organization. Some advocates of this approach were Elton Mayo, Douglus McGregor, Mary Parker Follett, Chester Bernard etc. After neo-classical approach, there evolved the modern approach. The evolution of management thought is a continuous process and newer approaches like system approach, contingency approach are developed in present era. Management evolved in response to integration of culture and technology, Indian Management is evolving in response to new challenges that corporations are facing particularly with respect to stress management, well-being, and quality of work life, social and environmental concerns. In these areas yoga, meditation and consciousness studies have found global acceptance in the organization context. Another significant change leading to emergence and development of the idea of Indian Management was as per the economic expectance.

4.5 KEYWORDS

Scientific Management: Use of Scientific methods to define 'one best way' for the job to be done.

Unity of Command: The principle which tells that employees should receive orders from one superior only.

Unity of direction: One head and one plan for a group having common objective.

Spirit de corps: Unity is strength.

Bureaucracy: Weber's authority structure model based on rational-legal authority with formal rules and impersonal relationships.

System: A system is composed of related and dependent elements which, when in interactions, form a unitary whole.

Behavioral approach: Under behavioral science approach, the knowledge drawn from behavioral science, namely, psychology, sociology and anthropology, is applied to explain and predict human behavior.

Contingency Approach: The contingency theory stresses that there is no one best style of leadership which will suit every situation. The effectiveness of a particular leadership style will vary from situation to situation.

4.6 SELF-ASSESSMENT TEST

Q1. Explain the principles of management given by Henry Fayol.

Q2. What do you mean by scientific management?

Q3. Describe the principles of scientific management.

Q4. What is Bureaucracy? Explain the characteristics of bureaucracy.

Q5. Comment on Hawthorne experiments and their findings.

Q6. Explain the modern approach of Management.

Q7. What do you mean by contingency approach?

Q8. Explain the behavioral approach of management.

Q9. Explain the neo-classical approach of Management.

Q10. Explain the role of Indian management in ancient India.

4.7 ANSWERS TO CHECK YOUR PROGRESS

(1) Henri fayol

(2) Hawthrone

(3) Taylor

(4) Max Weber

(5) Espirit de corps

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Course code: DBA-101	**Author:** Dr. Poonam
Lesson no. : 05	**Vetter: Prof. Anil Kumar**

PLANNING

Structure

5.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the concept of Planning
- Process of Planning
- Types of Plans

5.1 INTRODUCTION

Planning deals with framing organizational objectives and devising ways to achieve them. Managers plan business activities at all levels: top, middle and low, though planning is required more at top levels than lower levels. While top managers plan for the whole organization, middle-level managers plan for their respective departments and lower-level managers plan for day-to-day business operations. All sizes of organizations plan their operations. While large-sized organizations spend more time on planning, small sized organizations spend comparatively less time. Business organizations make long-term, medium-term and short-term plans depending upon the nature of their operations. Manufacturing units make more of long-term plans while retailers engage more in short-term planning.

5.1.1 CONCEPT OF PLANNING

Planning involves forecasting, framing objectives of the firm, thinking of different courses of action and deciding the best course of action to achieve the goals. Planning, thus, involves decision making, that is, deciding a course of action for framing and achieving objectives.

According to Terry and Franklin:"Planning is selecting information and making assumptions regarding the future to formulate activities necessary to achieve organizational objectives."

According to Louis A. Allen:"Planning involves the definition of objectives and planning of operations in terms of policies, plans, and budgets which will establish the most advantageous course for the company. Planning also requires that managers keep currently informed on all matters which will contribute to improved planning and performance in the position."

According to Koontz and Weihrich:"Planning involves selecting missions and objectives and the actions to achieve them; it requires decision-making, which is, choosing from alternative future course of action. Plans, thus, provide a rational approach to achieving pre-selected objectives."

Features of Planning:

Planning is characterized by the following features:

Primary function of management: Planning is the first function of management. All other functions follow planning. If planning is wrong, organization structures will be faulty, people will carry out wrong plans, motivation and leadership policies will be ineffective and controls will also aim to achieve faulty plans. This will result in huge losses for the organization.

Adaptive to environment: Planning is a continuous process. It is done so that organizations can survive in the changing environment. Managers incorporate changes in environment like competitors' policies, consumers' tastes, economic policies, value system of the society in their plans and planning is, thus, adaptive to environment.

Future oriented: Planning is looking ahead. It fills the gap between where we are and where we want to go. It prepares organizations to meet future challenges and opportunities. Future being uncertain, managers adopt scientific methods of forecasting. They anticipate future and incorporate changes in their activities to achieve organizational goals effectively. Correct forecasting helps in making sound business decisions.

Goal oriented: Planning is done to achieve the desired goals. Planning is, thus, goal oriented. It clearly lays down the goals and ways to achieve them.

Pervasive: Planning is a pervasive function. It is done for all organizations – business and non-business, profitable and non-profitable, small and big. In a business organization, it is done at each level; top, middle and low. The nature and scope of planning, however, is different at different levels; top managers plan for the organization as a whole, middle level managers plan for their departments and lower level managers plan for their operating units.

Intellectual process: Planning is a complex process. Managers cannot plan unless they analyse the past, present and future environment. It is difficult to predict future as it keeps changing. Managers have to conceptually and analytically excel in making plans that can be implemented. They should have judgment, intuition, foresightedness, imagination etc. to make good plans. Planning, thus, cannot be done in dark. It is an intellectual process.

Efficient*:* Efficient means cost effective. Time and money are spent on planning to earn gains in future. A trade off is maintained (comparison between cost and returns) and managers ensure that expected gains are more than the current costs. Efficiency means "the achievement of the ends with the least amount of resources."

Flexible: Planning relates to future. Future being uncertain, plans will fail to achieve the objectives if unexpected changes take place in future. Managers have to be quick in changing their plans so that future changes do not fail the plans. Planning is, thus, a flexible activity.

Planning and decision-making: Planning involves decision making. Choosing goals out of multiple goals, deciding about ways to achieve them out of a number of alternatives, deciding about sources from where funds will be raised, deciding about optimum allocation of resources over different goals and departments etc. are some of the choices that managers make to run an organization effectively. Planning continuously involves decision-making. In fact, the process of decision-making starts much before the process of planning.

Feedback: Planning is closely related to control. It specifies future actions and control ensures those actions are carried out. Planning frames organizational goals and control ensures those goals are achieved. Controlling function provides constant feedback about the efficacy of plans. Deviations (if any) in actual performance against planned performance helps in reviewing or abandoning plans to make fresh plans.

Open system approach:Almost all organizations are open systems as they interact with the environment (input — conversion — output) in their desire to reach the future stated goals. In bridging the gap between the present and the future, the open system approach helps the organization in responding to the environmental challenges.

<u>Principles of Planning:</u>

There are following principles for effective planning:

1. *Principle of contribution to objectives:* Plans must be directed towards organizational objectives.
2. *Principle of objectives:* Since objectives are the basis for planning, they should be clear, specific, measurable and unambiguous. They should be understood and accepted by all the organizational members.

3. *Principle of primacy of planning:* Planning is pre-requisite to other managerial functions. It should be effectively done so that other functions of management also contribute to the overall organizational goals.
4. *Principle of planning premises:* Since planning is based on forecasts, clear planning premises lead to efficient planning process. Planning premises are assumptions or forecasts about future on which plans are based. Premises form the foundation of plans. Sound planning premises help in making sound plans. They reduce uncertainty in achieving planned targets. Premises or assumptions are based on the information that managers generate by forecasting. Forecasting, thus, precedes planning premises and premises precede planning.
5. *Principle of strategy and policy framework:* Strategies and policies help to attain organizational objectives. Clear policies and strategies lead to clear and effective plans.
6. *Principle of limiting factor:* Limiting factor limits the capacity of the organization to achieve the goals. While selecting a course of action, managers narrow their search for alternatives and try to overcome them. The principle of limiting factor states: "By recognizing and overcoming those factors that stand critically in the way of a goal, the best alternative course of action can be selected."
7. *Principle of commitment:* Plans should cover a time span long enough for managers to fulfill their commitment to the decisions made by them.
8. *Principle of flexibility:* Plans should be flexible to adjust to environmental changes.
9. *Principle of navigational change:* This principle is closely related to the principle of flexibility. It reviews the plans from time to time and reframes them if the need arises (according to future changes and expectations.) as the navigator does when the ship is not going in the right direction.

Limitations of Planning:

Planning is inevitable. Its importance and benefits cannot be undermined. However, it suffers from some limitations. Following are the limitations of planning:

1. Costly

2. Restricts creativity

3. Planning in advance is not always the right course of action

4. Multiple goals

5. Too much focus on future

6. Delay in action

7. False sense of security

8. Coordination with other managerial functions

9. Planning premises

10. Lack of resources

11. Environmental constraints:

12. High volatility in the environment:

Barriers to Planning:

There are following barriers to planning:

1. Individual based barriers

2. Organization based barriers

1. Individual-based Barriers: These barriers relate to individuals who frame and implement the plans. Both at the formulation level and implementation level, there may be barriers to planning because people involved are either not committed to the planning process or they are not clear of objectives or planning premises.

These barriers are: I. Unwillingness to set goals, II. Unwillingness to accept change

2. Organization-based Barriers: Barriers at the organizational level are as follows:

1. Environmental factors: Though plans are based on planning premises, yet unpredicted, external, non-controllable predictions can fail even the best plans. The environment is changing at such a fast pace that managers may have to frequently alter the plans or reframe them. If it is not done, it becomes difficult for managers to make effective plans.

2. Constraint on resources: Planners may have ideas but not enough resources to put the ideas into action. Insufficient resources can limit the capacity of organizations to make sound plans. In case the organization has made irreversible investment, that is, investment in heavy fixed assets (land, building, fixtures etc.), and the managers want to switch over to another investment because they feel that investment is not sound, it may not be possible to liquidate that investment as it would result in huge financial loss. Till the time such assets exist, planning based on such assets will not bring the desired results.

Overcoming the Barriers:

The barriers to planning can be overcome through the following measures:

1. Unwillingness to give up alternative goals can be overcome through scientific selection of goals. Managers should carry out cost-benefit analysis for each alternative and accept goals whose returns are greater than costs.
2. The fear of failure to achieve the goals can be reduced by applying mathematical models to the goals selection process. Besides, managers should make flexible plans which can be changed according to situations.
3. Lack of organizational knowledge can be overcome through a well-connected communication system where managers at all levels remain well informed of the organizational activities. A well-developed management information system can solve this problem.
4. Managers remain informed about the external environment through effective system of communication. Regular contact with outside parties, through seminars and conferences can provide knowledge of environment. In fact, the need for planning arises because of uncertainties in the environment. If everything could be forecast, there would be no need for planning. The environmental changes can be predicted through forecasting techniques like time series, correlation, regression and other statistical methods that help to know the environmental factors and their effect on setting the goals.
5. The above measures develop managers' confidence to make rational and realistic goals which are challenging but attainable. The important, overall organizational goals are set at the top level of management and goals lower in priority are framed by lower- level managers, in consultation with the superiors.

Besides the above discussed measures, the following measures also help to overcome barriers to planning:

(a) Top management support
(b) Setting responsibility
(c) Training to planners
(d) Encourage group participation
(d) Encourage group participation
(e) Prepare contingency plans

5.1.2 PROCESS OF PLANNING

To plan is to chart out the future course of action to achieve the desired goal. For this purpose, the following major steps are involved in planning process. Planning is a continuous process which is unending process which indicates the following systematic procedure. The steps in planning include the segmental procedure followed by the planning committee. The following are the steps:-

1. Forecasting of Professional Opportunities: Planning needs to search for professional opportunities in the business. The objectives can be set after knowing the opportunities. The professional opportunity may be in the form ofunits of production, sales units, profit in rupees, and profit in percentage.

2. Establishment of objectives: Planning is closely associated with the objectives of the organization. If there are no objectives there is nothing to plan. Objectives must be laid down in the clearest possible item.

- Planning requires a systematic approach.
- Planning starts with the setting of goals and objectives to be achieved.
- Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
- Moreover objectives focus the attention of managers on the end results to be achieved.
- As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
- As far as possible, objectives should be stated in quantitative terms. For example, Number of men is working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.

- Such goals should be specified in qualitative terms.
- Hence objectives should be practical, acceptable, workable and achievable.

3. Forecasting: Forecasting means assessing the future on the basis of present situation and past experiences. Accurate forecasting leads to correct decisions about future course of action. Accurate forecasting helps to make accurate planning.

4. Establishing the sequence of Activities: Planning includes the forecasting of so many activities. The proper sequence for those activities is essential. In order to have a successful execution of the basic plan as also of the derivative plans proper sequence is decided.

- Planning premises are the assumptions about the lively shape of events in future.
- They serve as a basis of planning.
- Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
- It is to find out what obstacles are there in the way of business during the course of operations.
- Establishment of planning premises is concerned to take such steps that avoid these obstacles to a great extent.
- Planning premises may be internal or external. Internal includes capital investment policy, management labor relations, philosophy of management, etc. Whereas external includes socio-economic, political and economical changes.
- Internal premises are controllable whereas external are non- controllable.

5. Determining of Alternative Courses: There are several alternatives available for achieving the organizational objectives. Therefore, the next step in the planning process is to search for and examine alternative courses of action. However the more common problem is not selection of alternative but reducing the number of alternatives. So that the most promising option may be analyzed.

- When forecast are available and premises are established, a number of alternative course of actions.
- For this purpose, each and every alternative have to be considered. Alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.

- The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
- After objective and scientific evaluation, the best alternative is chosen.
- The planners should take help of various quantitative techniques to judge the stability of an alternative.

6. Selection of Alternative Course: After having searched and examined the alternative courses, the next step is to evaluate the alternatives taking into consideration their favorable and unfavorable problem as one alternative may have some favorable points and other alternative may have some other favorable points.

7. Budgeting: A master budget for the whole enterprise and other departmental budgets are prepared to give meaning to plans. Financial aspects are covered under budgeting.

8. Follow-up: This is the last step in planning. After having adopted major and expected plans and they are brought into execution. It is necessary to make a provision to check that the actual work is being executed and results are obtained at each stage according to plans and in case of variances or differences to actual, corrective steps are taken immediately.

- After choosing a particular course of action, it is put into action.
- After the selected plan is implemented, it is important to appraise its effectiveness.
- This is done on the basis of feedback or information received from departments or persons concerned.
- This enables the management to correct deviations or modify the plan.
- This step establishes a link between planning and controlling function.
- The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

5.1.3 IMPORTANCE/OBJECTIVES OF PLANNING

Planning is important because it enables the organization to survive and grow in the dynamic, changing environment. Planning is the basis of distinction between the successful and unsuccessful organizations. In the dynamic environment, planning helps in scanning the environmental changes and forecasting the future. It is important to plan because of the following reasons:

1. Achievement of organizational objectives: ***Planning helps the organization to achieve its objectives. Planning provides the path for achievement of organizational goals with minimum waste of time, money and energy. It bridges the gap between where we are and where we want to go.***

2. Fulfillment of organizational commitments: ***Organizations have long-term and short-term commitments towards society, depending on their nature. A defense organization, for example, has long-run commitments while a retailer is more interested in short-term goals or responsibilities. These commitments or goals of the organization can be fulfilled through planning.***

3. It facilitates decision making: Decision-making is deciding what to do when managers face a problem-solving situation and adopting the best way out of the available courses/ ways of doing it. It is "the process of choosing a course of action from two or more alternatives."Managers have to make decisions like: what to produce and how to produce, what are the organizational resources and how can they are effectively allocated over different functional areas, what are their primary goals — profit or social responsibility and many more. Planning helps to decide a course of action that will solve the specific problem.

4. It provides stability to organizations: Organizations that plan their operations are more stable than others. Managers foresee risk and prepare the organizations to face them when they occur. Planning precedes all other managerial functions and coordinates them for providing stability to the organization. Planning before organizing (what kind of organization structure), planning before staffing (what kind of people), planning before direction (what kind of motivation, leadership and communication system) and planning before control (the controlling techniques to achieve standards of performance) promotes group effort and team work to give right direction to organizational activities.

5. Overall view of the organization/coordination: Organization is a structure of relationships where authority and responsibility are clearly defined. Planning coordinates the functions performed by individual members and departments and unifies them into a single goal — the organizational goal. It unifies inter-departmental activities so that all departments work according to plans.

6. Optimum utilization of resources / efficiency of operations: Organizations work with limited resources. Planning allocates these resources over different objectives and functional areas (production, personnel, finance and marketing) in the order of priority. This results in optimum utilization of scarce organizational resources (men, material, money etc.) and their effective conversion into productive outputs.

7. Development of managers: Planning involves imagination, thought and creativity by managers. Managers develop their conceptual and analytical skills to plan and coordinate organizational activities with external environment.

8. Promotes innovation / creativity: Planning involves forecasting. Managers foresee future; analyze the strengths of their competitors and think of new and innovative ways of promoting their products. Planning promotes new ideas, new products, and new relationships and, thus, promotes innovation and creativity.

9. Basis for control: Planning frames standards of performance and control ensures achievement of standards. Controlling involves measurement of actual performance, its comparison with standard performance, finding deviations and taking steps to remove the deviations to make better plans for future. Unless there are plans, there will be no control. Planning is, thus, the basis for control.

10. Reduction of risk: Risk is a situation where moderately reliable information is available about future but it is incomplete. Uncertainty, on the other hand, is a situation where no information is available about future. Changes in government's policies are a situation of uncertainty while entry of competitors in the market with better technology represents a situation of risk. Planning helps to reduce risk through forecasting.

11. Morale boost up: If organizational plans succeed and goals are achieved, managers and employees feel satisfied and morally boost up to concentrate on organizational activities. Successful planning, thus, promotes success of the organization and higher standards in the next planning cycle.

12. Facilitates delegation: Well-designed plans enable managers to concentrate on strategic issues and delegate routine/operating activities to lower-level managers. It, thus, facilitates delegation.

5.2 TYPES OF PLANS

There are different types of plans which includes like policy, procedure, programme, vision, mission, goals and objectives etc.

5.2.1 POLICY

Policy provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for an instance, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation. There are policies for all levels and departments in the organization ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor polices are applicable to insiders and contain minute details of information vital to the employees of an organization. But there has to be some basis for divulging information to others. Policies define the broad parameters within which a manager malfunctions. The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy would be in the nature of manufacturing or buying decisions. Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should a company make purchases from? What are the criteria for choosing suppliers? All these queries would be addressed by the Purchase Policy.

Koontz and O'Donnel define policy as *"a general statement of understanding which guides the thinking and action in decision-making."*Policies provide the framework within which managers operate. Policies exist at all levels in the organization. Some may be major policies affecting the whole organization, while others may be minor or derivative policies affecting the functioning of departments or sections within the departments.

Policies are laid down by the management for all the important functional areas. As such, we hear about production policies, financial policies, marketing policies and personnel policies, to mention a few. For instance, in the personnel area, specific policies may be formulated for recruitment, training, compensation, etc. Accordingly whenever the need for recruitment arises, the personnel manager consults the existing recruitment policy of the company and initiates the steps necessary to fill the vacancies. Thus it is evident that the personnel manager operates within the broad policy of the company in recruiting the people. Thus, policy is a onetime standing decision that helps the manager in making day-to-day decisions in their operational areas.

A policy is a standing plan. Policies are directives providing continuous framework for executive actions on recurrent managerial problems. A policy assists decision-making but deviations may be needed, as exceptions and under some extraordinary circumstances. Policy-making is an important part of the process of planning. Policies may be described as plans which are meant to serve as broad guides to decision making in a firm. Policies exist at various levels of the enterprise—Corporate level, divisional level and departmental level. Policies are valuable because they allow lower levels of management to handle problems without going to top management for a decision each time.

Essentials of Policy Formulation

The essentials of policy formation may be listed as below:

- A policy should be definite, positive and clear. It should be understood by everyone in the organization.
- A policy should be transferred into the practices.
- A policy should be flexible and at the same time have a high degree of permanency.
- A policy should be formulated to cover all reasonable anticipatable conditions.
- A policy should be founded upon facts and sound judgment.
- A policy should conform to economic principles, statutes and regulations.
- A policy should be a general statement of the established rule.

Importance of Policies

Policies are useful for the following reasons:

- They provide guides to thinking and action and provide support to the subordinates.
- They delimit the area within which a decision is to be made.
- They save time and effort by pre-deciding problems and
- They permit delegation of authority to mangers at the lower levels.

5.2.2 PROGRAMME

Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organization's policy and how it will contribute to the overall business plan. The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework. A programme is a broad term which includes goals, policies, procedures, rules and steps to be taken in putting a plan into action.

Terry and Franklin define program as *"a comprehensive plan that includes future use of different resources in an integrated pattern and establishes sequence of required time schedules for each in order to achieve stated objectives".* Thus, a programme includes objective, policies, procedures, methods, standards and budgets. For instance, launching Prithvi satellite is a program "Jawahar Rojgar Yojana" is a programm. Program may be major or minor. For instance, a company may embark upon modernization program of the plant and machinery and other manufacturing systems in a big way. By all means such an effort is a major program. Similarly, a large organization may start computerizing all its activities. On the other hand, modernization of small equipment in some section of the factory and computerization of a particular operation in a certain department may be considered as a minor program.

5.2.3 STRATEGY

The term 'Strategy' has been adapted from war and is being increasingly used in business to reflect broad overall objectives and policies of an enterprise. Literally speaking, the term 'Strategy' stands for the war-art of the military general, compelling the enemy to fight as per out chosen terms and conditions. A strategy is a special kind of plan formulated in order to meet the challenge of the policies of competitors. This type of plan uses the competitors' plan as the background. It may also be shaped by the general forces operating in an industry and the economy. Edmund P Learned has defined strategies as "the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be and the kind of company it is or is to be". Haynes and Massier have defined strategy as “the planning for unpredictable contingencies about which fragmentary information is available”.

A strategy provides the broad contours of an organization’s business. It will also refer to future decisions defining the organizations direction and scope in the long run. Thus, we can say a strategy is a comprehensive plan for accomplishing an organization objective. This comprehensive plan will include three dimensions, (i) determining long term objectives, (ii) adopting a particular course of action, and (iii) allocating resources necessary to achieve the objective. Whenever a strategy is formulated, the business environment needs to be taken into consideration. The changes in the economic, political, social, legal and technological environment will affect an organization’s strategy. Strategies usually take the course of forming the organization’s identity in the business environment. Major strategic decisions will include decisions like whether the organization will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market. For example, a company’s marketing strategy has to address certain questions i.e., who are the customers? What is the demand for the product? Which channel of distribution to use? What is the pricing policy? And how do we advertise the product. These and many more issues need to be resolved while formulating a marketing strategy for any organization.

Characteristics of Strategy

(1) It is the right combination of different factors.

(2) It relates the business organization to the environment.

(3) It is an action to meet a particular challenge, to solve particular problems or to attain desired objectives.

(4) Strategy is a means to an end and not an end in itself.

(5) It is formulated at the top management level.

(6) It involves assumption of certain calculated risks.

Strategy Formulation

There are three phases in strategy formation

- Determination of objectives.
- Ascertaining the specific areas of strengths and weakness in the total environment.
- Preparing the action plan to achieve the objectives in the light of environmental forces.

Business Strategy

Seymour Tiles offers six criteria for evaluating an appropriate strategy.

Internal consistency: The strategy of an organization must be consistent with its other strategies, goals, policies and plans.

Consistency with the environment: The strategy must be consistent with the external environment. The strategy selected should enhance the confidence and capability of the enterprise to manage and adapt with or give command over the environmental forces.

Realistic Assessment: Strategy needs a realistic assessment of the resources of the enterprise—men, money and materials—both existing resources as also the resources, the enterprise can command.

Acceptable degree of risk: Any major strategy carries with it certain elements of risk and uncertainty. The amount of risk inherent in a strategy should be within the bearable capacity of the enterprise.

Appropriate time: Time is the essence of any strategy. A good strategy not only provides the objectives to be achieved but also indicates when those objectives could be achieved.

Workability: Strategy must be feasible and should produce the desired results.

In most (large) corporations there are several strategies that are formulated and implemented in various departments due to varied objectives.

1. ***Corporate strategy:*** Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "in which businesses should we be in?" and "how does being in these business create synergy and/or add to the competitive advantage of the corporation as a whole?"

2. ***Business strategy:*** Business strategy refers to the aggregated strategies of single business firm or a Strategic Business Unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long-term success in its chosen arenas or industries.

3. ***Functional strategies:*** Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasizes on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies. Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or SBUs. A strategic business unit is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters.

4. ***Operational strategy:*** Operational strategy was encouraged by Peter Drucker in his theory of Management by Objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions

are thought to hamper this process. This notion of strategy has been captured under the rubric of dynamic strategy, popularized by Carpenter and Sanders's textbook. This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

Reasons why a Strategy Fails

There are many reasons why strategic plans fail, especially:

1. ***Failure to understand the customer:*** *Examples:* (a) Why do they buy? (b) Is there a real need for the product? (c) Inadequate or incorrect marketing research.

2. ***Inability to predict environmental reaction:*** The reasons may involve many things *Examples:* (a) Failure to forecast what will the competitors do, whether the government will intervene (b) Fighting brands(c) Price wars.

3. ***Over-estimation of resource competence:*** The mangers should be able to estimate the following correctly so as to avoid the over estimation of resource competence.(a) Can the staff, equipment, and processes handle the new strategy(b) Failure to develop new employee and management skills.

4. ***Failure to coordinate:*** The reasons for this may be the following :(a) Reporting and control relationships not adequate (b) Organizational structure not flexible enough.

5. ***Failure to obtain senior management commitment:*** The reasons for this may be the following:(a) Failure to get management involved right from the start(b) Failure to obtain sufficient company resources to accomplish task.

6. ***Failure to obtain employee commitment:*** The reasons for this may be the following: (a) New strategy not well explained to employees (b) No incentives given to workers to embrace the new strategy.

7. ***Under-estimation of time requirements:*** The reasons for this may be no critical path analysis.

8. ***Failure to follow the plan:*** The reasons for this may be the following:(a) No follow through after initial planning(b) No tracking of progress against plan(c) No consequences for above

9. ***Failure to manage change:*** The reasons for this may be the following:(a) Inadequate understanding of the internal resistance to change(b) Lack of vision on the relationships between processes, technology and organization.

10. ***Poor communications:*** The reasons for this may be the following: (a) Insufficient information sharing among stakeholders (b) Exclusion of stakeholders and delegates.

5.2.4 VISION

While the mission statement answers "What is the purpose today?" the vision statement answers "Where is our purpose headed in the future?" Knowing where you are and where you're going is a vital combination for organizational success. Just as the mission statement is designed to utilize the right-brain, emotional energy of individuals, so too does the vision statement provide motivation. The motivation supplied through the vision statement differs from the mission statement in that it represents aspiration, or that which is yet to be realized. Whereas the mission statement represents the purpose being lived out today, the vision statement represents the purpose as a goal still to be achieved. Robert Greenleaf, in his work Servant Leadership, defines vision in the following manner, "…the overarching purpose, the big dream, the overarching concept…something presently out of reach…so stated that it excites the imagination and challenges people to work for something they do not yet know how to do." The future purpose of the organization is described through a vision statement. The vision statement creates a mental picture of what the purpose of the organization will look like in the future. The vision statement provides two things: strategic guidance and motivational focus. As the vision statement represents the future purpose, the strategic thinking that goes into creating it ensures that it represents the best use of the organization's resources in reaching its objectives. It serves to align individuals from different functional areas and geographic locations to move toward the same future purpose, allowing them to use their creativity and talents to get from "here to there." In this sense, it guides actions that are not necessarily geared toward the short-term by showing the desired longer-term future and the benefits of realizing that future.

Criteria for a Vision Statement: There are following six criteria of a sound vision statement.

- Imaginable: It needs to paint a visual picture of the desired future in the minds of those who read it.

- Desirable: It should appeal to the people that are striving to reach it and the customers they are serving.
- Feasible: While aspiration in nature, it needs to articulate a realistic and achievable future purpose.
- Focused: It should provide concentrated direction to those following it.
- Flexible: By being broad in scope, it allows for modifications due to the dynamic nature of the business environment.
- Communicable: The vision statement should be easy to articulate to others. Capturing the essence of these six characteristics in the vision statement often requires considerable thought and time.

5.2.5 MISSION

Organizations exist in society. Therefore, it is appropriate to relate their existence to society by satisfying a particular need of the society. Mission may be defined as *"a statement which defines the role that an organization plays in the society".* The terms 'mission' or 'purpose' are often used interchangeably. An organization's mission statement includes its philosophy and basic purpose for which it exists. It establishes the values, beliefs, and guidelines that the organization holds in high esteem. Mission statement suggests how an organization is going to conduct its business. It defines the basic intentions of the firm.

A mission is the current reason for being. Why is this organization in business? What is the marketing group's purpose? How do I contribute to the overall cause? Although a seemingly simple proposition, creating an effective mission statement can be one of the most challenging aspects of strategic thinking because it forces you to examine the very core of why. It's also one of the most overlooked parts of strategy development, as everyone assumes they are working toward the same purpose. However, the perils of this assumption cannot be underestimated. As human beings, we are driven to a great extent by our emotions. In order to take advantage of the power of the organization's emotional energy, a rationale born from this emotion is necessary to complement the financial and business reasons for work. While the paycheck is important, it only provides one side of the "why-we're-here" coin. Creating a sound current purpose addresses the other side of the coin. To generate the greatest creativity and extricate the deepest level of talent from an organization, don't tell them what to do and how to do it—tell them who they are. Defining the mission, vision and values accomplishes that task. The mission statement also serves to begin to frame the business strategy. As the scope of business, customer targets and competitive arena are addressed in the mission statement; it naturally serves to begin defining elements of the business strategy. Defining these elements also forces you to decide what not to do, one of the key characteristics of strategic thinking. It is in this process of choosing what not to do and who not to target as customers that the business focus emerges. The importance of focus was clearly articulated by the noted military historian B.L. Hart when he said: “The principles of war can be condensed into one word—concentration.” One element of the mission that is often overlooked is the importance of the belief and commitment to it once it’s developed. As with the United States Constitution and the Bible, a mission statement is only effective for those who believe in it. The belief then must go hand-in-hand with the commitment to follow it. A New Year’s resolution statement is worthless in and of itself. It is the commitment to the New Year’s resolution that matters, as evidenced by all the resolutions that have gone by the wayside. Once the organization’s mission is in place, mission statements for departments and functional groups within the organization are appropriate. Mission statements at these levels tend to be more specific and more closely reflect the daily activities of the particular group. Developing these sub-mission statements also acts to further clarify the “why” at that level and create greater team unity—both of which make for a stronger overall organization. Sub-missions are often overlooked, but can become a powerful motivator and guide for specific functional groups or departments.

Benefits of a Mission Statement: The mission statement, or current purpose, is first and foremost one of the five key elements of strategic thinking. Without a current purpose, the crucial function of decision making has no objective basis from which to be measured. The mission statement gives everyone a baseline that guides and unifies decision making. Secondly, the mission statement ensures that different functional groups within the organization or individuals within a department have the same underlying rationale for actions. In this sense, the purpose unifies efforts and maximizes the utilization of resources to reach the established goals and objectives. Acting as a compass, it ensures that everyone is pulling in the same direction. Third, it addresses the deeper, emotional component of why people do what they do for an organization or customer base. It taps into the right-brain (emotional, intuitive, visual, and synthesizing) versus the left-brain (logical, reasoning, quantitative, and analyzing). As we discussed before, the left-brain is satisfied by the paycheck; the right-brain needs something more, something that appeals to the emotional side. The mission statement acts to fulfill the emotional needs of the right-brain, creating a satisfied whole. Fourth, companies with mission statements have a higher likelihood of financial success. Research has shown that companies with a well-crafted mission statement have greater financial success and are recognized for superior quality compared to companies with poor or nonexistent mission statements. Other studies have reported firms working by a mission statement have a 30 percent higher return on certain financial measures than firms that lack mission statements. Not only does identifying and articulating a mission statement make common sense, it also makes financial sense. Finally, the current purpose or mission statement acts as a rallying point for people in good times and in bad times. A mission statement focuses people on the truly important things that will drive success. In difficult times, the mission statement serves as a reminder to stay on the task at hand. It also helps prevent people from becoming reactive to minor competitor moves, and instead helps them follow the course that has been set.

Criteria for a Mission Statement: In addition to being a clear and concise statement that represents the reason for being, a good mission statement should answer the following four questions: 1. what function is performed? 2. How is the function performed? 3. For whom is the function performed? 4. Why is the function performed?

What function is performed? The first question to be answered is, “What do you do?” On the surface, this may seem to be a ridiculously obvious question and answer. Give it some thought. In his landmark article entitled “Marketing Myopia,” Harvard professor Theodore Levitt challenged people to step back and think about their function in a more expansive way. He argued that one of the reasons the railroad industry met with a dramatic decline is that they viewed their function as moving things by rail, when they could have defined their function more inclusively as transportation. This may have freed their minds to adapt to the changing business landscape and recreate their offering to remain a more relevant fixture in the marketplace.

How is the function performed? Strategy is inherently based on competition. When considering this second question in formulating a mission statement, assess how your competition performs the function. Then ask yourself, are we performing the function in a unique manner? If not, how long will we last before this lack of differentiation transforms our offering into a commodity?

For whom is the function performed? Who is benefiting from your function? And more importantly, who is paying for the value generated by your function? The customer group identified in the mission statement should be focused enough to allow concentration of your sales and marketing resources but broad enough to provide a sustainable source of revenue. Perhaps the single biggest sales and marketing error of "trying to be all things to all people" usually occurs because people haven't defined their market properly during the development of the mission statement. This question also helps define the market segments and the market fragments. Market segments are the groups that are divided up by the marketer based on the marketer's designated criteria. The most common segmentation criteria are demographic information; i.e., geography, age, income level, budget, etc. Market fragments, on the other hand, are initially formed by the constituents of the market themselves, not by the marketers. This occurs when a group of customers fragments, or breaks off, from a traditional segment to pursue something different. For example, when beer drinkers started turning their tastes toward the handful of microbrew beers, the mass beer producers took notice of this trend, or market fragmentation, and capitalized on it by creating their own microbrew beers.

Why is the function performed? One of the characteristics of a good mission statement is that it captures the motivation of why you do and what you do. It tugs at the emotional, right-brain component in each of us and gives the reason that keeps people interested in meeting the daily challenges to reach their goals. It also places "the job" in a larger community context and gives people a more meaningful face for their efforts. The answers to these four questions form the basis of the mission statement. In developing responses to these four questions, it's important to be specific enough to create focus but broad enough to allow for flexibility in the day-to-day execution. When the mission statement begins to come together, it's also important to ensure that it represents the uniqueness of the organization. The litmus test is to replace your company's name with a competitor's name. If the statement works with the competitor's name inserted, you haven't captured the unique characteristics of the organization and need to re-work it.

5.2.6 GOALS

Goals and objectives provide the foundation for measurement. Goals are outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally. Goals are usually a collection of related programs, a reflection of major actions of the organization, and provide rallying points for managers. For example, Wal-Mart might state a financial goal of growing its revenues 20% per year or have a goal of growing the international parts of its empire. Try to think of each goal as a large umbrella with several spokes coming out from the center. The umbrella itself is a goal. In contrast to goals, objectives are very precise, time-based, measurable actions that support the completion of a goal.

Objectives typically must (1) be related directly to the goal; (2) be clear, concise, and understandable; (3) be stated in terms of results; (4) begin with an action verb; (5) specify a date for accomplishment; and (6) be measurable. Apply our umbrella analogy and think of each spoke as an objective. Going back to the Wal-Mart example, and in support of the company's 20% revenue growth goal, one objective might be to "open 20 new stores in the next six months." Without specific objectives, the general goal could not be accomplished—just as an umbrella cannot be put up or down without the spokes. Importantly, goals and objectives become less useful when they are unrealistic or ignored. For instance, if your university has set goals and objectives related to class sizes but is unable to ever achieve them, then their effectiveness as a management tool is significantly decreased. Measures are the actual metrics used to gauge performance on objectives. For instance, the *objective* of improved financial performance can be *measured* using a number metrics, ranging from improvement in total sales, profitability, efficiencies, or stock price. You have probably heard the saying, "what gets measured, gets done." Measurement is critical to today's organizations. It is a fundamental requirement and an integral part of strategic planning and of principles of management more generally. Without measurement, you cannot tell where you have been, where you are now, or if you are heading in the direction you are intending to go. While such statements may sound obvious, the way that most organizations have set and managed goals and objectives has generally not kept up with this commonsense view.

Goals and Planning

Planning typically starts with a vision and a mission. Then managers develop a strategy for realizing the vision and mission; their success and progress in achieving vision and mission will be indicated by how well the underlying goals and objectives are achieved. A vision statement usually describes some broad set of goals—what the organization aspires to look like in the future. Mission statements too have stated goals—what the organization aspires to be for its stakeholders. For instance, Mars, Inc., the global food giant, sets out five mission statement goals in the areas of quality, responsibility, mutuality, efficiency, and freedom. Thus, goals are typically set for the organization as a whole and set the stage for a hierarchy of increasingly specific and narrowly set goals and objectives.

However, unless the organization consists of only a single person, there are typically many working parts in terms of functional areas and product or service areas. Functional areas like accounting and marketing will need to have goals and objectives that, if measured and tracked, help show if and how those functions are contributing to the organization's goals and objectives. Similarly, product and service areas will likely have goals and objectives. Goals and objectives can also be set for the way that functions and product or service areas interact. For instance, are the accounting and marketing functions interacting in a way that is productive? Similarly, is marketing delivering value to product or service initiatives?

5.2.7 OBJECTIVES

An objective is a specific step, a milestone, which enables you to accomplish a goal. Setting objectives involves a continuous process of research and decision-making. Knowledge of yourself and your unit is a vital starting point in setting objectives. Objectives may be defined as the goals which an organization tries to achieve. Objectives are described as the end- points of planning. According to Koontz and O'Donnell, "an objective is a term commonly used to indicate the end point of a management programme."Objectives constitute the purpose of the enterprise and without them no intelligent planning can take place. Objectives are, therefore, the ends towards which the activities of the enterprise are aimed. They are present not only the end-point of planning but also the end towards which organizing, directing and controlling are aimed. Objectives provide direction to various activities. They also serve as the benchmark of measuring the efficiency and effectiveness of the enterprise. Objectives make every human activity purposeful. Planning has no meaning if it is not related to certain objectives.

Strategic planning takes place at the highest levels; other managers are involved with operational planning. The first step in operational planning is defining objectives - the result expected by the end of the budget (or other designated) cycle. Setting right objectives is critical for effective performance management. Such objectives as higher profits, shareholder value, and customer satisfaction may be admirable, but they don't tell managers what to do. "They fail to specify priorities and focus. Such objectives don't map the journey ahead - the discovery of better value and solutions for the customer."

The objectives must be:

1. Focused on a result, not an activity

2. Consistent

3. Specific

4. Measurable

5. Related to time

6. Attainable

The traditional goal-setting method was developed in the late 1800s in the manufacturing industry: If you want to produce X number of units at the end of the assembly line, you need to do A, B, C, and D. While this method works well in factories, it will produce limited, short-lived results in the business arena. The problem is that only the process is taken account with this method—there is no mention of the participant. But, for long-term success, being the right person is just as important as doing the right things. Without a significant change in our thinking, behavior and expectations, we can never develop a habit of success.

Features of Objectives

- The objectives must be predetermined.
- A clearly defined objective provides the clear direction for managerial effort.
- Objectives must be realistic.
- Objectives must be measurable.
- Objectives must have social sanction.
- All objectives are interconnected and mutually supportive.
- Objectives may be short-range, medium-range and long-range.
- Objectives may be constructed into a hierarchy.

Advantages of Objectives

- Clear definition of objectives encourages unified planning.
- Objectives provide motivation to people in the organization.
- When the work is goal-oriented, unproductive tasks can be avoided.
- Objectives provide standards which aid in the control of human efforts in an organization.
- Objectives serve to identify the organization and to link it to the groups upon which its existence depends.
- Objectives act as a sound basis for developing administrative controls.
- Objectives contribute to the management process: they influence the purpose of the organization, policies, personnel, leadership as well as managerial control.

Process of Setting Objectives

Objectives are the keystone of management planning. It is the most important task of management. Objectives are required to be set in every area which directly and vitally effects the survival and prosperity of the business. In the setting of objectives, the following points should be borne in mind.

- Objectives are required to be set by management in every area which directly and vitally affects the survival and prosperity of the business.
- The objectives to be set in various areas have to be identified.
- While setting the objectives, the past performance must be reviewed, since past performance indicates what the organization will be able to accomplish in future.
- The objectives should be set in realistic terms i.e., the objectives to be set should be reasonable and capable of attainment.
- Objectives must be consistent with one and other.
- Objectives must be set in clear-cut terms.
- For the successful accomplishment of the objectives, there should be effective communication.

5.3 CHECK YOUR PROGRESS

(1)Planning is a continuous……………….. Which is unending process which indicates the different systematic procedure?

(2) A policy is the general response to a particular…………………….. or situation.

(3)A strategy is a comprehensive plan for accomplishing an……………….. objective.

(4)The mission statement also serves to begin to………………… the business strategy.

(5)An objective is a specific step, a milestone, which enables you to………………….. a goal.

5.4 SUMMARY

Planning means to look ahead and to estimate the future course of action on the basis of past experience and the present situations. Planning decides in advance the answers of the question of what to do, why to do, how to do, when to do, and who is to it. Planning is the primary and intellectual process. It is the base of controlling. There are following Characteristics of it: Primary Function 2) Intellectual work 3) Related with Future 4) Objectives Based 5) Continuous Process 6) Base for control. There is a lot of importance of Planning like: 1) Attainment of objectives. 2) Minimizes Uncertainty.3) Better Utilization of Resources 4) Minimizes Cost. 5) Better Use of technology.6) Facilitates Decision Making. 7) Facilitates to control. There are different steps in planning process like 1) Estimating professional opportunities 2) Setting of objectives.3) Forecasting 4) Establishing the sequence of activities 5) Determining of Alternative courses 6) Selection of Alternative courses 7) Budgeting 8) Follow-Up. There are different types of plans. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. A strategy is a special kind of plan formulated in order to meet the challenge of the policies of competitors.

5.5 KEYWORDS

Planning: Planning is selecting information and making assumptions regarding the future to formulate activities necessary to achieve organizational objectives.

Policy: Policies are general statements that explain how a manager should attempt to handle routine management responsibilities.

Programme: Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.

Strategy: A strategy is a special kind of plan formulated in order to meet the challenge of the policies of competitors.

Vision: The vision statement creates a mental picture of what the purpose of the organization will look like in the future.

Mission: Mission statement suggests how an organization is going to conduct its business. It defines the basic intentions of the firm.

Goals: Goals are outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally.

Objectives: An objective is a term commonly used to indicate the end point of a management programme.

5.6 SELF-ASSESSMENT TEST

Q1. What is planning? Give its characteristics.

Q2. What is the importance of planning?

Q3. What are the functional types of planning?

Q4. Explain the steps involves in planning process.

Q5. Write a short note on the following:

- Policy
- Programmes
- Vision
- Mission
- Goals and Objectives

5.7 ANSWERS TO CHECK YOUR PROGRESS

(1)Process

(2)Problem

(3)Organization

(4)Frame

(5)Accomplish

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Lesson no. : 06	**Vetter: Prof. Anil Kumar**
ORGANIZING	

Structure

6.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the concept of Organizations.
- Explain the principles of Organizations.
- Find out the benefits of Organizations.

6.1INTRODUCTION

Organizing is the process of defining and grouping the activities of the business enterprise and establishing the authority relationships among them. In performing the organizing function, the manager defines, departmentalizes and assigns activities so that they can be most effectively executed. Organization is the foundation upon which the whole structure of management is built. It is the backbone of management. Without organization manager cannot function as manager. Organization is concerned with development and maintenance of structure of working relations in order to achieve the objectives of the enterprise. Organizing means determination and assignment of duties to people, establishment and maintenance of relationships. It is the structural framework within which the various efforts are coordinated and related to each other. The term organizing is also used as a process carried out for arranging the tasks into manageable units and defining the formal relationships among the people working on different tasks. It involves putting things and persons at proper places and in relation to each other. The success or the failure of an enterprise depends largely on the nature of organization.

6.1.1 MEANING OF ORGANIZATIONS

As a basic function of management, organizing is the continuous and dynamic process involving the identification and grouping of activities to be performed and defining and establishing the authority responsibility relationships. This enables people to work most effectively together in achieving business objectives. It is through the process of organizing that the tasks and responsibilities of people are determined. In a general sense, organizing consists of determining and arranging for men, material, machines and money required by an enterprise for the attainment of its goals. In a restricted sense, the term organizing means defining the duties and responsibilities of the people employed, and determining the manner in which their activities are to be interrelated. It is the function of creating a structure of duties and responsibilities of people in different position. The outcome of the organizing process is the 'organization' consisting of a group of people working together for the achievement of one or more common goals.

The components of organization structure include men, materials, machines, money, methods, functions, authority and responsibility and organizing is the determining, grouping and arranging of the various activities deemed necessary for the attainment of the objectives, the assigning of people to those activities, the providing of suitable physical factors of environment and the indicating of the relative authority delegated to each individual charged with the execution of each respective activity.

- Louis Allen. ‘Organizing as 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 most effectively together in accomplishing objectives.’
- Alvin Brown. ‘Organizing defines the part where each member of an enterprise is expected to perform and the relations between such members, to the end that their concerted endeavour shall be most effective for the purpose of the enterprises’
- Koontz and O’Donnell. ‘Organizing involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision for authority delegation and coordination.’
- Oliver Sheldon. ‘Organizing is the process of combining the work which individual and groups have to perform with the faculties necessary for its execution, so that they provide the best channels for efficient systematic, positive and coordinated application of the available effort.’

These definitions, if looked at carefully, point to some of the basic elements of organizing, involves, determination of objectives, identification and grouping of activities, allocation of duties and developing relationships.

6.1.2 PROCESS OF ORGANIZING

Organization is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. To organize is to harmonize, coordinate or arrange in a logical and orderly manner. Each member in the organization is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform his duty. The various steps involved in this process are:

1. ***Determination of Objectives:*** It is the first step in building up an organization. Organizations always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. Organization structure is built on the basis of the objectives of the enterprise. That means, the structure of the organization can be determined by the management only after knowing the objectives to be accomplished through the organization. This step helps the management not only in

framing the organization structure but also in achieving the enterprise objectives with minimum cost and efforts. Determination of objectives will consist in deciding as to why the proposed organization is to be set up and, therefore, what will be the nature of the work to be accomplished through the organization.

2. ***Enumeration of Objectives:*** If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. The first step in organizing group effort is the division of the total job into essential activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the work of an industrial concern may be divided into the following major functions –production, financing, personnel, sales, purchase, etc.

3. ***Classification of Activities:*** The next step will be to classify activities according to similarities and common purposes and functions and taking the human and material resources into account. Then, closely related and similar activities are grouped into divisions and departments and the departmental activities are further divided into sections.

4. ***Assignment of Duties:*** Here, specific job assignments are made to different subordinates for ensuring a certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him. In the words of Kimball and Kimball, "Organization embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between department and individuals."

5. ***Delegation of Authority:*** Since so many individuals work in the same organization, it is the responsibility of management to lay down structure of relationship in the organization. Authority without responsibility is a dangerous thing and similarly responsibility without authority is an empty vessel. Everybody should clearly know to whom he is accountable; corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

6.1.3 LEVELS OF MANAGEMENT

In an organization, there exists a chain of command or scalar chain from the ultimate authority to the lowest rank. This chain is made up of superior-subordinate relationships. It means structure of organization established hierarchical relations between superior and subordinate. This chain or hierarchy of management consists of a series of managerial positions called ‘levels of management’. It determines the authority and status of managers. The levels of management means a line of separation between different positions held by seniors and juniors to distinguish each other, in respect of their duties, responsibilities, rights and authority. The term ‘Managerial Level’ (Hierarchy) stands for the arranged managerial positions in an organization. Since management essentially implies taking work from others as per the plan, there will have to be superior-subordinate relation, whereby the former exercise his authority to get the work done from the later as per specific directives. All the management functions cannot perform by an officer at the top; actually they have to be entrusted to different executive officers all along the enterprise. In short, authority has to be delegated and responsibility diversified in order to achieve optimum results. Each level of management is an integral part of the chain of command. An individual at any level gets orders from his immediate superior. Power and authority are delegated downwards. On the other each level acts as a channel for upward communication of reports on results or grievance, reaction etc. All important decisions are made by the top level managers and policies are communicated through successive level. At each lower level the policies are spelled out in increasing details and transformed into operating instructions.

Number of management levels: There is no fixed number of management levels. The number of managerial levels depends upon the size and complexity of organization. As a company becomes larger and more complex, there is a natural tendency for the chain of command to lengthen. Hence, the number of management levels is varying in different organization. However, the recommendations of most of the experts and for the convenience of study, the levels of management may be classified into three broad categories: (1) Top Management, (2) Middle Management and (3) Lower Management.

(1) Top Level Management (Board of directors, managing director, General Manager, senior executive etc.)

(2) Middle Level Management (Department & Assistant department head, section officers, branch manager, purchase officer etc.)

(3) Lower Level Management (General foremen, supervisors, sales& account office workers etc.)

(1) Top Level Management: Top management is at the head of the organization. It consists of the representatives of the shareholders, viz., the Board of Directors and Chief Executive. Chief executive may be known as Managing Director / General Manager, President, Chairman cum managing director senior executive, etc. Top management is the ultimate source of management authority and it is accountable for overall management to the shareholders of the company. This management confronts great uncertainties and spends much of their time dealing with environmental influences. They set the objectives, define the goals, establish the policies, see that the policies are put into effect and judge the results. It is often described as the policy making group responsible for the overall direction and success of all company activities. Top management integrates the functions of the whole organization. It is responsible for the performance of the entire organization through the middle management. They do take or make vital decision regarding plant and investment, research and development, production and marketing, innovation and other facilities. They work hard for long hours and spend much time in meeting or on the communication lines. To discharge its functions effectively, the members of the top management must possess conceptual, decision making and human skills more than technical skill.

Functions of Top Level Management:

The main functions of top management are as follows:

1. Determining Objectives: The top management has to keep in view the general objectives via-survival, profit, business growth, prestige and social acceptance. It help to identify the exactly nature and type of business organization and is its ultimate mission. Similarly, specific objectives may relate to type of activities, specialty of employees, competition, method of marketing, areas of sales, relations with different stake holders etc.

2. Framing the Policies: To frame the policies and chalk out plans to carry out the objectives is one of the important functions of top management. Policies may be relate to different aspects of the organization i.e. production, marketing, financial, human resource etc. Top management has to devise plans and schemes for execution of policies within a given time.

3. Set up the organizational Framework: All operations are carried on within the functional structure of the organization and authority is delegated from the top officers to the subordinates. Hence, top management is responsible for determines the organizational structure for execution of the plans. It ensures smooth flow of work from one section to another.

4. Mobilization of Resources: The top management has to assemble necessary resource prior to execution of the plans. Preparing the plans are mental processes, Physical resources like machine, tools, building, furniture, power, material etc have to be assembled. This is thetas of top management to bring them into practice.

5. Controlling: The top management used to maintain general control over the entire enterprise to ensure that the middle and the lower managements function according to plans. This control is possible through checks or comparisons of actual results with planned targets.

6. Selection and motivation of right manpower: Sound manpower management start with selection of right kind and right number of people in the organization by top management. They contribute their best qualities and abilities to achievement of organization goal through the proper motivational function of top management.

7. Develop business relation with other organization: It is needful function of top management to create and maintain good relations with various groups and factors in the society. These include Government, NGO, supplier, trade associations, trade unions, financial institutions etc.

(2) Middle Level Management: Middle management stands between the top management and the lower management. It is largest group of managers in most of the organization. Middle management includes department and section officers such as plant manager, a sales manager or branch manager, office manager, accountant, purchase officer etc. This level of management is responsible for implementing the policies developed by top management and supervising and coordinating the activities of various departments. They are involved less in physical activity and more in paper work and meeting than the operating managers. However, new information technology has reduced the number of middle level executives by providing on line technical assistance to bottom level management. Thus, middle management plays a role of intermediary between top and operating management and to coordinate inputs, process and outputs.

Functions of Middle Level Management:

Of course in degrees the functions of middle level management differ from one organization to another. Some of the functions are:

1. Direction for execute plan and policy: Middle management attempt to make effort for proper utilization of all resources of the organization to execute the plans and policies. They direct all activities of the organization so that the top management is made free from direction and supervision.

2. Framing departmental organization: Basically middle management is more responsible for the success or failure of their departments. They develop sound departmental organization structure with proper authority and responsibilities for smooth functioning of whole organization without hindrance of any kind.

3. Division of work and specialization: After getting the review of organization structure. The middle management prepare a departmental work chart to assign the task to right man at right place and time to secure better performance in the organization.

4. Effective Coordination: Coordination is the central problem of organization and middle manager are the key people in achieving it; they affect and are in turn affected by three way movement of coordinative forces-upward, downward and sideways throughout the organization.

5. Motivating and Development of Staff: This level of management deals with various employees both as individual and groups of organization. They create a duty-loving, responsible, satisfied, honest, efficient and skilled team of workers. Their aims at motivating and develop the employees for getting best results from them.

6. Prepare work completion report: The middle management collect statistical data and necessary information in connection with work of the respective departments /sections and prepare the reports for submission it, to the top management. It helps to take needful action for further improvement.

(3) Lower Level Management: This is bottom /lowest level of management hierarchy. It is also known as ‘Supervisory Management’. It consists of plant superintendent, senior foremen and front line supervisors, sales officer, account officer etc. They are concerned with technical routine and day to day problems. Though classified at the low level, the importance of functions of the personnel employed at the operational level cannot be overemphasized. The plan and policies of the top management will fail if the foreman do not fully realized the spirit of sustained work. This level of management represents the workers before top management. They maintain personal contact with operatives. They direct, lead, motivate and coordinate the activities of the operating employees. They serve as the link between management and workers. Their authority and responsibility are limited but the quality of workmanship and quantity of output depend on their efficiency and effectiveness. This, management is expected to get work done from the staff under their control. They are responsible for the implementation and control of the operational plans developed by middle level management. Thus, it is a group that puts the plans of management into effective action. They are responsible for directly managing operatives and resources.

Functions of Lower Level Management:

The lower level management performs:

1. To plan day to day work within the goals lay down by higher authority.

2. To assign jobs to workers and to make arrangement for their training and development.

3. To arrange for the necessary equipment, materials, tools etc., for the workers.

4. To supervise and control workers and maintain personal contact with them.

5. To advise and assist workers by explaining work procedure, solving their problems etc

6. To maintain discipline and good human relation among workers.

7. To build up a high group morale and develop team spirit among the workers.

8. To report the progress to higher authorities in response to their instruction and directives.

6.2 PRINCIPLES OF ORGANIZATIONS

There are following principles of Organizing:

1 Principle of definition: Defining and fixing the duties, responsibilities and authority of each worker. In addition, when a group of persons is working together for a common goal, it becomes necessary to define the relationship between them in clear terms.

2 Principle of objective: The activities at all levels of organization structure should be geared to achieve the main objectives of the organization.

3 Principle of specialization or division of work: It includes deciding and division of various activities required to achieve the objectives of an organization. Identical activities are grouped under one individual or one department. In order to ensure effective performance, the grouped activities are allotted to specified competent persons, specialized in their fields. Adequate staff members are appointed under them and are appropriately trained.

4 Principle of coordination: Coordination must exist among the workers. The delegated authority and responsibility should be coordinated by the chief managerial staff. There must be a separate and responsible person to see whether all the activities are going on to accomplish the objectives of the organization or not.

5 Principle of authority: Assignment of duties or allotment of duties to specified persons is followed by delegation of authority. While delegating authority, responsibility is also fixed. The senior members should delegate the authority to their subordinates on the basis of their ability. The subordinates are motivated through the delegation of authority and they perform the work efficiently with responsibility.

6 Principle of responsibility: Each person is responsible for the work completed by him. Authority is delegated from the top level to the bottom level but the responsibility can be delegated to some extent. While delegating the authority, there is no need to delegate the responsibility. So, the responsibility of the junior staff members should be clearly defined.

7 Principle of explanation: While allocating duties to persons, the extent of liabilities of the person should be clearly explained to the concerned person. It will enable the person to accept the authority and discharge his duties efficiently.

8 Principle of efficiency: Each work can be completed efficiently wherever the environment as well as the organizational structure facilitates the completion of work. The work should be completed with minimum members, in less time, with minimum resources and within the right time.

9 Principle of uniformity: The organization should distribute the work in such a way that there should be unequal status and equal authority and powers among the same line officers.

10 Principle of correspondence: Authority and responsibility should be in parity with each other. If authority alone is delegated without responsibility, it could be misused. Secondly, if responsibility is delegated without authority, it will not work.

11 Principle of unity of command: A subordinate should receive the instructions or directions only from one superior.

12 Principle of balance: Sequence of work between various units of the organization should be arranged scientifically.

13 Principle of equilibrium: In certain periods, some departments are overloaded and some are under loaded. The overloaded departments should be further divided into sub sections. This would facilitate effective control.

14 Principle of continuity: There should be reoperation of objectives, readjustment of plants and provision of opportunities for the development of future management.

15 Principle of span of control: It refers to the maximum number of members effectively supervised by a single individual. In the administration area, under one executive, four or five subordinates may work. In the factory level, under one supervisor, twenty or twenty five workers may work. The span of control enables smooth functioning of the organization.

16 Principle of leadership facilitation: The organizational set up may be arranged in such a way that the persons with leadership qualities such as honesty, devotion, enthusiasm and inspiration are appointed in key positions.

17 Principle of exception: The junior officers should be disturbed by the seniors only when the work is not done according to the plans laid down. It automatically reduces the work of middle level as well as top level officers. The top level officers will have more time to frame policies and chalk out the plans of the organization.

18 Principle of flexibility: The organizational set up must be flexible to adjust to the changing environment of the business.

19 the Scalar principle: The line of authority flows from the top level to bottom level. It also establishes the line of communication. Each person has to know as to who is his superior, from whom he has to receive orders, and to whom he is answerable. Each superior must know what authority he has and over which persons.

20 Principle of simplicity and homogeneity: The organization structure should be simple. It enables the staff members to maintain equality and homogeneity. It is necessary to understand a person who is working in the organization. If the organization structure is complex, junior officers will not understand the level and the extent of responsibility for a particular activity.

21 Principle of unity in direction: The major plan is sub-divided into sub-plans which are taken by groups or departments. All these groups have to cooperate to attain the main objectives by implementing major plan.

22 Principle of joint decisions: In the business organization, there are number of decisions taken by the officers to run the business. If a complicated problem arises, more than one member examines the problems and takes decisions. Whenever the decision is taken jointly, it gives a benefit for a long period.

6.3 BENEFITS OF ORGANIZATIONS

Sound organization is essential for the continuity and success of every business. It is indeed the backbone / foundation of effective management. Since ages and in every walk of life, organization has been playing a very vital role. Obviously, the better the organization the fuller would be the achievement of the common objectives. Performance of the organizing function can pave the way for a smooth transition of the enterprise in accordance with the dynamic business environment. The significance of the organizing function mainly arises from the fact that it helps in the survival and growth of an enterprise and equips it to meet various challenges. In order for any business enterprise to perform tasks and successfully meet goals, the organizing function must be properly performed. The following points highlight the crucial role that organizing plays in any business enterprise:

1. Optimum Utilization of Technological Innovations- A good organization succeeds in adjusting to the new and changing situation. The technological improvements are taking place every time; the management is requiring making use of them to exist in competitive world. Power should be delegated for making best utilization of technological changes.

2. Smooth Management /Administration- A balanced organization facilitates both management and operation of the business. It is the mechanism through which management coordinates and controls the business. It serves as ineffective instrument for realizing the objectives of the business. It is through the framework of organization that plans are put into practice and other managerial functions are carried out. It helps to focus the attention and action of management on the accomplishment of objectives.

3. Facilitates Growth and Diversification- A well-designed organization provides for systematic division of work and permits necessary change. It is a framework within which the organization /company grows. Therefore, it enables the enterprise to enter new lines of business. The enterprise possesses necessary adaptability to face new challenges. It increased the scope for innovation and diversification.

4. Training and Development – A good organization offer an opportunity for the training and development of human resources. A clearly defined authority provides a scope for the use of talent. The new entrants are attached to experienced persons who guide them for undertaking various jobs. It facilitates sufficient opportunity for the training of new trainees and development of existing human capital.

5. Stimulates Creativity- Sound organization encourages creative thinking and initiative on the part of employees. Delegation of authority provides sufficient freedom to lower level executives for exercising discretion and judgment. Individual objectives can be integrated with organizational goals. New and improved ways of working can be developed.

6. Ensures Optimum Use of Resources- A good organizational set-up permits adoption of new technology. It helps to avoid duplication of work, overlapping efforts and other types of waste. As a result it facilitates the best possible utilization of human and physical resources.

7. Foster Coordination- The organizing process fosters coordination by supplying the framework for holding together the various functions in an orderly pattern. It is an important means of integrating individual efforts. It helps in putting balanced emphasis on different departments and divisions of the enterprise.

8. Facilitates Continuity- A well established organization provides for training and development of employees at all levels. It provides opportunities for leadership and helps in ensuring the stability of the enterprise through executive development. It makes for cooperation and harmony of actions.

9. Improves Efficiency and Quality of work- It is to improve efficiency and quality of work for an organization through synergism. Synergism can result from division of labour, better utilization of human talent, optimum use of technological improvement, and above all increased coordination, all of which are product of good organization.

10. Effective Control- A good organization helps in achieving organizational goals through the exercise of effective controls. It provides a channel for better management.

11. Better Human Relations: Human relations improve in a good organizational set up. Proper coordination and mutual cooperation encourage developing healthy relation among the people. An organization consists of human beings and their satisfaction helps in improving human relations.

12. *Benefits of specialization:* Organizing leads to a systematic allocation of jobs amongst the work force. This reduces the workload as well as enhances productivity because of the specific workers performing a specific job on a regular basis. Repetitive performance of a particular task allows a worker to gain experience in that area and leads to specialization.

13. Adaptation to change: The process of organizing allows a business enterprise to accommodate changes in the business environment. It allows the organization structure to be suitably modified and the revision of inter-relationships amongst managerial levels to pave the way for a smooth transition. It also provides much needed stability to the enterprise as it can then continue to survive and grow inspire of changes.

14. Effective administration: Organizing provides a clear description of jobs and related duties. This helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work. Management of an enterprise thereby becomes easy and this brings effectiveness in administration.

15. Development of personnel: Organizing stimulates creativity amongst the managers. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates. The reduction in workload by delegation is not just necessary because of limited capacity of an individual but also allows the manager to develop new methods and ways of performing tasks. It gives them the time to explore areas for growth and the opportunity to innovate thereby strengthening the company's competitive position. Delegation also develops in the subordinate the ability to deal effectively with challenges and helps them to realize their full potential.

16. Expansion and growth: Organizing helps in the growth and diversification of an enterprise by enabling it to deviate from existing norms and taking up new challenges. It allows a business enterprise to add more job positions, departments and even diversify their product lines. New geographical territories can be added to current areas of operation and this will help to increase customer base, sales and profit. Thus, organizing is a process by which the manager brings order out of chaos, removes conflict among people over work or responsibility sharing and creates an environment suitable for teamwork.

6.4 CHECK YOUR PROGRESS

(1) It is through the process of organizing that the ………… and ………. of people are determined.

(2) Hierarchy of management consists of a series of managerial positions called……………… of management.

(3) The outcome of the process of organizing is an 'organization' consisting of a group of people working together for the achievement of………………. goals.

(4) Top level management must possess conceptual, decision making and……………………… more than technical skill.

(5)Top management is the ultimate source of management……………………………… and it is accountable for overall management to the shareholders of the company.

6.5 SUMMARY

Organizing is considered to be the second important function of management. Without organizing, planning made by the management will remain on paper only. It means for the implementation of plans and achieving the objectives, an efficient organizing function is indispensable. Organizing is an important element of management because it is through organizing that a manager brings together the material and human resources required for achievement of desired goals. The organizing function is performed in varying degree by all levels of management. The managerial hierarchy consists of a series of managerial positions in an organization called levels of management. Organization structure is primarily concerned with the allocation of tasks and delegation of authority. The organization structure is, of course, not an end in itself but a tool for accomplishing enterprise objectives. Modern society may be called an organizational society. We are born and brought up in an organizational (family), we receive our education in organizations (Schools and Colleges) we worship and find joy in organizations (temples & clubs) and we buy most of our daily requirements from an organization (Retail Store). Each one of us belongs to several groups which may be called organization, e.g. our family, club etc. This proves the pervasiveness of organization. Organization affects not only our daily life but also the pace and pattern of human civilization. Organization has become an essential part and parcel of our daily life and of the environment in which we work, play, relax or do just anything.

6.6 KEYWORDS

Organizing: Organizing defines the part where each member of an enterprise is expected to perform and the relations between such members, to the end that their concerted endeavor shall be most effective for the purpose of the enterprises.

Levels of management: A line of separation between different positions held by seniors and juniors to distinguish each other, in respect of their authority and responsibilities.

Top Level Management: Top management is at the head of the organization. It consists of the representatives of the shareholders, viz., the Board of Directors and Chief Executive. Chief executive may be known as Managing Director / General Manager, President, Chairman cum managing director senior executive, etc.

Middle Level Management: Middle management stands between the top management and the lower management. Middle management includes department and section officers such as plant manager, area sales manager or branch manager, office manager, accountant, purchase officer etc.

Lower Level Management: This is bottom /lowest level of management hierarchy. It is also known as ‘Supervisory Management’. It consists of plant superintendent, senior foremen and front line supervisors, sales officer, account officer etc.

6.7 SELF-ASSESSMENT TEST

Q1. Define organizing. Explain the importance of organizing.

Q2. What do you mean by top level management? Explain its functions.

Q3. What is meant by middle level management? Explain its functions.

Q4. Explain the functions of lower level management.

Q5. Explain the process of organizing.

Q6. Explain the principles of organizing.

6.8 ANSWERS TO CHECK YOUR PROGRESS

(1) Tasks and Responsibilities

(2) Levels

(3)Common

(4)Human skills

(5)Authority

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Subject: Principles of Management	
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Lesson no. : 07	**Vetter: Prof. Anil Kumar**

ORGANIZATIONAL STRUCTURE

Structure

7.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the concept of Organizational Structure
- Explain the different types of Organizational Structure
- Differentiate between Line and Staff structure
- Differentiate between Formal and Informal Structure
- Explain the organizational structure for large scale business organizations

7.1 INTRODUCTION

An organization structure shows the authority and responsibility relationships between the various positions in the organization by showing who reports to whom. Organization involves establishing an appropriate structure for the goal seeking activities. It is an established pattern of relationship among the components of the organization. March and Simon have stated that-"Organization structure consists simply of those aspects of pattern of behavior in the organization that are relatively stable and change only slowly." The structure of an organization is generally shown on an organization chart. It shows the authority and responsibility relationships between various positions in the organization while designing the organization structure, due attention should be given to the principles of sound organization.

Significance of Organization Structure

1. Properly designed organization can help improve teamwork and productivity by providing framework within which the people can work together most effectively.

2. Organization structure determines the location of decision-making in the organization.

3. Sound organization structure stimulates creative thinking and initiative among organizational members by providing well defined patterns of authority.

4. A sound organization structure facilitates growth of enterprise by increasing its capacity to handle increased level of authority.

5. Organization structure provides the pattern of communication and coordination.

6. The organization structure helps a member to know what his role is and how it relates to other roles.

Determining the Kind of Organization Structure

Peter Drucker has pointed out three specific ways to find out what kind or structure is needed to attain the objectives of a specific business:

1. ***Activities Analysis:*** The purpose of 'activities analysis' is to discover the primary activity of the proposed organization, for it is around this that other activities will be built. It may be pointed out that in every organization; one or two functional areas of business dominate. For example, designing is an important activity of the readymade garments manufacturer. After the activities have been identified and classified into functional areas, they should be listed in the order of importance.

2. ***Decision Analysis:*** At this stage, the manager finds out what kinds of decisions will need to be made to carry on the work of the organization. What is even more important, he has to see where or at what level these decisions will have to be made and how each manager should be involved in them. This type of analysis is particularly important for deciding upon the number of levels or layers in the organization structure.

3. ***Relations Analysis:*** Relations Analysis will include an examination of the various types of relationships that develop within the organization. These relationships are vertical, lateral and diagonal. Where a superior-subordinate relationship is envisaged, it will be a vertical relationship. In case of an expert or specialist advising a manager at the same level, the relationship will be lateral. Where a specialist exercises authority over a person in subordinate position in another department in the same organization it will be an instance of diagonal relationship.

The organization of any business represents the network of vertical and horizontal authority relationships between various positions. The exact form / type of internal organization depend upon the nature, size and objective of the particular business. Hence, the organization structure is primarily concerned with the allocation of tasks and delegation of authority. There are several ways of division of work and distribution of authority. However, there are following types of organization given below:

I. Line Organization

II. Line and Staff Organization

III. Functional Organization

IV. Matrix Organization

V. Formal vs. Informal Organization

7.1.1 FUNCTIONAL ORGANIZATION

As organization grows in size, line organization proves inadequate and it becomes necessary to introduce specialization. The functional organization is based on the concept of 'functional foremanship' suggested by F.W. Taylor. According to him none is to be over-loaded with too many tasks. Under functional organization, the whole organization is divided into a number of functional areas. Each function is managed by an expert in that area. Every functional area serves all other areas in the organization. For example, the purchase department handles purchases for all departments. The executive in charge of a particular function issues orders throughout the organization with respect to his function only. Every functional expert enjoys functional authority over subordinates in other departments. Within functional department every operating executive receives orders from several functional specialists. In fact, the concept of functional authority is very appropriate for functional structure.

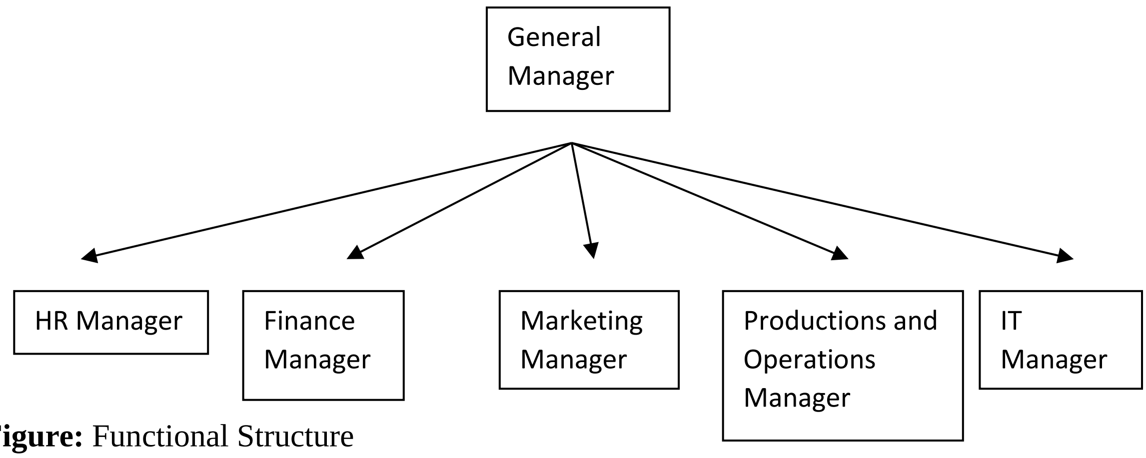

Figure: Functional Structure

Characteristics of functional organization:

(1) The whole task of the enterprise is divided into specialized functions.

(2) Each function is performed by a specialist.

(3) Specialists operate with considerable independence.

(4) Functional authority relationships among various departments.

(5) Line and staff division.

Advantages:

1. Benefit of specialization: It is the system that gives fullest scope for realizing the benefits of specialization. Each foreman is to look after only a limited set of activities and hence is expected to do well.

2. Reduction of workload: Every functional head looks after one function only and therefore, burden on top executive is reduced. Mental and manual functions are separated.

3. Easier Staffing: Recruitment, selection and training of manager is simplified because each individual is required to have knowledge of one functional area only.

4. Improved efficiency: Every individual concentrates on one function only and receives the expert guidance from specialists. Therefore efficiency of workers improves at all levels of functional organization. This facilitates better utilization of manpower.

5. Large scale production: Functional organization facilitates large scale production through specialization, standardization and availability of expert's specialized and technical knowledge.

6. Better control: One man control is done away with and there is joint supervision of work. As a result control becomes more effective.

Disadvantages:

1. No unity of command: A person is accountable to several superiors. As a result his responsibility and loyalty get divided. Workers are generally not prepared mentally to accept the authority of so many persons.

2. Complexity: There are many cross-relationships which create confusion. Worker may receive conflicting orders. He cannot understand his place in the organization easily.

3. Lack of coordination: Several experts create the problem of coordination because no one in the organization is responsible for cost and profit. They think only in terms of their own department rather than of the whole enterprise.

4. Delay in decision making: A decision problem requires the involvement of several specialists. Therefore decision making process in functional organization is slow.

5. Problem of succession: Lower level executive do not get opportunity of all round experience. This may create problem in succession to top executive positions.

Thus, this type of organization is generally suitable for large and medium sized concerns. But it should be applied at higher levels because it does not work well at the lower levels.

7.1.2 LINE ORGANIZATION

This is simplest and oldest type of organization. It is also known as Military / Scalar / Hierarchical organization. In this type of organization, there is vertical line of authority flow from the top to bottom and the line of responsibility flow up from bottom to the top uninterrupted. Such type of organization found in military sector. The head of each section is supreme so far his department is concerned and is responsible directly to the person above him. He controls persons below him by virtue of his position. Line organization may be two types. In pure line organization, all individuals at given level perform the same type of work and departments are created only to facilitate effective supervision and control. In departmental line organization, work performed in each department is of different nature. Thus line organization is unbroken chain command from general manager to the worker at the floor level.

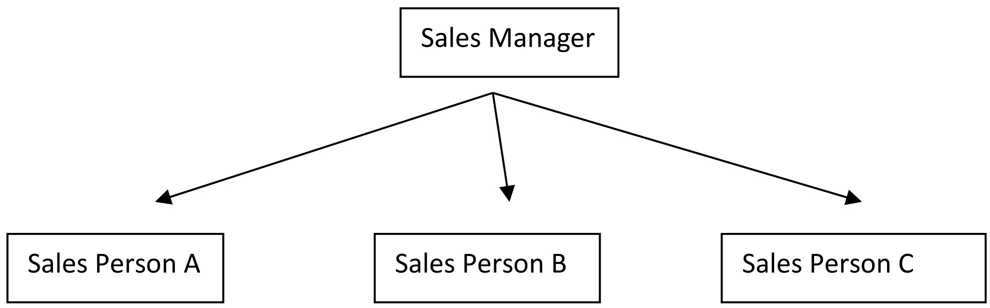

Figure: Line Structure

Characteristics of line organization:

(1) Lines of authority are vertical flowing from the top to bottom.

(2) The unity of command is maintained in a straight and unbroken line.

(3) All persons at the same level are independent of each other.

(4) The authority and responsibility of each position is clearly specified.

(5) It is flexible nature, but no staff specialization

Advantages:

1. It is simple: This organization is quite simple in both understanding and implementation. Every person is clear about what is expected of him. There are no complicated relationships.

2. Clear division of duties and authority: Duties and responsibilities of every employee are clearly defined with reference to work so assigned. Thus work proceeds uninterruptedly without any confusion.

3. Prompt decision: Every manager can take decisions independently without consulting others. This makes the decision making process easier and less time-consuming.

4. *It provides unity of command*: It is the fundamental principle of any viable organization. As a result where the subordinates are made accountable to only one superior. It facilitates unity of control and effective supervision.

5. Better discipline: Unity of command and unity of direction foster discipline among the people in the organization.

6. Economical: It is very economical because no staff specialists are required.

7. Executive Development: As every manager has to perform a variety of functions, there is an opportunity for the development of all round executives.

Disadvantages:

1. Lack of specialization: There is no scope for specialization. Each personnel are responsible for both planning and execution of work. This encourages the overloading person that affects badly the efficiency of the organization.

2. No. initiative: An authority is concentrated at the top level, the departmental heads and subordinates lose flair of initiative and drive and dynamism, which is a must to motivate the subordinates.

3. It has instability: The success of this type of organization depends on the ability of managers. Succession problem is acute and there may be little continuity. A chain broken anywhere in the unit is total break-down.

4. Autocratic Approach: This organization is based upon autocratic approach. Each manager has monopoly of decision making and he may not listen to the suggestions of his subordinates.

5. Problem of coordination: Each department concentrates on his own work ignoring the happening in the sister department. This self centre feeling that affects working is worst.

Thus, line organization is suitable for small concerns employing few persons and carrying on routine work.

7.1.3 STAFF ORGANIZATION

Both ‘line’ and ‘functional’ types of organization are not free from the limitation. The line type believes in too much of centralization of authority while the functional type in too much of decentralization. Therefore, this line and staff organization has been evolved to achieve the advantages of above both the organization. Line and staff organization is a combination of line and functional structure. Line and staff organization refers to a pattern in which staff specialist advice line managers to perform their duties. Under this line authority flows in a vertical line in the same manner as in the line organization. In addition, staff specialists are attached to line position to advise them on important matters. These specialists do not have power of command over subordinates in other departments. They are purely on advisory nature. When the work of line executives increases, they need advice, information and help of staff specialists. Therefore staff positions are created to support the line managers.

Advantages:

1. Full scope for specialization: Operational efficiency is through expertise of the staff which is highly qualified and experienced. Therefore, there will be sound decision and proper implementation of the same.

2. Sound decisions: As experts are consulted before taking any decision it provides a base for sound managerial decisions.

3. Relief to top executives: Staff carryout detailed investigation and supply information to line executives. It reduces the workload of line executives who get ample chance for creative thinking to generate new ideas.

4. Better discipline and control: As there is clear-cut definition of duties and responsibilities of, line and staff officers, one is bound to respect the orders of higher officers by virtue of their status and this guarantees better control.

5. Flexibility: Line and staff organization is more flexible. As the organization expands, more staff may be added to help the line. Because of availability of job there is more opportunity for advancement.

6. *Expert advice:* Line manager receive specialized advice and assistance from staff experts. They are enabled to discharge their responsibilities more efficiently.

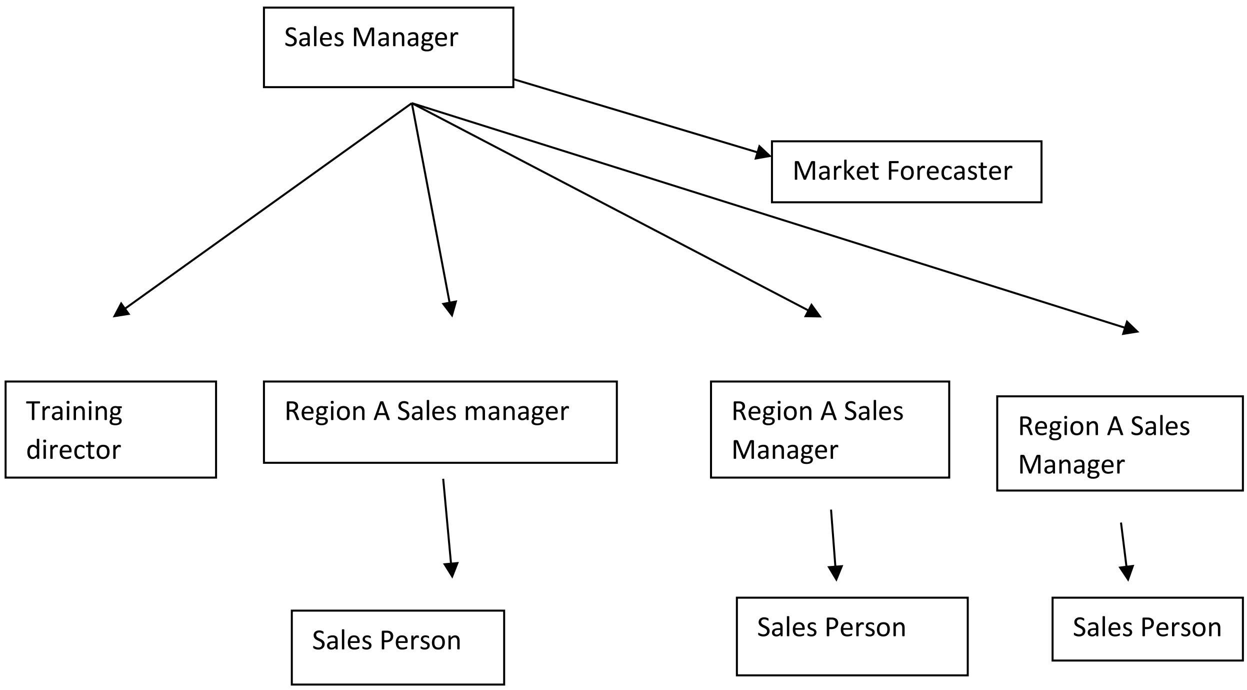

Figure: Line and Staff structure

Disadvantages:

1. *Conflict between line and staff:* The main problem of line and staff organization is that conflict often arises between line manager and staff specialists.

2. *Staff has neither authority nor responsibility:* Staff officers become ineffective as they do not have any authority to implement their plans. They do not command influence as they cannot force to accept their very best.

3. *Uneconomical:* This type of organization is costlier. It is not suitable to medium and small sized business.

4. *Ineffective staff:* Staff personnel are not accountable for the results. Therefore, they may not take their tasks seriously. They may also be ineffective due to lack of command authority.

5. *Dominance of line authority:* Line authority dominates the staff where the actual and important work is brushed aside. Some of the line officers rely too much on the staff officers because, they are staff officers and they are to advice.

Thus, line and staff organization is very suitable for large business organization. It provides ample scope for specialization without violating the unity of command. Its success depends upon the degree of harmony that is maintained among line and staff.

7.1.4 MATRIX STRUCTURE

The matrix structure is a hybrid organization form, containing of characteristics of both project and functional structures. In consumer goods industries, it could contain the characteristics of both product and functional departments. This structure allows operational responsibilities to be divided into two parts. One part contains all the responsibilities associated with the management of an independent business and it's given to an individual who is called "business manager" or "product manger". The other part contains all the responsibilities related to the management of resources needed to get the job done. The person responsible for these is the "functional manager" or "resource manager" in charge of the functions like production, marketing, finance, personnel and so on. The matrix is built around a cooperative relationship between the project/product manager and the functional/ resource manager. Thus, project staff members in a matrix structure have a dual responsibility. First, they are responsible to the head of their line superior and will continue to be so. But the project manager exercises what is called project authority over the project staff.

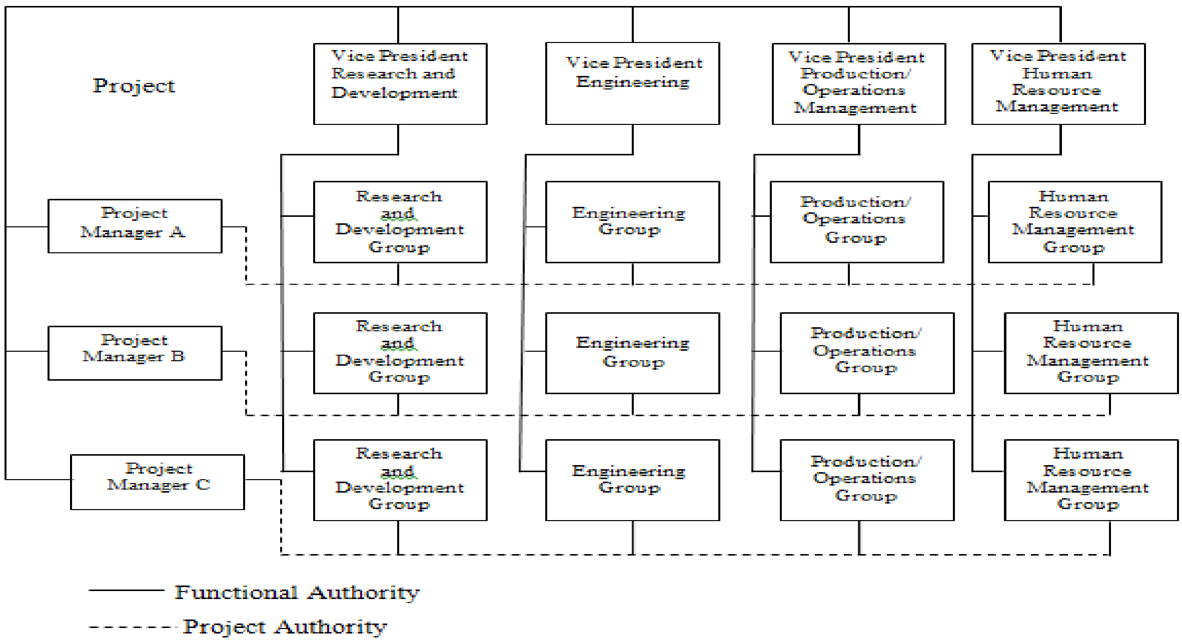

Figure: Matrix Structure

When the concepts of functional and project authority are brought together, the result is an organization structure that is both vertical and horizontal. The vertical pattern is brought about by the typical line authority flowing down from superior to subordinate. The horizontal authority flow runs through both the scalar principle. Companies like Larsen & Tourbro (L&T), U.P. Construction Corporation, Afcons-Pauling, etc., adopt this structure for the execution of various projects. For instance, L&T's construction of Jawaharlal Football Stadium in Chennai and Afcons-Pauling's laying the East Coast Road are big projects themselves. The execution of such projects is entrusted to a team drawn from the functional departments of the headquarters. The overall responsibility for the project lies with project manager. The people who work in the project are responsible to the project manager as well as their functional head from whom they are drawn. The matrix may be temporary or permanent. In construction and turnkey activities, project is disbanded after the execution, whereas it may take a permanent form in the case of Consumer Goods Company.

Advantages of Matrix Organization:

- Specialized knowledge is available to all projects or products on an equal basis. Knowledge and experience can be transferred from one project to another;
- Utilization of manpower can be flexible because a reservoir of specialists is maintained in functional departments. These specialists can be deployed to the various projects for optimum use of their services;
- Responsibility for the overall execution, management, and profit is with the project manager who acts like a chief executive;
- Project people have a functional home when they are no longer needed on a given projects; and
- A better balance between time, cost and performance can be obtained through the built-in checks and balances and the continuous negotiations carried on between the project and the functional organization.

Disadvantages:

- Inspite of its advantages, matrix structure suffers from some disadvantages. Mangers have to learn to deal effectively with them.

- If the organization has too many projects, the result may be severe layering of matrixes. Uncontrolled growth of matrix structures often results in power struggles between managers;
- The major disadvantage relates to power struggles. Since use of the matrix means use of dual command, managers often end up in conflicts;
- Matrix entails wide use of group decision making because group cooperation is required for success. The inevitability of group cooperation at times delays decision making; and
- Matrix structure may be expensive. The dual chain of command may cause management costs to double.

Despite the drawbacks, matrix structure is preferred by many organizations because of the overriding advantages. In addition to construction and engineering, consumer goods, banking, insurance and computer companies are now using it. Variations of matrix are also used by hospitals and other professional organizations.

7.2 FORMAL VS. INFORMAL STRUCTURE

The formal organization refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management. This type of organization is built by the management to realize objectives of an enterprise and is bound by rules, systems and procedures. Everybody is assigned a certain responsibility for the performance of the given task and given the required amount of authority for carrying it out. Informal organization, which does not appear on the organization chart, supplements the formal organization in achieving organizational goals effectively and efficiently. The working of informal groups and leaders is not as simple as it may appear to be. Therefore, it is obligatory for every manager to study thoroughly the working pattern of informal relationships in the organization and to use them for achieving organizational objectives.

1. ***Formal Organization:*** Chester I Bernard defines formal organization as -"a system of consciously coordinated activities or forces of two or more persons. It refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability." The essence of formal organization is conscious common purpose and comes into being when persons:

(a) Are able to communicate with each other

(b) Are willing to act, and

(c) Share a purpose.

The formal organization is built around four key pillars. They are:

(a) Division of labour

(b) Scalar and functional processes

(c) Structure, and

(d) Span of control

Thus, a formal organization is one resulting from planning where the pattern of structure has already been determined by the top management.

Characteristic of Formal Organization

(a) Formal organization structure is laid down by the top management to achieve organizational goals.

(b) Formal organization prescribes the relationships amongst the people working in the organization.

(c) The organization structures are consciously designed to enable the people of the organization to work together for accomplishing the common objectives of the enterprise.

(d) Organization structure concentrates on the jobs to be performed and not the individuals who are to perform jobs.

(e) In a formal organization, individuals are fitted into jobs and positions and work as per the managerial decisions. Thus, the formal relations in the organization arise from the pattern of responsibilities that are created by the management.

(f) A formal organization is bound by rules, regulations and procedures.

(g) In a formal organization, the position, authority, responsibility and accountability of each level are clearly defined.

(h) Organization structure is based on division of labour and specialization to achieve efficiency in operations.

(i) A formal organization is deliberately impersonal. The organization does not take into consideration the sentiments of organizational members.

(j) The authority and responsibility relationships created by the organization structure are to be honored by everyone.

(k) In a formal organization, coordination proceeds according to the prescribed pattern. *Advantages of Formal Organization*

(a) The formal organization structure concentrates on the jobs to be performed. It, therefore, makes everybody responsible for a given task.

(b) A formal organization is bound by rules, regulations and procedures. It thus ensures law and order in the organization.

(c) The organization structure enables the people of the organization to work together for accomplishing the common objectives of the enterprise.

Disadvantages or Criticisms of Formal Organization

(a) The formal organization does not take into consideration the sentiments of organizational members.

(b) The formal organization does not consider the goals of the individuals. It is designed to achieve the goals of the organization only.

(c) The formal organization is bound by rigid rules, regulations and procedures. This makes the achievement of goals difficult.

2. ***Informal Organization:*** Informal organization refers to the relationship between people in the organization based on personal attitudes, emotions, prejudices, likes, dislikes etc. An informal organization is an organization which is not established by any formal authority, but arises from the personal and social relations of the people. These relations are not developed according to procedures and regulations laid down in the formal organization structure; generally large formal groups give rise to small informal or social groups. These groups may be based on same taste, language, culture or some other factor. These groups are not pre-planned, but they develop automatically within the organization according to its environment.

Characteristics of Informal Organization

(a) Informal organization is not established by any formal authority. It is unplanned and arises spontaneously.

(b) Informal organizations reflect human relationships. It arises from the personal and social relations amongst the people working in the organization.

(c) Formation of informal organizations is a natural process. It is not based on rules, regulations and procedures.

(d) The inter-relations amongst the people in an informal organization cannot be shown in an organization chart.

(e) In the case of informal organization, the people cut across formal channels of communications and communicate amongst themselves.

(f) The membership of informal organizations is voluntary. It arises spontaneously and not by deliberate or conscious efforts.

(g) Membership of informal groups can be overlapping as a person may be member of a number of informal groups.

(h) Informal organizations are based on common taste, problem, language, religion, culture, etc. It is influenced by the personal attitudes, emotions, whims, likes and dislikes etc. of the people in the organization.

Benefits of Informal Organization

(a) It blends with the formal organization to make it more effective.

(b) Many things which cannot be achieved through formal organization can be achieved through informal organization.

(c) The presence of informal organization in an enterprise makes the managers plan and act more carefully.

(d) Informal organization acts as a means by which the workers achieve a sense of security and belonging. It provides social satisfaction to group members.

(e) An informal organization has a powerful influence on productivity and job satisfaction.

(f) The informal leader lightens the burden of the formal manager and tries to fill in the gaps in the manager's ability.

(g) Informal organization helps the group members to attain specific personal objectives.

(h) Informal organization is the best means of employee communication. It is very fast.

(i) Informal organization gives psychological satisfaction to the members. It acts as a safety valve for the emotional problems and frustrations of the workers of the organization because they get a platform to express their feelings.

(j) It serves as an agency for social control of human behaviour.

Formal and informal organization: A Comparative view

Basis	**Formal organization**	**Informal organization**
Meaning	Structure of authority relationships created by the management	Network of social relationships arising out of interaction among employees
Behavior	It is directed by rules	There is no set behavior pattern
Flow of Communication	Communication takes place through the scalar chain	Flow of communications not through a planned route. It can take place in any direction
Nature	Rigid	Flexible
Leadership	Managers are leaders.	Leaders may or may not be managers. They are chosen by the group.

7.3 ORGANIZATIONAL STRUCTURE FOR LARGE SCALE BUSINESS ORGANIZATIONS

When setting up a new business, organization should pay careful attention to designing company's organizational structure. This should be decided according to company's size, industry and aims. Poorly conceived organizational structures will result in sluggish, inefficient communication in which managers at various levels are required to deliver information to too many people for too many levels of approval. Well designed organizational structures will produce efficient communication channels and encourage fast, clean decisions. There are few organizational structure which are suitable for large scale organizations.

Functional

The functional structure is the most commonly used by most businesses. It's a top down flowchart with a high ranking executive at the top, with multiple middle managers - such as the human resources, marketing, accounting and engineering department heads - all directly reporting to the top executive. These departments are managed separately from each other by the department heads, and they only answer to the top level manager. The strength of this system is that it's easy to understand, and keeps businesses neatly compartmentalized. However, the weakness is glaring - if a weak, poorly organized executive is at the top, then cases where the right hand fails to talk to the left will occur, causing frustrating problems.

Product

A variant of the functional structure is the product structure, which is designed for larger companies. In this flowchart, a group of the highest executives sit at the top, while different products are separated into mini-companies. For example, a food products company might be split into beverages, snacks, dairy products, frozen dinners and condiments, with the managers of each segment reporting to the top. In this case, it won't matter if the right hand fails to talk to the left, since products don't depend directly on each other.

Customer

If your company offers services, such as healthcare, you can use the customer-based organizational structure. This is simply a variation of the product structure, in which the different business segments at the bottom are each split into a specific customer group - for example, inpatients, outpatients and free clinic patients. The managers of each segment would then report directly to the hospital president at the top. This is also designed to avoid overlap, confusion and redundancies.

Regional

If your company gets really big and starts to go national or global, you need to split your company structure into regional segments. This is also a variant of the functional structure, with the top executives based in your home country at the top, with the reporting segments being comprised of regional managers. This insures that your demands in different markets are being met in a localized fashion. Localization is the goal here, in all aspects - pricing, real estate and product lines. Large companies which have tried to use a single pricing strategy on a static product line across multiple geographic markets have often failed miserably, being eaten alive by smaller regional competitors.

Matrix

The matrix structure is often used by video game and movie companies, with various departments, all equal, working in tandem to produce a single final product. In this case, a strong manager at the top - such as a video game publisher or movie director - acts as a team leader to insure that each segment receives the data they need to complete their separate task. For example, in the production of a movie, one department might work on the music; the other might work on special effects, while another one works on the recorded film. Each segment must receive some information from the other - for example, a special effects team will need access to the filmed footage - and it's the job of the movie director (at the top) to make sure all the threads of the web are connected to each other, then produce the finished product.

Other Structures

While most companies use a variation of the functional structure, it's up to the company to figure out which structure best fits your company. Company can also mix and match the best parts of each to create a customized structure. Just remember, the reason for having an **organizational structure** is to maintain communication and to make sure that there are as few redundancies as possible.

7.4 CHECK YOUR PROGRESS

(1)Under functional organization, the whole organization is divided into a number of…………………. areas.

(2) In Line type of organization, there is………………….. line of authority flow from the top to bottom and the line of responsibility flow up from bottom to the top uninterrupted.

(3)Line and staff organization is a…………………………… of line and functional structure.

(4)The matrix is built around a cooperative……………………. between the project/product manager and the functional/ resource manager.

(5)Informal organization is not established by any……………………….. authority.

7.5 SUMMARY

The organization structure is the result of organizing process. It represents the network of vertical and horizontal authority relationships between various positions. Hence, the organization structure is primarily concerned with the allocation of tasks and delegation of authority. However, there are four main types of organization namely, Line organization, line and staff organization, functional organization and committee Organization. The matrix structure is a hybrid organization form, containing of characteristics of both project and functional structures. In consumer goods industries, it could contain the characteristics of both product and functional departments. The formal organization refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management. This type of organization is built by the management to realize objectives of an enterprise and is bound by rules, systems and procedures. Everybody is assigned a certain responsibility for the performance of the given task and given the required amount of authority for carrying it out. Informal organization, which does not appear on the organization chart, supplements the formal organization in achieving organizational goals effectively and efficiently. The working of informal groups and leaders is not as simple as it may appear to be. Therefore, it is obligatory for every manager to study thoroughly the working pattern of informal relationships in the organization and to use them for achieving organizational objectives.

7.6 KEYWORDS

Organization Structure: The authority and responsibility relationships between various positions in the organization showing who reports to whom.

Line and staff organization: It is a combination of line and functional type of organization. It is a pattern in which staff specialist advice line managers to perform their duties.

Functional Structure: It's a top down flowchart with a high ranking executive at the top, with multiple middle managers - such as the human resources, marketing, accounting and engineering department heads - all directly reporting to the top executive.

Matrix Structure: The matrix structure is a hybrid organization form, containing of characteristics of both project and functional structures.

Formal Organization: The formal organization refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management.

Informal Organization: Informal organization refers to the relationship between people in the organization based on personal attitudes, emotions, prejudices, likes, dislikes etc.

7.7 SELF-ASSESSMENT TEST

Q1. What is line and staff organization?

Q2. What is committee organization?

Q3. What is meant by line organization? Explain its merits and demerits.

Q4. Explain the merits and demerits of functional organization.

Q5. What is the difference between formal and informal organization?

Q6. Explain the features of matrix structure.

Q7. Which organizational structure is suitable for large scale business organizations? Explain any one.

7.8 ANSWERS TO CHECK YOUR PROGRESS

(1)Functional

(2)Vertical

(3)Combination

(4)Relationship

(5)Formal

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Subject: **Principles of Business Management**	
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DELEGATION: CONCEPT, BARRIERS AND GUIDELINES FOR EFFECTIVE DELEGATION	

Structure

8.0 Learning Objectives

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

- Know the meaning and elements of delegation.
- Understand the barriers to delegation.
- Know the guidelines for effective delegation.

8.1 Introduction

Delegation is one of the most important functions of organising. This is an era of large scale organisations. As the number of large scale organisations is increasing day by day the need of delegation has tremendously increased. In a small scale organisation, the head may be able to run the organisation effectively by keeping all the powers with himself, but this is not possible in the case of a large scale organisation. In ; large scale organisation the head may formally keep with himself all the powers relating to the operation of the organisation but keeping in view the need for efficiency, he is required to delegate his authority to his subordinates. Moreover all organisations are organised on the basis of the principle of hierarchy which binds different levels and units ' of the organisation with a continuous chain of authority. The need of delegation is greatly felt with the growth of an organisation.

8.2 Meaning of Delegation

Delegation means grant or conferment of authority by a superior to a subordinate for the accomplishment of a particular assignment. According to Mooney delegation means conferring of specified authority by a higher to lower authority.The delegation of authority allows for concentration of time on more important activities in an organisation.

Definition of Delegation

According to F. G. Moore - Delegation means assigning work to others and giving them authority to do it.

O. S. Hiner defines –“Delegation takes place when one person gives another the right to perform work on his behalf and in his name, and the second person accepts a corresponding duty or obligation to do what is required of him.”

Theo Haimann defines – Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.

Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

8.2.1 Process of Delegation of Authority

The Delegation of Authority is a process wherein the manager assigns responsibility to its subordinate along with the certain authority to accomplish the task on the manager's behalf.

1. Assignment of Duties to Subordinates - Before the actual delegation of authority, the delegator must decide on the duties which he wants the subordinate or the group of subordinates to perform. Here, the manager lists the activities to be performed along with the targets to be achieved, and the same is spelled out to the subordinates. Thus, in the first stage, the duties are assigned to the subordinates as per their job roles.

2. Transfer of Authority to perform the duty - At this stage, an adequate authority is delegated to the subordinate which is essential to perform the duty assigned to him. A manager must make sure; that authority is strictly delegated just to perform the responsibility, as more authority may lead to its misuse by the subordinate.

3. Acceptance of the Assignment - At this stage, the subordinate either accepts or rejects the tasks assigned to him by his superior. If the subordinate or the delegate, refuses to accept the duty and the authority to perform it, then the manager looks for the other person who is capable of and is willing to undertake the assignment. Once the assignment gets accepted by the subordinate, the delegation process reaches its last stage.

4. Accountability - The process of delegation of authority ends at the creation of an obligation on the part of the subordinate to perform his responsibility within the powers assigned to him. Once the assignment is accepted by the subordinate, then he becomes responsible for the completion of the duty and is accountable to the superior for his performance.

Thus, the process of delegation of authority begins with the duties assigned to the subordinates and ends when the subordinate is obliged to carry out the operations as intended.

8.2.2 Elements of Delegation

1. Responsibility: Responsibility is the obligation of a subordinate to properly perform the assigned duty. When a superior assigns a job to his subordinate it becomes the responsibility of the subordinate to complete that job. This means that the word responsibility comes into play only after the job has been assigned. Thus, to assign job can be called to assign responsibility. Responsibility is the activity or task entrusted by the manager to subordinates. Though delegated, the ultimate responsibility (accountability) for completion of the task rests with the manager. 'Responsibility for' can be delegated but the responsibility to' (which is also known ultimate responsibility or accountability) cannot be delegated. Features of responsibility are:

(i) Responsibility can be assigned to some other person.

(ii) The essence of responsibility is to be dutiful.

(iii) It gets originated because of superior-subordinate relationship.

2. Authority: Authority means the power to take decisions. Decision can be related to the use of resources, and to do or not to do something. To carry out the responsibility assigned, there is need for authority to allocate resources, command people, issue directions and make decisions. The authority is therefore, delegated to subordinates to enable them to carry out the responsibility assigned. Features of authority are:

(i) Authority can be assigned (delegated) to some other person.

(ii) It is related to the post (with the change of post, even authorities change).

(iii) It makes implementation of decisions possible.

(iv) Authority is the key to a managerial job, because a post without authority cannot be a managerial post.

3. Accountability - When managers delegate part of their work-load to subordinates, they remain accountable for accomplishment of that task. The responsibility and authority, thus, can be delegated but accountability cannot. Accountability means the answerability of the subordinate to his superior for his work performance. In other words, when a superior assigns job / work or the responsibility to his subordinates, simultaneously he gives authority to them which makes workers (subordinates) accountable to their superior for the work- performance. Features of accountability are:

1. Accountability cannot be delegated to some other person.
2. It is only towards the delegators.
3. Its base is senior-subordinate relationship.
4. It originates because of delegation of authority.

Can Accountability by Delegated?

A noteworthy question arises in the context of accountability that whether an officer by delegating authority can eschew from ultimate responsibility? Thus, is he not accountable to his senior officers for the work performance of his subordinates once he has delegated authority. In other words, a senior officer of the officer in question can directly hold the latter's subordinate accountable? All these questions will be answered in 'No' because only authority can be delegated and not the accountability.

For example - A Chief Manager assigns jobs to a Departmental Manager who in turn assign it to his subordinate. Departmental manager along with the assigning of the job will delegate authority but this will not terminate his accountability. He will always be answerable to his chief manager for the work-performance of his subordinates. On the basis of this, there would be no anomaly to say that just authority can be delegated but not accountability. Thus, accountability is always of the person who delegates authority.

8.2.3 Advantages and Disadvantages of Delegation

Advantages of Delegation

1. Relief to managers - Delegation relieves managers of the burden to carry out every activity on their own. By delegating routine activities to lower levels, top managers concentrate on important policy matters. This increase efficiency of the organisation.

2. Develops managers - By delegating authority and responsibility to subordinates, managers can accept more and responsibilities from their superiors. By delegating routine jobs down the hierarchy, they can take more challenging projects and enhance their skills as competent managers.

3. Develops subordinates - When routine and innovative tasks are delegated to subordinates, their skill in performing the delegated tasks increases. Training programmes can be organised to develop them as potential managers.

4. Better decisions - Through delegation, decisions related to routine matters are taken by those who are closest to the decision-making situation. This increases the quality of decisions.

5. Faster decisions - Not only are the decisions effective, they are also fast as subordinates have the authority to do the jobs assigned without going to the superiors every time they face a problem. They have authority to solve the problems on their own.

6. Specialisation - Division of work into sub-units and delegation of responsibilities according to skill, knowledge and competence of subordinates promotes specialisation on the job and results in greater output. "Delegation provides a way to break down the responsibilities of a manager and assign them across several subordinate managers based on their specialised capability."

7. Job satisfaction - When subordinates achieve the delegated standards of performance, its provides them job satisfaction and motivates them to perform better.

8. Promotes inter-personal relationships - Delegation increases interaction of managers with the subordinates and promotes healthy relationships amongst them.

Disadvantages of Delegation

1. Misuse of Power - In delegating authority, there is a risk of the delegate misusing his power for personal gains. He may have access to confidential information, which he may leaks to the competitors, or involve himself in other fraudulent activities. This possibility raises a question mark on the employee's integrity, in which case, choosing such an individual as the delegate would be a wrong decision.

2. Failure to Fulfill the Tasks - The manager's instructions may not be well taken care of by the delegate, or he may not be very particular about following them. This may breed from unwillingness or incapacity of the delegate.

3. Delay – Individual delegate may take long to understand the new responsibility. As he has authority, delayed actions on his part may hamper his team's performance. A delay in planning or taking decisions may not be affordable for the organization. Hence, it is not advisable to delegate authority when there is a time crunch.

4. Impact on Quality of Work - There are chances of quality being affected simply because the employee is new to the work. The experience and knowledge that the manager has, may be lacking in the delegate. He might make mistakes. His way of working may be different. This may impact the overall quality of work. Thus, it is important for a manager to understand that his responsibility does not end after delegation.

5. Chances of miscommunication - Chances of miscommunication case of delegation is high because multiple people are involved so for example in a purchasing department of the construction company purchasing manager delegates the work of purchasing cement to junior staff and instructs him or her to buy cement from area A which has good quality cement but due to miscommunication he or she purchases cement from area B where the quality of cement is not good then the whole exercise of delegation is futile.

6. Time - Some managers may find that delegation requires a considerable amount of time. In some cases, managers may have to train staff to handle delegated tasks; depending on the task, the training may take from a few minutes to several weeks. For simple tasks, managers may feel it is easier and faster to simply do the task themselves than to train staff to take on the responsibility.

8.2.4 Barriers to Delegation

1. Barriers from the view point of the Superior:

(i) Fears of loss of power – Managers are usually reluctant to delegate authority because of losing their power. Fear of competition from subordinates hinders the process of proper delegation.

(ii) Lack of confidence in subordinates – A manager may not have confidence in the capability and competence of his subordinates. He may underestimate the ability of his subordinates.

(iii) Fear of being exposed – A manager may feel that his deficiencies could be exposed if he delegates his authority. He himself tries to do everything as he fears that his subordinates may outshine him.

(iv) Lack of ability to direct – A manager may lack the ability to give proper direction and clear instructions due to defective communication.

(v) Autocratic attitude – A manager may be an autocrat and unwilling to delegate his authority. He may not be interested in sharing authority with others.

(vi) Passion for dominance – A manager may have a passion for power and dominance towards his subordinates. He feels that he would be weak if authority is delegated.

(vii) Inability of the subordinate – The subordinate may not have the ability to accept any new work. The superior, who knows this fact, hesitates to delegate powers.

(viii) Absence of developed control system – The superior wants to measure the performance of his subordinates. This is possible only when there exists a well-developed control system. The superior hesitates to delegate his authority in the absence of a proper control system.

2. Barriers from the view point of the Subordinates:

(i) Fear of criticism – A subordinate may refuse to accept authority due to fear of criticism for his mistakes. A subordinate tries to avoid criticism for any likely mistakes.

(ii) Lack of self-confidence – A subordinate may lack self-confidence due to fear of failure. He may hesitate to accept new responsibilities and challenges.

(iii) Lack of essential information and resources – A subordinate may hesitate to accept new assignment, in case he is not given the necessary resources and information. A subordinate apprehends that he may not discharge his duties properly in the absence of adequate resources (or facilities).

(iv) Lack of motivation – A subordinate may not accept a new assignment unless he gets proper guidance from his superior. A subordinate refuses to accept responsibility when the organizational climate is not sufficiently motivating.

(v) Lack of incentives – A subordinate may refuse to accept responsibility when he does not receive any personal benefit by accepting the assignment. A subordinate expects monetary and non-monetary incentives for the best results on his part.

(vi) Inability to take independent decisions – A subordinate hesitates to accept responsibility when he is incapable of taking independent decisions.

(vii) Overburdened with work – A subordinate may hesitate to accept more responsibility as he is already overburdened with work. In spite of his desire, he may not be in a position to accept new and demanding responsibilities.

8.3 Guidelines for effective delegation

1. *Defining the Function* - Before actually delegating the authority, the manager should clearly define the scope and the extent of the tasks to the subordinate. The subordinate should be aware of the tasks he has to perform, the activities he must oversee, their relationship with the other jobs and their importance. This will help him perform the task better.

2. Defining the Results - Before delegating the authority, the manager should discuss with his subordinates the results he expects from this task. This will allow the subordinates to understand the standard of work and the level of results expected from them. And then accordingly the authority must be delegated.

3. Balance of Authority with Responsibility - There should be parity between the responsibility and the authority delegated to the subordinate for effective delegation. If there is no authority to carry out his responsibilities he will be unable to carry out his tasks. And only the delegation of authority without any responsibility will make him irresponsible and ineffective.

4. Absoluteness of Responsibility - Even after delegating the authority to his subordinates, the manager remains responsible for their work and performance to his superiors. And the subordinates are responsible for their work to their superiors as well.

5. Unity of Command - In an organization, there must always be a unity of command. So at any given time, there must be only one superior for every subordinate. If one subordinate receives instructions and orders from more than one superior it will lead to confusion and conflict. He may have to pick who to listen to and it may lead to divided loyalties.

6. Defining the Limits of Authority - Another point to note is that the manager must ensure that all the subordinates have well-defined authority. So we can avoid any overlapping of authority which enables the subordinate to carry out his work efficiently. And if there is work outside this scope of authority, the subordinate must refer this work to his superiors.

7. *Authority level Principle* - Managers at each and every level should try to make his own decision and avoid referring to his superior's decision all the time and try to make their decision which they are authorized to. Only if the decisions are out of their scope they should refer to their superiors.

8.4 Check Your Progress

Fill in the blanks:

1. …….. is the key to managerial post.
2. Accountability is created through …………. .
3. The answerability of the subordinate to his superior for his work performance is given under the ……….. element of delegation.
4. ……… is the obligation of a subordinate to perform the assigned duty.
5. ………. type of responsibility can be delegated.

8.5 Summary

The need of delegation is evident, for all organisations. It helps in division of work and reduction of complexity in the working of organisational procedures. It helps in saving more time for policy formulation and planning. It has an educative value and provides an opportunity to the subordinates to shoulder more responsibilities with courage and efficiency. It brings flexibility in the working of an organisation. It makes the administration of an organisation efficient by raising the morale of its employees. As complete delegation is neither essential nor practicable nor in the interest of the chief executive and the organisation, it is subject to some limits. Powers pertaining Lo finance, appraisal, formulation of policy and planning, power of appeal against unjust decisions, etc. cannot be delegated.Delegation should be planned and systematic. As complete delegation is not possible, only that much authority should be delegated as it is within the competence of subordinates to exercise with caution.

8.6 Keywords

Delegation of Authority – It refers to the process of entrusting responsibility and authority and creating accountability of the person to whom the work or responsibility has been handed over.

Responsibility – Responsibility refers to assignment of job to a subordinate.

Authority – Authority refers to the power to take decision.

Accountability – Accountability refers to the answerability of the subordinate to his superior for his work performance.

8.7 Self-Assessment Test

Q1. Explain the meaning and process of delegation of authority.

Q2. What do you mean by delegation of authority? Explain three elements of delegation of authority.

Q3. “Authority can be delegated but accountability cannot”. Explain this statement.

Q4. Discuss the advantages and disadvantages of delegation.

Q5. Explain the barriers which creates hindrance for effective delegation in the organization.

8.8 Answers to Check Your Progress

1. Authority
2. Assigning Authority
3. Accountability
4. Responsibility
5. Responsibility for

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Lesson No:**9**	Vetter: Prof. Anil Kumar
DECENTRALIZATION AND CENTRALIZATION	

Structure

9.0 Learning Objectives

After through the chapter, you should be able to:

- Know the concept and meaning of decentralization and centralization.
- Understand the scope of decentralization and centralization.

- Understand the limitations of decentralization and centralization.

9.1 Introduction

In dynamic business scenario one of the fundamental problems of organization is to decide how much authority should be centralized in the hands of the Chief Executive and how much should be distributed among the lower level management, i.e., what should be the right degree of centralization or decentralization. Complete centralization is possible only in a one-man enterprise. But the moment its scope is enlarged, decentralization becomes inevitable. The term centralization means concentration of authority at the top of the administrative system. On the other hand, decentralization means dispersal of authority among the lower levels of the administrative system. Decentralization is the result of delegation of authority. It is devolution of decision making authority downward.

9.2 Meaning of Decentralization and Centralization

Centralization means concentration of power of decision-making. Concentration is the systematic and consistent reservation of authority in the central hands in the organization. Decentralization on the other hand, means delegation of business decisions by the owners to their subordinates, and then the others further down in the management hierarchy.

Definition of Decentralization and Centralization

According to Allen, "Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points".

According to Koontz and Weihrich," Decentralization is the tendency to disperse decision-making authority in an organized structure".

According to Allen, "Centralization" is the systematic and consistent reservation of authority at central points in the organization".

According to Ricky Griffin," Centralization is the process of systematically retaining power and authority in the hands of higher level managers".

9.2.1 Advantages and disadvantages of Decentralization and Centralization

Advantages of Centralisation

1. Specialization management - The higher the specialization of jobs, the greater the need for centralization. Tall hierarchical organizations with functional departments are best managed through centralization.

2. Complexity management - Specialization of jobs creates complexity. Narrow spans of management also create complexity. Centralization provides advantage to manage complexity. Uniform policies and practices are fostered. Specialists can be used.

3. Significant decision making -Non-programmed significant decisions require centralized decision making by top management. Decentralization is not suitable for making such decisions. Moreover, management philosophy may also favor centralization in such decision.

4. Environmental stability - Centralization is the most suitable model for making decisions in stable environment.

5. Improved capacity at lower levels - Subordinates may lack capacity or be unwilling and inexperienced to exercise decentralized authority. Such situations give advantage to centralization.

6. Crisis management - When organizations face crisis or risk of failure, centralized decision making by top management has advantage.

7. Cost effective - High cost of decentralization makes centralization advantageous. Duplication of efforts is minimized.

Disadvantages of Centralization

1. Poor environmental adaptation - Organizational environment tends to be dynamic, complex and uncertain. Centralization cannot quickly adapt to the changing environment.

2. Poor diversification management - Modern organizations tend to be highly diversified. They are also geographically dispersed. Centralization is not suitable to manage diversified and dispersed organizations.

3. Unsuitable for programmed decisions - Programmed decisions are routine-type decisions. They are relatively minor decisions. Such decisions are not suitable for centralization. They burden top managers.

4. Poor management development - Centralization blocks the management development of subordinates. Their skills and talents remain unutilized because of lack of participation and involvement in decision making.

5. Delayed decisions - Centralization creates multiple layers for decision making purposes. The files move through the hierarchy from subordinates to bosses. This delays decision making.

6. Employee Dissatisfaction **-** Most of the people under centralisation system perform routine activities. They cannot perform meaningful and challenging work. Hence, majority of the employees are dissatisfied with their job irrespective of salary levels.

7. Under Utilisation of Organisational Human Resources **-** People in the organisation are not delegated with authority and responsibilities under centralisation. Hence, they do not perform most of the important functions in the company and do not use their potentialities fully.

Advantages of Decentralisation

1. Quicker and better decisions- It disperses decision making authority close to unit managers who execute decisions. It reduces problems of communication and red tape. This leads to quicker and better decision making.

2. Diversification - Decentralization facilitates diversification of products, activities and markets. Profit centres can be established with independence in decision making.

3. Competitive organizational climate - Decentralization promotes competitive climate for improving performance among divisions and profit centres.

4. Management development - Decentralization encourages managers to exercise freedom and independence in decision making. They learn to make decisions and exercise judgment. This develops managerial competency.

5. Environmental adaptation - Decentralization helps organizations to adapt to fast-changing environment

6. Advancement of the Managerial Personnel - As the business develops in size, it requires the administrations of countless and here decentralization gives a preparation ground to the future supervisors. The supervisors learn by understanding inside the association concerned.

7. Successful Control and Supervision - Decentralization prompts compelling control and supervision. Since concerned chiefs appreciate full expert to make changes in work task, to take disciplinary activities, to change generation plans or to prescribe advancements, they are in a situation to oversee the subordinates' exercises.

8.Enhancement of Management - Decentralization helps enhancement of administrative capacity which prompts an expansion in their spirit and this outcomes in a higher efficiency.

Disadvantages of Decentralisation

1. **Problems of Coordination** - Decentralization makes the usage of the administrations of particularly gifted individuals. As a result of frail money related assets, arrangement of such people may not be conceivable.

2. External Factors - Decentralization expands the issues of coordination among the different units.

3. Increase the administrative price - Now and again, decentralization may not be conceivable by any stretch of the imagination. Outer factors make this troublesome, for example, expansive strikes.

4. **High Cost of operation** - It builds the authoritative costs in light of the fact that generously compensated administrators must be selected.

9.2.2 Difference between Decentralization and Centralization

Basis for Comparison	Centralization	Decentralization
Meaning	The retention of powers and authority with respect to planning and decisions, with the top management, is known as Centralization.	The dissemination of authority, responsibility and accountability to the various management levels, is known as Decentralization.
Involves	Systematic and consistent reservation of authority.	Systematic dispersal of authority.

Communication Flow	Vertical	Open and Free
Decision Making	Slow	Comparatively faster
Advantage	Proper coordination and Leadership	Sharing of burden and responsibility
Power of decision making	Lies with the top management.	Multiple persons have the power of decision making.
Implemented when	Inadequate control over the organization	Considerable control over the organization
Best suited for	Small sized organization	Large sized organization

9.3 Factors Influencing Decentralization

1. Size and Complexity of the Organization - The larger the size of the organization, more urgent is the need for decentralization. For taking quick decisions and for reducing cost authority should be delegated whenever feasible. But in a relatively small and simple organisation, top management can make most of the decisions and creation of autonomous units may be a very costly scheme. Thus, the size of the organisation determines the extent of decentralisation.

2. History of the Organization - Organizations grown internally will have a tendency to retain their original structure and to keep authority centralized. On the other hand, organizations which have diversified through amalgamation or absorption show a definite tendency to retain decentralized authority.

3. Availability of Competent Managers - If competent managers are available, the scope for decentralization is more. The degree of decentralization in an organization is influenced by the availability of competent managers. The top executive willing to delegate authority find themselves handicapped for want of capable & qualified subordinates. The key to safe decentralization is adequate training to subordinate & make them able to shoulder higher responsibility.

4. Top Management Outlook - When top management believes in individual, freedom and initiative, the scope for decentralization is more. If top management is conservative and wants to maintain strict control, it is likely to concentrate authority.

5. Control Techniques - If better control techniques are used, the scope for decentralization is more. Absence of control techniques reduces the chances for decentralization.

6. Planning Pattern - When standing plans are properly laid down, the chance for decentralization is high.

7. Rate of Change in the Organization - If the organization is fast developing and is facing the problem of expansion and diversification, then there is more scope for decentralization.

8. **Environment Influences -** Besides the factors mentioned above, there are environmental factors also that affect the degree of decentralization. External uncontrollable factors even influence the decision of management to delegate authority to the lower level in the organisation.

It must also be understood that both absolute centralization and absolute decentralization are undesirable, for, the former refers an autocratic structure while the latter results in a chaotic situation. For this reason, decentralization must be viewed as a relative concept, not as an absolute one.

9.4 Check Your Progress

Fill in the blanks:

1. ………… increase the importance of subordinates.
2. Decentralization is the extended form of ………… .
3. …………. means concentration of power of decision-making.
4. …………. encourages managers to exercise freedom and independence in decision making.
5. The higher the specialization of jobs, the greater the need for ……….. .

9.5 Summary

Centralization and decentralization are the opposite ends of an organization continuum. Basically, centralization procedures, uniformity of policy and action utilize the skills of centralized and specialized staff and enable closer control over operating units. Decentralization, on the other hand, tends to effect faster decision-making and action on the spot without consulting the higher level; and creates a tendency towards greater interest and enthusiasm on the part of subordinates.

9.6 Keywords

Centralization – It refers to concentration of almost all authorities at the level of top management.

Decentralization – It refers to increase the importance of the subordinates by decentralising authority and responsibility in the entire organization down to the lowest level.

9.7 Self-Assessment Test

Q1. What is decentralization? What are those factors which determine the degree of decentralisation? Explain.

Q2. What do you mean by centralisation? Discuss its advantages and disadvantages.

Q3. Explain the difference between centralization and decentralization.

Q4. Discuss the advantages and disadvantages of decentralisation in an organization.

9.8 Answers to Check Your Progress

1. Decentralization
2. Delegation
3. Centralization
4. Decentralization
5. Centralization

9.9 References/Suggested Readings

1. Bhattacharya Kumar Deepak, Principles of Management, Pearson, New Delhi.
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Subject:**Principles of Business Management**	
Course Code: DBA-101	Author:**Deepika**
Lesson No:**10**	Vetter: Prof. Anil Kumar
STAFFING	

Structure

10.0 Learning Objectives

After reading this lesson, you should be able to:

- Understand the meaning of staffing.

- Describe process of staffing.
- Know the scope of staffing.

10.1 Introduction

The requirement of a business is met by a simple yet intricate function known as Staffing. It involves the process of filling up the various positions in the organizational structure with the right kind of people who are skilled and competent to discharge the duties the position carries and implies. Staffing is a very important function of management. No organization can be successful unless it can fill and keep filled various position with right type of employees. Managers would be more competent and effective if they are carefully selected and trained. Staffing provides manpower, which is the key input of an organization.

It is a multi-step process that commences with determining the number and type of people you want in the workforce (workforce planning), recruiting, selecting, training and developing, promoting, compensating, and appraising the performance of the workforce.

10.2 Meaning of Staffing

Staffing is the process of hiring eligible candidates in the organization or company for specific positions. In management, the meaning of staffing is an operation of recruiting the employees by evaluating their skills, knowledge and then offering them specific job roles accordingly.Staffing means appointing competent persons according to the importance of the post in the organization. It means that more capable persons are appointed on more important posts, and comparatively less competent persons can be appointed on less important posts. In other words, all the functions undertake to establish coordination between the post and the individual come under staffing.

Definition of staffing

Staffing can be defined as one of the most important functions of management. It involves the process of filling the vacant position of the right personnel at the right job, at right time. Hence, everything will occur in the right manner.

According to Theo Haimann, “The staffing function pertains to the recruitment, selection, development, training and compensation of subordinate managers”.

It is a truth that human resource is one of the greatest for every organization because in any organization all other resources like- money, material, machine etc. can be utilized effectively and efficiently by the positive efforts of human resource.

Therefore it is very important that each and every person should get right position in the organization so as to get the right job, according to their ability, talent, aptitude, and specializations so that it will help the organization to achieve the pre-set goals in the proper way by the 100% contribution of manpower. Thus it can be said that it is staffing is an essential function of every business organization.

10.2.1 Features of Staffing

1. People-Centered - Staffing can broadly view as people-centered function and therefore it is relevant for all types of organization. It is concerned with categories of personnel from top to bottom of the organization.

(i) Blue collar workers (i.e., those working on the machines and engaged in loading, unloading etc.) and white collar workers (i.e., clerical employees).

(ii) Managerial and Non Managerial personal.

(iii) Professionals (eg.- Chartered Accountant, Company Secretary)

2. Staffing is a Goal-oriented Effort: Staffing refers to a goal-oriented effort of organization, because it is matter of fact that in organization an individual cannot able to carry out all activities alone on his shoulders, for achieving the pre-set goals of organization. Thus, organization needs a group of people having with collections of ability by means of staffing process to achieve pre-set goals in well manner. Hence, it is clear that staffing is a goal-oriented effort of organization.

3. Responsibility of Manager - Staffing is the basic function of management which involves that the manager is continuously engaged in performing the staffing function. They are actively associated with the recruitment, selection, training, and appraisal of his subordinates. Therefore the activities are performed by the chief executive, departmental managers and foremen in relation to their subordinates.

4. Human Skills - Staffing function is mainly concerned with different types of training and development of human resource and therefore the managers should use human relation skill in providing guidance and training to the subordinates. If the staffing function is performed properly, then the human relations in the organization will be cordial and mutually performed in an organized manner.

5. Continuous Function - Staffing function is to be performed continuously which is equally important for a new and well-established organization. Since in a newly established organization, there has to be recruitment, selection, and training of personnel. As we compare that, the organization which is already a running organization, then at that place every manager is engaged in various staffing activities.

6. It is Needed at all Managerial Levels: Staffing is such activity which is needed at all managerial levels of an organization either they may be top levels, middle levels or bottom levels. Because at every levels of organization efficient personnel are needed to do various task in a well-mannered. Hence, staffing is needed at all managerial levels.

7. Staffing fulfills the Present and Future Needs: Staffing fulfills not only the present as well as future needs of personnel. In fact, it gives a clear picture to organization that in coming year how much positions will be vacant and new positions will be established. So that organization can fulfill those vacant and new positions by appointing the deserved candidates.

8. Pervasive function – Staffing is required in every organization. It is a major sub-system in the total management system that can be applied to both profit making and non-profit making organizations. It is required at all levels of organization for all types of employees.

9. Science as well as art – Staffing is a science of human engineering. It is an organized body of knowledge consisting of principles and techniques. It is also an art as it involves skills to deal with people. It is one of the creative arts as it handles employees and solves their problems systematically. It is a philosophy of management as it believes in the dignity and worth of human beings.

10. Individuals as well as group-oriented – Staffing is concerned with employees both as individuals and as group in attaining goals. It establishes proper organizational structure to satisfy individual needs and group efforts. It integrates individual and group goals in such a manner that the employees feel a sense of involvement towards the organization.

11. Development-oriented – It is concerned with developing potentialities of personnel in the organization. It develops their personality, interests, and skills. It enables employees to get maximum satisfaction from their work. It assists employees to realize their full potential. It provides opportunities to employees for their advancement through training, job education, etc.

12. Interdisciplinary nature – Staffing has its roots in social sciences. It uses concepts drawn from various disciplines such as psychology, sociology, anthropology, and management. It has also borrowed principles from behavioural sciences. It is a science of human engineering.

13. Integral part of general management – Staffing is an integral part of the general management. It is very much a part of every line manager's responsibility. Every member of the management group (from top to bottom) must be an effective personnel administrator. It renders service to other functional areas of management.

10.2.2 Importance of Staffing

1. **Identifies Competent Personnel** - Staffing identifies the requirement of workforce to fill in the positions in the organisational structure and selects right people for the right job. It ensures that people with adequate competencies are employed.

2. **Improved Performance** - By deploying right people on the right job helps business enterprises to use physical resources in the most optimum manner leading to higher productivity, better efficiency and improved performance.

3. ***Continuous Survival and Growth*** - *Proper training and employee development programmes updates managers with the changes in business environment. The succession planning for managers ensures the continuous survival and growth of the enterprise.*

4. ***Optimum Utilisation of the Human Resources*** - *Staffing identifies the workforce requirements and plans appointment of people accordingly. This ensures that there are adequate personnel available to avoid under-utilisation or disruption of work due to under-staffing.*

5. ***Provides Job Satisfaction and Builds Morale*** - *Staffing provides opportunities for growth through internal promotions, appreciates and rewards the contribution through continuous appraisals. This keeps the workforce satisfied and in high morale.*

6. Effective Use of Technology and Other Resources - It is the human factor that is instrumental in the effective utilisation of latest technology, capital, material, etc. the management can ensure right kinds of personnel by performing the staffing function.

7. Motivation of Human Resources - The behaviour of individuals is shaped by many factors such as education level, needs, socio-cultural factors, etc. that is why, the human aspect of organisation has become very important. The workers can be motivated through financial and non-financial incentives.

10.2.3 Process of Staffing

1. Estimating Manpower Requirements - Before starting the work, the manpower requirement of the organisation is assessed. Here, two aspects need to be taken into account while determining the requirement of manpower i.e. Type of Employees & Number of Employees. Also the job requirement, desired qualification, relationship between different jobs etc. is clearly drawn out. Manpower planning involves two techniques in estimation viz. (a) Workload analysis and (b) Workforce analysis.

(a) Workload analysis would enable an assessment of the number of an types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives. Workload analysis ensures that there is no burden and wastage of resources and work is completed on time.

(b) Workforce analysis would reveal the number and type available to fact such an exercise would reveal whether organisation is understaffed, overstaffed or optimally staffed. Workforce analysis is for the existing employees. It sees manpower employed and number of manpower to be employed.

2. Recruitment - Recruitment is the process of searching and motivating a large number of prospective employees for a particular job in an organisation. It includes the following activities:

(i) Determining the various sources of supply.

(ii) Evaluation of the validity of these sources.

(iii) Selecting the most suitable source or sources.

(iv) Inviting applications from the candidates for the vacancies.

3. Selection - Under the process of selection, better applicants are selected out of a large number of them. It must be kept in mind that the ability of the applicant & the nature of work must match. It means that right man should be selected for the right job. This will lead to better performance on all fronts i.e. quality, quantity, time, cost etc. It includes the following steps:

1. Preliminary Screening
2. Selection Test
3. Employment interview
4. Reference & Background checks
5. Selection Decision
6. Medical Examination
7. Job Offer
8. Contract of Employment

4. Placement and orientation - Placement involves putting the selected man at the right place considering his aptitude and ability. It is the actual posting of an employee to a particular job for which he/she has been chosen. Orientation is also known as induction. It means introducing the newly selected employee i.e. to various facets of the company his job, other jobs, nature of products, policies, rules and existing employees etc. It aims at inducting new employees into the organisation smoothly

5. Training and Development - The term training implies a systematic procedure of imparting knowledge and skills for a specific job. It benefits both the enterprise & the employee. Training increases the skills and abilities of employees to perform specific jobs. Training can be given for improving the current job or to prepare the employees for some intended jobs. The enterprise also gets the advantage of training in the form of reduction in the production cost, best usage of tools & machine and improvement in the quality etc.

6. Performance Appraisal - At this step, the capability of the employee is judged and for that, his actual work performance is compared with the work assigned to him. If the results are unfavourable, he is again given training and after that also if results are again unfavourable, the employee is put on some other work.

7. Promotion - It is a process through which employees get better salary, status, position, more responsibility etc. In this step, employees earn their promotion to higher posts on the basis of their performance.

8. Compensation - The organization should have fair salary or wage structure and should give incentives to those who deserve it. This means that jobs must be evaluated and ranked in a manner that contributes to that contribution.

9. Separation - It is the last step in the process of staffing. It means separating the employees from their job. This take place in four ways i.e. through retirement, termination, retrenchment or death**.**

10. Transfer - Transfer implies movement of an employee from one job to another without any increase in pay, status or responsibilities. Usually transfer takes place between jobs paying approximately the same salaries.

10.2.4 Elements of Staffing

1. Recruitment – Recruitment means inducing or attracting more and more candidates to apply for vacant job positions in the organisation. In general words recruitment means search for candidates who can perform the vacant roles and inducing them to apply and come forward for filling the vacant roles. The recruitment function is very important because the end result of recruitment function is receiving large number of applications to make selection from. There are two important sources of recruitment:

i. Internal Source of Recruitment Under Internal source of recruitment the vacant job positions are filled by inducing the existing employees of the organisation and

ii. External Source of Recruitment - When the candidates from outside the organisation are invited to fill the vacant job position then it is known as external recruitment.

In this process, effort is made to receive maximum number of application forms. That is why it is known as a positive process.

2. Selection – Selection means to select pre-determined number of able applicant from the pool of applicants with the help of various tests. Selection process as end result of recruitment function organisations receives large number of applications and selection process begins at this stage by screening the applications. In selection the number of rejected applicants is generally more than the selected candidate that is why selection is considered as a negative process.

3. Training - Training means equipping the employees with the required skill to perform the job. It is a process through which effort is made to increase efficiency in the employees for a particular job, so that their knowledge and skill both are increased. The candidates are sent for training so that they can perform the job in the expected manner. Development refers to overall growth of the employee. It focuses on personal growth and successful employees' development. Development is much wider in concept as compared to training as training is only one part of development.

10.2.5 Scope of Staffing

Staffing as a part of Human Resource Management

The staffing function deals with the human element of management. Managing the human component of an organization is the most important task because the performance of an organization depends upon how well this function is performed. The success of an organization in achieving its goals is determined to a great extent on the competence, motivation, and performance of its human resources. The staffing function does not end only with the appointment of employees. It includes training, promotion, compensation, etc. All these activities help in motivating the employees and boost up the morale of the employees. Staffing is concerned with filling various positions or jobs in the organization with the appropriate human resources. It is the administration function dedicated to acquiring, training, appraising, and compensating employees. The staffing function of management involves the supervision of the organization formed with the correct number and the exact type of managers. If the right types of persons are not obtainable, the organization would not be capable to complete its objectives. Following features shows Staffing as a part of Human Resource Management –

1. Staffing is people-centered: It is concerned with all categories of workers from top to the bottom of the organization.

2. Staffing requires the use of human skills – Staffing is concerned with the training and development of human resources. Every manager uses human relation skills in providing direction and guidance to the subordinates. Performance appraisal, reassign, and promotion of subordinates are also necessary.

3. Staffing is a continuous function – It is significant for both new and existing organizations. In a recognized organization, every manager is occupied in different staffing activities. A new organization, there has recruitment, selection, and training of personnel.

Staffing is a vital division of human resource management. Every enterprise requires managerial and non-managerial employees. It is a natural element of the job of every manager to procure, expand, and inspire workers who can work professionally for the goals of the organization. Staffing is apprehensive with procurement, development, compensation, maintenance, and assimilation of managers or executives. Human Resource Management deals with the effectual procurement and deployment of manpower or resources.

Staffing as line as well as staff activity - staffing is line activity because being a management function, it is performed by all managers 2. it is staff activity because of advisory role played by HRD.

10.3 Check Your Progress

Fill in the blanks:

1. Recruitment, selection and ……….. is the element of staffing.

2. Staffing is the ……….. stage of management process.

3. Introducing employees to the organization is called …………….. .

4. Staffing mainly considered as a …………. function of management.

5. ……….. is helpful in finding out a competent employee.

10.4Summary

Staffing is a continuous function of management because human resources continue to be a significant factor in organizational success and therefore the organisation always needs to acquire and retain in proper form its personnel. Moreover, employee welfare and development, expansion and diversification, promotion and transfers, demotions and separations, retirement and death, modernization and change etc are common events continually taking place in an organisation, rendering staffing a never ending process. Managers have to keep a regular watch on the number and composition of people required by the organisation. The continuous nature of staffing is self-evident, as employees need regular care, balance and development to be effective for contribution towards achievement of expected results. Staffing process, therefore, provides the organisation with adequate, competent and qualified personnel at all levels in the enterprise. Since successful performance by individuals largely determines success of the structure, staffing function of manager deserves sufficient care and attention of the management.

10.5Keywords

1. **Staffing** – It refers to filling and keeping filled the posts with people.
2. **Recruitment** – It is the process of searching for prospective employees and stimulating them to apply for jobs in the organization.
3. **Selection** – It refers to the process of screening job applicants to ensure that the most appropriate candidates are hired.
4. **Training** – It refers to a process designed to maintain and improve current job performance.

10.6 Self-Assessment Test

Q1. What is staffing? Explain its elements.

Q2. Explain the steps in the process of Staffing.

Q3. Discuss the characteristics of staffing.

Q4. Examine the importance of staffing.

10.7 Answers to Check Your Progress

1. Training
2. Third

3. Orientation
4. People oriented
5. Staffing

10.8 References/Suggested Reading

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Subject:**Principles of Business Management**	
Course Code: DBA-101	Author:**Deepika**
Lesson No:**11**	Vetter: Prof. Anil Kumar
DIRECTING AND DECISION-MAKING	

Structure

11.0 Learning Objectives

After reading this lesson, you should be able to:

- Understand the meaning of directing and decision making.

- Describe the principle of directing and decision making.
- Know the process of decision making.

11.1 Introduction

Directing is one of the most important functions of management. Without the direction provided to the employees, the workforce would be clueless about which path to follow. Planning, organizing, staffing have got no importance if direction function does not take place. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. directing initiates action in the organisation according to certain predefined standards, rules and regulations. It is concerned with the mobilization of the human efforts and human resources to achieve certain goals in a definite time period. Directing is the managerial function, which initiates organized action.

A decision is the conclusion of a process by which one chooses between two or more available alternative courses of action for the purpose of attaining a goals.Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.

11.2 Meaning of Directing

Directing means giving instructions and guiding people in doing work. directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives.Directing is a managerial process which takes place throughout the life of an organisation.

A *decision* is an act of selection or choice of one action from several alternatives. *Decision-making* can be defined as the process of selecting a right and effective course of action from two or more alternatives for the purpose of achieving a desired result. *Decision-making* is the essence of *management*.

Decision-making is the selection of one course of action from two or more alternative courses of action. It is a choice-making activity and the choice determines our action or inaction.

Definition of Directing

Koontz and O'Donnell, refers "Direction is the executive function of guiding and observing subordinates".

Earnest Daledefines, "Direction is telling people what to do and seeing that they do it to the best of their ability. It includes making assignment, explaining procedures, seeing that mistakes are corrected, providing on the job instructions and of course, issuing orders".

According to George R. Terry - Decision-making is the selection based on some criteria from two or more possible alternatives.

Philip Kotler defines - A decision-making is a conscious choice among alternative courses of action.

According to Trewatha & Newport- Decision making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem.

D. E. Mcfarland defines – A decision is an act of choice wherein an executive forma a conclusion about what must be done in a given situation. A decision represents behavior chosen from a number of alternatives.

Directing can be defined as that function of management, which helps in guiding and leading people to work in such a manner so as to perform efficiently and effectively for the attainment of organizational objectives.

Decision making process is continuous and indispensable component of managing any organization or business activities. Decisions are made to sustain the activities of all business activities and organizational functioning.

11.2.1 Features of Directing

(1) **Directing initiates action -** Directing is a key managerial function. A manager has to perform this function along with planning, organising, staffing and controlling while discharging his duties in the organisation. While other functions prepare a setting for action, directing initiates action in the organisation.

(2) **Directing takes place at every level of management -** Every manager, from top executive to supervisor performs the function of directing. The directing takes place wherever superior subordinate relations exist.

(3) **Creative Activity -** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.

(4) **Executive Function -** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.

(5) **Directing is a continuous process** – Directing is a continuous activity. It takes place throughout the life of the organisation irrespective of people occupying managerial positions. We can observe that in organisations like Infosys, Tata, BHEL, HLL and the managers may change but the directing process continues because without direction the organisational activities cannot continue further.

(6) **Directing flows from top to bottom -** Directing is first initiated at top level and flows to the bottom through organisational hierarchy. It means that every manager can direct his immediate subordinate and take instructions from his immediate boss.

Features of Decision Making

1. Decision Making is Goal Oriented Process - Decision making focuses on the organizational objectives. In course of functioning many problems may arise in the organization. The management has to solve all the problems in proper time and also in a systematic manner by considering organizational goals. Thus, right decision at the right time contributes to achieve predetermined objectives within the defined time and standard.

2. Decision Making is a Continuous Process - Decision making is a continuous process till the existence of the organization. In the course of regular performance, many problems may arise in different time and situation. Managers have to solve those problems in proper time so that the organizational performance is smooth.

3. Decision Making is a Selective Process - Decision making is the process of selecting a course of action from among many alternatives to solve problems. Managers have to consider the various factors before selecting a course of action. These factors involve nature of organization, existing working environment, objectives of the organization, time factors and so on.

4. Decision Making is Human and Rational Process - Decision making is mental or human process and is needed in all types of organizations. A manager has to make mental exercise to study the impact of course of action before taking a decision. He/she has to invest personal skills, experience, knowledge and capability to study the course of action from various angles. Hence, decision making is common in all types of organizations. Therefore, it is known as human and rational process.

5. Decision Making is a Dynamic Process - It is essential to consider time factor and existing environment, whenever any course of action is taken for implementation. Managers have to take decisions at the right time for its effectiveness. Besides, they have to consider future environments, which may affect future activities. Thus, decision making process is not static but dynamic process.

6. Positive Or Negative Impact - A course of action may either have positive or negative impact on organizational performance. Managers have to consider, as far as possible, the positive impact of the action before coming to a decision.

11.2.2 Importance of Directing

1. It Initiates Actions - Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.

2. It Ingrates Efforts - Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.

3. Means of Motivation - Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.

4. It Provides Stability - Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.

5. Coping up with the changes - It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptions and smooth running of an enterprise.

6. Efficient Utilization of Resources - Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn’t take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

Importance of Decision Making

1. **Implementation of managerial function**: Without decision-making different managerial function such as planning, organizing, directing, controlling, staffing can't be conducted. In other words, when an employee does, s/he does the work through decision-making function. Therefore, we can say that decision is important element to implement the managerial function.

2. **Pervasiveness of decision-making:** the decision is made in all managerial activities and in all functions of the organization. It must be taken by all staff. Without decision-making any kinds of function is not possible. So it is pervasive.

3. **Evaluation of managerial performance:** Decisions can evaluate managerial performance. When decision is correct it is understood that the manager is qualified, able and efficient. When the decision is wrong, it is understood that the manager is disqualified. So decision-making evaluate the managerial performance.

4. **Helpful in planning and policies:** Any policy or plan is established through decision making. Without decision making, no plans and policies are performed. In the process of making plans, appropriate decisions must be made from so many alternatives. Therefore, decision making is an important process which is helpful in planning.

5. **Selecting the best alternatives:** Decision making is the process of selecting the best alternatives. It is necessary in every organization because there are many alternatives. So decision makers evaluate various advantages and disadvantages of every alternative and select the best alternative.

6. **Successful operation of business:** Every individual, departments and organization make the decisions. In this competitive world; organization can exist when the correct and appropriate decisions are made. Therefore, correct decisions help in successful operation of business.

7. Facilitate Innovation - Rational decisions facilitate innovation. This is because it helps to develop new ideas, new products, new process, etc. This results in innovation. Innovation gives a competitive advantage to the organization.

8. Indispensable Component - Decision making is known as an inseparable part of management functions. It is one of the essential processes for successful operation of business. It determines all management functions and covers every part of the organizational structure. Every manager from top level to the first line is involved in the decision making process according to the nature of works.

9. Motivates Employees - Rational decision results in motivation for the employees. This is because the employees are motivated to implement rational decisions. When the rational decisions are implemented the organization makes high profits. Therefore, it can give financial and non-financial benefits to the employees.

10. Quick Decisions - Some decisions should be made quickly. Unfortunately, those are the ones that some business owners may agonize over for days or weeks. If a decision can be changed or undone without great cost, then it can be made quickly. The company can go broke while top management oscillates between using one office supply company over another.

11. Evaluation of Managerial Function - Decision making is a time consuming process and decision makers spend more time to select the alternative. The quality of decision serves as the yardstick for evaluating managerial performance. It provides a clear line of guidance to the management for the achievement of defined objectives. The achievement of managerial performance is evaluated and measured with planned performance.

11.2.3 Elements of Directing

(1) Supervision - It refers to monitor the progress of routine work of one's subordinates and guiding them properly. Supervision is an important element of the directing function of management. Supervision has an important feature that face-to-face contact between the supervisor and his subordinate is a must. All employees working in an organisation require supervision so that they are effective in their actions. Supervision means a manager overseeing 'what is being done' by his/her subordinates.

(2) Communication - It refers to an art of transferring facts, ideas, feeling, etc. from one person to another and making him understand them. A manager has to continuously tell his subordinates about what to do, how to do, and when to do various things. Only through good communication can company policies and practices be formulated and administered. The success of all managerial functions depends on successful communication. Communication is a two-way channel. Also, it is very essential to know their reactions. To do all this it becomes essential to develop effective telecommunication facilities. Communication by developing mutual understanding inculcates a sense of cooperation which builds an environment of coordination in the organisation.

(3) Leadership - It refers to influence others in a manner to do what the leader wants them to do. Leadership plays an important role in directing. Only through this quality, a manager can inculcate trust and zeal among his subordinates. Leadership involves the way a manager behaves in his man-to-man relationship with his subordinates. In leading, a manager strives to integrate the needs of people with the welfare of his company or department. leadership is an interpersonal influence; exercised in situation and directed, through communication process towards the attainment of a specific goal or goals.

(4) Motivation - It refers to that process which excites people to work for attainment of the desired objective. Among the various factors of production, it is only the human factor which is dynamic and provides mobility to other physical resources. If the human resource goes static then other resources automatically turn immobile. Thus, it becomes essential to motivate the human resource to keep them dynamic, aware and eager to perform their duty. Both the monetary and non-monetary incentives are given to the employees for motivation.

11.3.4 Process of Decision Making

Decision-making is concerned with the selection of one alternative course of action from two or more alternative courses of action.

1. **Identify the decision** - To make a decision, you must first identify the problem you need to solve or the question you need to answer. Clearly define your decision. If you misidentify the problem to solve, or if the problem you've chosen is too broad, you'll knock the decision train off the track before it even leaves the station.If you need to achieve a specific goal from your decision, make it measurable and timely so you know for certain that you met the goal at the end of the process.

2. **Gather relevant information** - Collect some pertinent information before you make your decision: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some information is internal: you'll seek it through a process of self-assessment. Other information is external: you'll and it online, in books, from other people, and from other sources.

3. **Identify the alternatives -** As you collect information, you will probably identify several possible paths of action, or alternatives. You can also use your imagination and additional information to construct new alternatives. In this step, you will list all possible and desirable alternatives.

4. **Choose among alternatives-** Once you have weighed all the evidence, you are ready to select the alternative that seems to be the best one for you. You may even choose a combination of alternatives.

5. **Implementation of Decision -** Under this a manager has to put the selected decision into action. For proper and effective execution of the decision, three things are very important i.e., Proper and effective communication of decisions to the subordinates. Decisions should be communicated in clear, concise and understandable manner, (b) Acceptance of decision by the subordinates is important. Group participation and involvement of the employees will facilitate the smooth execution of decisions and (c) Correct timing in the execution of decision minimizes the resistance to change. Almost every decision introduces a change and people are hesitant to accept a change. Implementation of the decision at the proper time plays an important role in the execution of the decision.

6. Follow up - A follow up system ensures the achievement of the objectives. It is exercised through control. Simply stated it is concerned with the process of checking the proper implementation of decision. Follow up is indispensable so as to modify and improve upon the decisions at the earliest opportunity.

7. **Review your decision and its consequences** - In this final step, consider the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the decision has not met the identified need, you may want to repeat certain steps of the process to make a new decision. For example, you might want to gather more detailed or somewhat different information or explore additional alternatives.

When it comes to making decisions, one should always weigh the positive and negative business consequences and should favour the positive outcomes.

This avoids the possible losses to the organization and keeps the company running with a sustained growth. Sometimes, avoiding decision making seems easier; especially, when you get into a lot of confrontation after making the tough decision.

But, making the decisions and accepting its consequences is the only way to stay in control of your corporate life and time.

11.3 Principle of Directing and Decision Making

Principle of Directing

(i) **Maximum individual contribution** - This principle emphasises that directing techniques must help every individual in the organisation to contribute to his maximum potential for achievement of organisational objectives. It should bring out untappted energies of employees for the efficiency of organisation. For example, a good motivation plan with suitable monetary and non-monetary rewards can motivate an employee to contribute his maximum efforts for the organisation as he or she may feel that their efforts will bring them suitable rewards.

(ii) **Harmony of objectives** - Very often, we find that individual objectives of employees and the organisational objectives as understood are conflicting to each other. For example, an employee may expect attractive salary and monetary benefits to fulfill his personal needs. The organisation may expect employees to improve productivity to achieve expected profits. But, good directing should provide harmony by convincing that employee rewards and work efficiency are complimentary to each other.

(iii) **Unity of Command** - This principle insists that a person in the organisation should receive instructions from one superior only. If instructions are received from more than one, it creates confusion, conflict and disorder in the organisation. Adherence to this principle ensures effective direction.

(iv) **Appropriateness of direction technique** - According to this principle, appropriate motivational and leadership technique should be used while directing the people based on subordinate needs, capabilities, attitudes and other situational variables. For example, for some people money can act as powerful motivator while for others promotion may act as effective motivator.

(v) **Managerial communication** - Effective managerial communication across all the levels in the organisation makes direction effective. Directing should convey clear instructions to create total understanding to subordinates. Through proper feedback, the managers should ensure that subordinate understands his instructions clearly.

(vi) **Use of informal organisation** - A manager should realise that informal groups or organisations exist within every formal organisation. He should spot and make use of such organisations for effective directing.

(vii) **Leadership** - While directing the subordinates, managers should exercise good leadership as it can influence the subordinates positively without causing dissatisfaction among them.

(viii)**Follow through** - Mere giving of an order is not sufficient. Managers should follow it up by reviewing continuously whether orders are being implemented accordingly or any problems are being encountered. If necessary, suitable modifications should be made in the directions.

Principle of Decision-Making

1. **Principle of Definition** - For the correct decision to be made, the manager must be aware of the exact problem. So the first principle is to exactly pinpoint the exact problem that seems to be the issue. Once the real problem has been correctly identified and defined, the manager can work towards solving it. Too often time and energy are wasted on solving the wrong problem.

2. **Principle of Evidence** - Decisions should depend on some judgement which is backed by evidence. Hastily taken decisions that are not backed by proper evidence often turn out to be inaccurate. Every decision the manager takes must be well thought out and backed by evidence.

3. **Principle of Identity** - Every person has a different outlook and viewpoint about the same thing. So the same fact appears different to different people due to their varied thinking. While taking a decision it is important to accommodate the viewpoints of all the people involved. Every person should be heard and their opinions weighed carefully before arriving at a decision.

4. Proper Communication System - Effective decision-making demands a machinery for proper communication of information to all responsibility centres in the organisation. Unless this structure is built up, ignorance of decision or ill-informed decision will result in misunderstanding and loose co-ordination.

5. Sufficient Time - Effective decision-making requires sufficient time. It is a matter of common experience that it is usually helpful to think over various ideas and possibilities of a problem for the purpose of identifying and evaluating it properly. But in no case a decision can be delayed for an indefinite period, rather it should be completed well in advance of the scheduled dates.

6. Analysis of the Objectives and Policies - Proper analysis of objectives and policies is needed for decision making. The clear definition of objectives and policies is the basis that guides the direction of decision making. Without this basis, decision making will be aimless and unproductive.

7. **Analytical study of the alternatives** – for decision making, analytical study of all possible alternatives of a problem with their merits and demerits is essential. This is necessary to make out a correct selection of decision from among the alternatives.

8.**Study of the Impact of a Decision-** Decision is intended to be carried out for the realisation of the objectives of an organization. A decision in any particular area may react adversely in other areas of the organization. As all business activities are inter related and require coordination, it is necessary that a study and analysis of the impact of any decision should precede its application.

11.4 Check Your Progress

Fill in the blanks:

1. Directing flows from ……… to ……. way.

2. Directing is related to ………. factor of production.

3. …………. refers to instructing, guiding, communicating and inspiring people so that the objectives can be achieved.

4. In directing, ……… elements are included.

5. …………is concerned with the selection of one alternative course of action from two or more alternative courses of action.

6. ………… as well as ………… impact of decision-making in an organizational performance.

11.5 Summary

Directionis the heart of management process. Direction helps the subordinates to perform in best of their abilities and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner. According to Earnest Dale, "Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards". Therefore, it is rightly said that direction is essence of management process. In the conclusion, the direction involves such methods which include communicating and providing leadership to the subordinates and motivating them to contribute to the best of their capability for the achievement of organizational objectives.

Decision-making is an integral part of modern management.Decisions play important roles as they determine both organizational and managerial activities. A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals.A decision needs some sort of prediction for the future on the basis of past and present available information. The effect of a decision is to be felt in the future so it requires proper analysis of available material and a prediction for the future.

11.6 Keywords

Directing – It refers to instructing, guiding, communicating and inspiring people in the organization.

Supervision – It refers to monitor the progress of routine work of one's subordinates and guiding them properly.

Communication – It refers to an art of transferring facts, ideas, feeling, etc. from one person to another and making him understand them.

Leadership – It refers to influence others in such a manner to do work what the leader wants them to do.

Motivation – It refers to that process which excites people to work for attainment of desired objective.

11.7 Self-Assessment Test

Q1. Explain the meaning and features of directing.

Q2. Critically examine the importance of directing in the organization.

Q3. What is directing? Discuss its elements in detail.

Q4. What is decision-making? And also, enumerate the process of decision making.

Q5. Discuss the principles of directing for an effective and efficient running of an organization.

Q6. Write a detailed note on importance of decision-making.

Q7. Discuss the features and principles of decision-making.

11.8 Answers to Check Your Progress

1. Top to Bottom
2. Human
3. Directing
4. Four
5. Decision Making
6. Positive and Negative

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Subject: **Principles of Business Management**	
Course Code: DBA-101	Author: **Deepika**
Lesson No:**12**	Vetter: Prof. Anil Kumar
MOTIVATION: CONCEPT AND APPROACHES	

Structure

12.0 Learning Objectives

After reading this lesson, you should be able to:

- Understand the concept and objectives of motivation.
- Describe the various theories of Motivation
- Know about the significance of motivation.

12.1 Introduction

Motivation is the word derived from the word 'motive' which means needs, desires, wants or drives within the individuals. It is the process of stimulating people to actions to accomplish the goals.The chief function of a manager is to achieve the pre-determined objectives of the organization by organizing the activities of various persons working in the organization. By various persons we mean human factor in production on whose efficiency the utility of non-human factors like machine, material etc. depends. It is clear that human factor in production has an important place in the organization. Now the question is how to utilise the available ability of the human factor efficiently. The efficiency of a person depends on two factors – firstly, the level of ability to do a certain work and secondly, the willingness to do the work.So far as the first factor is concerned it can be acquired by education and training, but the second factor can be created by motivation.Motivation is a general and common word in the business world but it is quite difficult to explain it in a scientific way. "Rensis Likert has been called Motivation is the Heart of the Management".

12.2 Meaning of Motivation

Whenever a person does some work there is always a need behind it which motivates him in doing so. This impelling need is called motive. Under motivation, the will to do a work is aroused among the people by making them feel the motive behind their work. Motivation is derived from the word "motive" which means that latent power in a person which impels him to do a work. In brief, motivation is that process wherein the persons are made to recognise their needs, in the realisation of which, they do hard work for the interest of the enterprise.

Definition of Motivation

Koontz and O'Donnell defines Motivation – "To motivate is to induce people to act in a desired manner".

According to W.G. Scott, "Motivation means a process of stimulating people to action to accomplish desired goals.

In the conclusion that motivation is a process which stimulates people to work. Through this medium the objectives of the enterprise can easily be achieved by utilising their full capability. Consequently, the organization as well as the employees get maximum satisfaction.

12.2.1 Features of Motivation

Motivation is a captivating concept. It is a fascinating but complex phenomenon.

The main features of motivation are as follows:

1. Motivation is goal-oriented.

2. Motivation is an internal feeling.

3. It stimulates people to do work.

4. Motivation is a continuous process.

5. Motivation may be positive or negative.

6. Motivation may be monetary or non-monetary.

7. Motivation may be considered in totality, not in piecemeal.

8. Motivation is a psychological phenomenon that converts abilities into performance.

9. It helps in securing industrial peace.

10. It creates Morale.

11. It relates with all levels of organization.

12.2.2 Objectives of Motivation

1. **Puts Human Resources into Action:** each concern needs physical, monetary and human resources to accomplish the goals. It's through motivation that the human resources may be used by creating full use of it.

2.Improves Level of potency of Employees: the amount of a subordinate or a worker doesn't solely rely on his qualifications and talents. For obtaining better of his work performance, the gap between ability and temperament has got to be filed that helps in up the amount of performance of subordinates.

3.Leads to accomplishment of structure Goals: The goals of an enterprise may be achieved only if the subsequent factors take place-

(I)The employees are purposeful and that they act during a purposive manner.

(II) There is absolute best utilization of resources.

(III) Goals may be achieved if co-ordination and co-operation takes place at the same time which may be effectively done through motivation.

(IV) There are co-operative work surroundings.

4.Builds Friendly Relationship: Motivation is a crucial issue that brings workers satisfaction. this will be done by keeping into mind and framing an incentive set up for the advantage of the workers. this might initiate the subsequent things-

(I) Disincentives for inefficient workers

(II) Promotion opportunities for workers

(III) Monetary and non-monetary incentives

In order to make a cordial, the higher than steps ought to be taken by a manager. this is able to facilitate in-

(I) The employees are going to be adjustable to the amendments and they'll be no resistance to the change

(II) Effective co-operation that brings stability

(III) This can facilitate in providing a swish and sound concern within which individual interests will coincide with the structure interests

(IV) Industrial dispute and unrest in workers can cut back

(V) This will end in profit maximization through accumulated productivity.

5. Leads to Stability of labor Force: Stability of force is incredibly vital from the purpose of read of name and goodwill of a priority. The workers will stay loyal to the enterprise only if they need a sense of participation within the management. The abilities and potency of workers can forever be of advantage to workers moreover as workers.

12.2.3 Process of Motivation

The objective of motivation process is to know as to where from does it start and where does it end. This is a work that cannot be finished at one go. It is a combination of various steps. Robbins and Coulter have presented the following 'Need-Satisfying Process'.

1. Unsatisfied need. Motivation process begins when there is an unsatisfied need in a human being.

2. Tension. The presence of unsatisfied need gives him tension.

3. Drive. This tension creates an urge of drive in the human being an he starts looking for various alternatives to satisfy the drive.

4. Search Behavior. After searching for alternatives the human being starts behaving according to chosen option.

5. Satisfied need. After behaving in a particular manner for a long time then he evaluates that whether the need is satisfied or not.

6. **Reduction of tension**. After fulfilling the need the human being gets satisfied and his tension gets reduced.

For example, if an employee develops a need to earn more, this need will make him restless and he will start thinking how to satisfy his need. To satisfy his need he may think of working hard in organization and get promotion so he will start working hard. After sometime he will get incentives or increments or promotion which will satisfy his need.

But motivation process does not end by satisfaction of one need. After fulfilling one need another need develops and the same process continues till needs keep emerging in human beings. Therefore, needs continuously motive a person.

12.2.4 Significance of Motivation

1. Motivation helps to change from negative attitude to positive attitude - Without motivation the employees try to perform minimum activities in the organization. But the motivation fills in the desire to perform to their maximum level. All the resources of the organization are of no use unless and until the employees use these resources. The motivated employees make best use of the resources.

2. Motivation improves performance level of employees - The motivation improves the efficiency level of employees which means the employees start performing the job to the best of their ability with minimum wastage of time and resources because motivated employees always go for best utilization of resources. The motivation bridges the gap between the ability to work and willingness always improves efficiency.

3. Help in achieving the organizational goals - The motivated employees always try to achieve the organizational goal and contribute their best efforts for the realization of organizational goal as they know with the achievement of organizational goal only they can achieve their personal goal. All the employees contribute their efforts in one direction of accomplishment of goal.

4. Motivation creates supportive work environment - In motivation the relations between superior and subordinates are always improved. When the employees get their need satisfied or get the recognition and respect in the organization then they always offer a supportive hand to superiors. There is more co-operation and co-ordination in the organization and all the employees work with the team spirit.

5.Motivation helps the managers to introduce changes - The motivated employees show less resistance in accepting the changes according to changes in the business environment because they know if the changes are not implements in the organization, not only the organization will lose by this but the employees also will find it difficult to get their needs fulfilled. Motivated employees are always supportive and co-operative in accepting changes in the organization.

6. Reduction in Employee Turnover - The motivation creates confidence in the employees to get their need satisfied in the organization itself. They always select the alternative to remain in the organization and increase their earning rather than leaving the organization and increasing their earnings. With motivation employee turnovers are less because the satisfied employees never leave the job.

7. Helps in Increasing Productivity - Motivation as a process leads to an increase in productivity of the employee. Motivation meets the needs of the employees and thereby creates the drive to work at the best of his abilities. A well-employee will be willing to put in more effort towards the betterment of the organisation than another disheartened employee.

8. Ensures Organisational Efficiency – Motivation plays an important role in changing the attitudes of the employees in the organisation. Indifferent attitude is extinguished most efficiently by motivation. The presence of such favorable attitude allows the organisation to thrive and be successful.

9. Ensures Loyal Workforce - A well-motivated workforce is a loyal workforce. Motivated employees have high levels of morale and commitment towards the organization and its goals and objectives. Motivation thus reduces employee turnover and reduces the need for constant induction of new employees.

10. Ensures Healthy Corporate Image - Motivation also helps organisations in improving their image due to efficient performance, maintenance of self-discipline and productive internal environment. It creates a good impression and enhanced image among people outside the organisation.

12.2.5 Techniques of Motivation

1. Positive Motivators and Negative Motivators – Positive motivators refers process of attempting to influence others to do their work through the possibility of gain or reward. Negative motivators refers that motivation which is sought to be created by the managers by resorting to threat, punishment or fear and get the work done according to the superiors.

2. Financial Motivators and Non-financial Motivators – Financial motivators refers those incentives which are evaluated in terms of money. For e,g. Pay and allowances, profit sharing, bonus, co-partnership, retirement benefits. Non-financial motivators refers to the motivators which are not directly related with money. These incentives help in the satisfaction of top hierarchy needs like respect, self-actualisation etc. For e.g. status, organizational climate, career advancement opportunity, job enrichment, employee recognition programmes etc.

3. Individual and Group Motivators – In individual motivators, an employee is individually motivated to inspire him more towards his work. For e.g. appreciation letters, rise in salary. On the other hand, group motivation is related to a group rather than a particular individual. For e.g. giving a particular part of the profits of the enterprise to all the employees. Motivation can both be financial and non-financial.

4. Extrinsic and Intrinsic Motivator – Extrinsic motivators are those motivators which impress the employees while working but they get them only afterwards. For e.g. the retirement plans formulated by the employers for the welfare of the employees. Intrinsic motivator are those motivators in whose case the time of their receipt by the employees and the effect on their efficiency happens to be same. These motivations are generally non-monetary.

12.3 Theories or Approaches of Motivation

1. Maslow's Hierarchy of Needs Theory - Abraham Maslow is well renowned for proposing the Hierarchy of Needs Theory in 1943. This theory is a classical depiction of human motivation. This theory is based on the assumption that there is a hierarchy of five needs within each individual. The urgency of these needs varies. These five needs are as follows-

1. Physiological needs - These are the basic needs of air, water, food, clothing and shelter. In other words, physiological needs are the needs for basic amenities of life.

2. Safety needs - Safety needs include physical, environmental and emotional safety and protection. For instance- Job security, financial security, protection from animals, family security, health security, etc.

3. Social needs - Social needs include the need for love, affection, care, belongingness, and friendship.

4. Esteem needs - Esteem needs are of two types: internal esteem needs (self- respect, confidence, competence, achievement and freedom) and external esteem needs (recognition, power, status, attention and admiration).

5. Self-actualization need - This include the urge to become what you are capable of becoming what you have the potential to become. It includes the need for growth and self-contentment. It also includes desire for gaining more knowledge, social- service, creativity and being aesthetic. The self- actualization needs are never fully satiable. As an individual grows psychologically, opportunities keep cropping up to continue growing.

According to Maslow, individuals are motivated by unsatisfied needs. As each of these needs is significantly satisfied, it drives and forces the next need to emerge. Maslow grouped the five needs into two categories - **Higher-order needs** and **Lower-order needs**. The physiological and the safety needs constituted the lower-order needs. These lower-order needs are mainly satisfied externally. The social, esteem, and self-actualization needs constituted the higher-order needs. These higher-order needs are generally satisfied internally, i.e., within an individual. Thus, we can conclude that during boom period, the employees lower-order needs are significantly met.

2. Herzberg’s Two-Factor Theory of Motivation

In 1959, Frederick Herzberg, a behavioural scientist proposed a two-factor theory or the motivator-hygiene theory. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of “Satisfaction” is “No satisfaction” and the opposite of “Dissatisfaction” is “No Dissatisfaction”.Herzberg classified these job factors into two categories-

1. Hygiene factors- Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. But if these factors are absent / if these factors are non-existant at workplace, then they lead to dissatisfaction. In other words, hygiene factors are those factors which when adequate/reasonable in a job, pacify the employees and do not make them dissatisfied. These factors are extrinsic to work. Hygiene factors are also called as dissatisfiers or maintenance factors as they are required to avoid dissatisfaction. These factors describe the job environment/scenario. The hygiene factors symbolized the physiological needs which the individuals wanted and expected to be fulfilled. Hygiene factors include:Pay, Company Policies and Administrative Policies, Fringe benefits, Physical Working Environment, Status, Interpersonal relations, Job Security etc.

2. Motivational factors- According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. The motivators symbolized the psychological needs that were perceived as an additional benefit. Motivational factors include:Recognition, Sense of Achievement, Growth and Promotional opportunities, Responsibility, Meaningfulness of the Work etc.

Limitations of Two-Factor Theory

1. The two-factor theory overlooks situational variables.

2. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.

3. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.

4. The two factor theory is not free from bias as it is based on the natural reaction of employees when they are enquired the sources of satisfaction and dissatisfaction at work. They will blame dissatisfaction on the external factors such as salary structure, company policies and peer relationship. Also, the employees will give credit to themselves for the satisfaction factor at work.

5. The theory ignores blue-collar workers. Despite these limitations, Herzberg's Two-Factor theory is acceptable broadly.

3. Alderfer's Hierarchy of Motivational Needs Theory - Clayton Alderfer reworked Maslow's Need Hierarchy to align it more closely with empirical research. Alderfer's theory is called the ERG theory — Existence, Relatedness, and Growth.

1. Existence refers to our concern with basic material existence requirements; what Maslow called physiological and safety needs.

2. Relatedness refers to the desire we have for maintaining interpersonal relationships; similar to Maslow's social/love need, and the external component of his esteem need.

3. Growth refers to an intrinsic desire for personal development; the intrinsic component of Maslow's esteem need, and self-actualization.

Alderfer's ERG theory differs from Maslow's Need Hierarchy insofar as ERG theory demonstrates that more than one need may be operative at the same time. ERG theory does not assume a rigid hierarchy where a lower need must be substantially satisfied before one can move on.

4. Goal setting theory of motivation - Goal-setting theory refers to the effects of setting goals on subsequent performance.In 1960's, **Edwin Locke** put forward the Goal-setting theory of motivation. This theory states that goal setting is essentially linked to task performance. It states that specific and challenging goals along with appropriate feedback contribute to higher and better task performance. Locke proposed five basic principles of goal-setting: clarity, challenge, commitment, feedback, and task complexity.

In simple words, goals indicate and give direction to an employee about what needs to be done and how much efforts are required to be put in.SMART objectives in the management module that setting effective goals and identifying the best means of meeting them are important aspects of the controlling function of managers. It turns out that setting SMART goals is also a powerful way to motivate employees, especially when employees are able to participate in the goal-setting process. Specific, Measurable, Achievable,Realistic, and Time-constrained goals give both managers and employees clear direction and a way to measure performance.

Effective goal-setting principles:

1. Clarity. A clear, measurable goal is more achievable than one that is poorly defined. In other words, be specific! The most effective goals have a specific timeline for completion.

2. Challenge. The goal must have a decent level of difficulty in order to motivate you to strive toward the goal.

3. Commitment. Put deliberate effort into meeting this goal. Share your goal with someone else in order to increase your accountability to meet that goal.

4. Feedback. Set up a method to receive information on your progress toward a goal. If losing 30 pounds in four months turns out to be too hard, it is better to adjust the difficulty of your goal mid-way through the timeline than to give up entirely.

5. Task complexity. If a goal is especially complex, make sure you give yourself enough time to overcome the learning curve involved in completing the task. In other words, if a goal is really tough, make sure you give yourself some padding to give you the best chance at succeeding.

Advantages of Goal Setting Theory

1. Goal setting theory is a technique used to raise incentives for employees to complete work quickly and effectively.

2. Goal setting leads to better performance by increasing motivation and efforts, but also through increasing and improving the feedback quality.

Limitations of Goal Setting Theory

1. At times, the organizational goals are in conflict with the managerial goals. Goal conflict has a detrimental effect on the performance if it motivates incompatible action drift.

2. Very difficult and complex goals stimulate riskier behaviour.

3. If the employee lacks skills and competencies to perform actions essential for goal, then the goal-setting can fail and lead to undermining of performance.

4. There is no evidence to prove that goal-setting improves job satisfaction.

5. Vroom's Expectancy Theory - Vroom's expectancy theory separates effort, performance and outcomes, while Maslow and Herzberg focus on the relationship between internal needs and the resulting effort expended to fulfil them. Vroom's expectancy theory assumes that behaviour results from conscious choices among alternatives whose purpose it is to maximize pleasure and to minimize pain. Vroom realized that an employee's performance is based on individual factors such as personality, skills, knowledge, experience and abilities. He stated that effort, performance and motivation are linked in a person's motivation. He uses the variables Expectancy, Instrumentality and Valence to account for this.

Expectancy is the idea that increasing the amount of effort will increase performance (if I work harder then I will perform better.) This is affected by: Having the right resources available (e.g. raw materials, time), Having the right skills to do the job,Having the necessary support to get the job done (e.g. supervisor support, or correct information on the job).

Instrumentality is the idea that if you perform better, then the outcome will be achieved. (If I perform well, there I will achieve the desired outcome.) This is affected by: Clear understanding of the relationship between performance and outcomes – e.g. the rules of the reward 'game', Trust in the people who will take the decisions on who gets what outcome, Transparency of the process that decides who gets what outcome.

Valence is the perceived value the employee puts on the outcome. For the valence to be positive, the person must prefer attaining the outcome than not attaining it. (If someone is mainly motivated by money, he or she might not value offers of additional time off).

The three elements are important behind choosing one element over another because they are clearly defined: effort-performance expectancy (E-->P expectancy) and performance-outcome expectancy (P-->O expectancy).

E-->P expectancy: our assessment of the probability that our efforts will lead to the required performance level.

P-->O expectancy: our assessment of the probability that our successful performance will lead to certain outcomes.

Vroom's expectancy theory works on perceptions, so even if a motivation tactic works with most people in the organisation, it doesn't mean that it will work for everybody.

6. McGregor's X and Y Theory - In 1960, Douglas McGregor formulated Theory X and Theory Y suggesting two aspects of human behaviour at work, (i) one of which is negative, called as Theory X and (ii) the other is positive, so called as Theory Y.

Assumptions of Theory X-Employees generally dislike responsibilities, Employees resist change, An average employee needs formal direction.

Assumptions of Theory Y - Employees can perceive their job as relaxing and normal. They exercise their physical and mental efforts in an inherent manner in their jobs, Employees may not require only threat, external control and coercion to work, but they can use self-direction and self-control if they are dedicated and sincere to achieve the organizational objectives, If the job is rewarding and satisfying, then it will result in employees' loyalty and commitment to organization, An average employee can learn to admit and recognize the responsibility. In fact, he can even learn to obtain responsibility, The employees have skills and capabilities. Their logical capabilities should be fully utilized. In other words, the creativity, resourcefulness and innovative potentiality of the employees can be utilized to solve organizational problems.

7.McClelland's Theory of Needs is one such theory that explains this process of motivation by breaking down what and how needs are and how they have to be approached. This Theory of Motivation includes

(I) Need for Power (n-pow): What is Power? Power is the ability to induce or influence the behavior of others. The people with high power needs seek high-level positions in the organization, so as to exercise influence and control over others. Generally, they are outspoken, forceful, demanding, practical/realistic-not sentimental, and like to get involved in the conversations.

(II) Need for Affiliation (n-affil): People with high need for affiliation derives pleasure from being loved by all and tend to avoid the pain of being rejected. Since, the human beings are social animals, they like to interact and be with others where they feel, people accept them. Thus, people with these needs like to maintain the pleasant social relationships, enjoy the sense of intimacy and like to help and console others at the time of trouble.

(III) Need for Achievement (n-ach): McClelland found that some people have an intense desire to achieve. He has identified the following characteristics of high achievers - High achievers take the moderate risks, i.e. a calculated risk while performing the activities in the management context.High achievers seek to obtain the immediate feedback for the work done by them, so as to know their progress towards the goal, Once the goal is set, the high achiever puts himself completely into the job, until it gets completed successfully.A person with a high need for achievement accomplishes the task that is intrinsically satisfying and is not necessarily accompanied by the material rewards. Though he wants to earn money, but satisfaction in the accomplishment of work itself gives him more pleasure than merely the cash reward.

Hence, McClelland's Needs Theory posits that the person's level of effectiveness and motivation is greatly influenced by these three basic needs.

12.4 Check Your Progress

Fill in the blanks:

1. The purpose of motivation is that process which creates ……. Among the people to achieve desired objectives.

2. According to Maslow a person satisfies his …….. needs one after the other in a definite order.

3. ……… need which makes an individual to take his ability to the highest level.

4. …………. is called the heart of management by Rensis Likert.

12.5 Summary

In modern business era, motivating an individual is an important task for an successful organization. For achieving goals of an organization, it should be necessary to motivate each employees by using different motivating techniques like financial or non-financial, positive or negative motivators, extrinsic or intrinsic motivators, individual or group motivators etc.People must be motivated to achieve certain goal or ambitions in life whether it may personal or business but it is always related with drives means eager to get something by anyway. Therefore, we can say that motivation is a psychological phenomenon which means needs and wants of the individuals have to be tackled by framing an incentive plan.

12.6 Keywords

1. Motivation - Motivation means a process which excites people to work for the attainment of a desired object.
2. Motive – Motive means the hidden will power in an individual which impels or encourages him/her to work. This is an internal experience.
3. Motivators – Motivator refers to a technique which is employed to motivate people like financial and non-financial.

12.7 Self -Assessment Test

Q1. Define Motivation. Discuss the features and process of motivation in the context of a business organization.

Q2. Explain in detail various theories of Motivation.

Q3. Discuss the objectives of motivation as a function of management.

Q4. Explain the process of motivation and significance of motivation in business organization.

Q5. Critically examine the Maslow's hierarchy of needs.

12.8 Answers to Check Your Progress

1. Excitement
2. Five
3. Self-Actualisation
4. Motivation

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Lesson No:**13**	Vetter: Prof. Anil Kumar
LEADERSHIP: CONCEPT, THEORIES AND LEADERSHIP STYLES	

Structure

13.0 Learning objectives

After reading this lesson, you should be able to:

- Understand the concept of leadership and importance of leadership.
- Describe the various styles of leadership and leadership as a continuum.
- Know the many approaches to leadership.

13.1 Introduction

"Leadership transforms the potential into reality" said by Keith Davis.

Leadership is the most prominent element of an successful business and forany competitive organization. Without leaders, we can't imagine a leading organization among an industries. Just like as a family needs a leader which shows roadmap for well being livelihood, similarly in the same sense a business also needs a person who leads an individuals in the organization in right direction and efficiently achieve a target goals. In the modern era, leadership act as a weapon in the competitive business scenario.

13.2 Meaning of Leadership

Leadership is mainly concerned with the influencing others in such a way to organize work and efforts what the leader wants them to do. Everyone knows that objectives of an enterprise can be achieved by the contribution of each employees. Now the question arises whether all the employees work with their full capacity. In answer to this question it can be said that ordinarily the employees do not work according to their full capacity. Generally they work because of the social pressure, need for a job and authority of the superior. According to one estimate, employees use only 60% of their capacity for achieving the goal. However, it is essential to utilise the remaining 40% of their capacity so that efficiently as well as effectively accomplishment of the pre-determined objectives of an organization. This is imaginable only when they are stimulated to work with greater dedication and passion. Such inspiration can be given by an administrative who is not only competent executive or manager but a good leader also. A leader is an individual who exercises his influence on all the persons in a group in such manner as to make them work with complete enthusiasm and confidence and to their fullest capacity for the attainment of the objectives of the enterprise. Such qualities of a leader are called leadership.

Definition of Leadership

According to Koontz and O'Donnell, "Leadership may be defined as the ability to exert interpersonal influence by means of communication toward the achievement of a goal".

According to George R. Terry, "Leadership is the ability of influencing people to strive willingly for mutual objectives".

According to Franklin G. Moore, "Leadership is the ability to make men act the way the leaders wants".

13.2.1 Characteristics or Nature of leadership

After reading the meaning and definition of leadership, following are characteristics of leadership:

1. Followers – The basic need of leadership is the existence of followers without whom leadership cannot be assumed. Without followers, leader himself has no existence. Thus, it is important that leaders should have followers (employees) to work with.

2. A focused approach - Leadership deals with the implementation of a specific vision. This means a great leader is able to stay focused and ensure the team works efficiently towards achieving the objectives.

3. Continuous process – Leadership is a continuous process. Leaders cannot end his role by explaining the objectives of the organization to his followers but they have to be frequently guided regarding their activities. Therefore, it can be said that leadership is a dynamic process.

4. Leadership transform potential into reality – Leadership is that power which brings to light the latent abilities with the help of one's conduct. An efficient leader brings out individual hidden capability by motivating them.

5.Leadership is something a person does, not something he has – leadership is associated not with the name of a person or his position but with his work.

6.Influencing process – In leadership, leader behaves with his followers in such a manner that they come under his influence effortlessly and they start working in accordance with his wishes.

7.Personal ability – Leadership depends on the ability of a particular individual. Personal ability of leaders impress employees or followers. Therefore, leaders are born as well as made.

8.Full capability utilisation – Oftenly, an individual does not work at his full capacity. Frequently needs to be encouraged and this is possible only under leadership.

9.No need of coercion – Leadership does not mean getting work out of the employees require coercion. An executive impresses the employees with his behaviour that they willingly start working.

10.Ideal conduct – For leadership, leaders should have an ideal conduct. He should not delivering lectures to others. But should behave in an manner that he expects from others.

11.Leadership is a part of management but not all of it – in management, includes planning, establishing the organizational structure for the implementation of planning, appointing competent persons on different posts in the organizational structure and exercising control over them. All these functions a manager but he cannot successfully perform these functions if he does not know how to lead or get work done through other people. The reality is that a leader is not appointed separately but a manager has to take the burden of leadership while performing his managerial functions.

13.2.2 Qualities of Leader

1. Decision making capabilities -Apart from having a futuristic vision, a leader should have the ability to take the right decision at the right time. Decisions taken by leaders have a profound impact on masses. A leader should think long and hard before taking a decision but once the decision is taken, stand by it.

2. Integrity - Integrity is doing the right thing, even when no one is watching.**Without integrity, no real success is possible.** leader can’t expect your followers to be honest when leader itself have a lack of integrity. An honest leader succeeds when they stick to their word, live by their core values, lead by example, and follow-through.

3. Transparency - One of the best ways to win the trust of your followers is by being transparent. Instead of hiding information, you should openly share it with them. By giving visibility to your followers, they will buy into your vision and support you with conviction in achieving the goal. More importantly, it gives your followers clarity, autonomy and make them feel more empowered while keeping them engaged.

4. Ability to inspires others - Probably the most difficult job for a leader is to persuade others to follow. It can only be possible if you inspire your followers by setting a good example. When the going gets tough, they look up to you and see how you react to the situation. If you handle it well, they will follow you. As a leader, should think positive and this positive approach should be visible through your actions.

5. Accountability - A strong leader is accountable for the team's results, good or bad. They hold themselves and their employees accountable for their actions, which creates a sense of responsibility among the team.They give credit where credit is due, and take responsibility for blame when necessary. Being accountable and leading by example is one of the quickest ways a leader can build trust with their team.

6. Technical Ability – Technical ability means that ability which he utilises in his work performance in the form of his knowledge, methods and techniques. This ability is acquired through experience, education and training.

7. Ability to motivate – Leaders have an ability to motivate followers in order to make the meaning of leadership meaningful. For motivating individuals, leaders should know different methods of motivation so that an individuals can be motivated according to their nature.

8. Physical and mental fitness – It is an established fact that a healthy mind exists in a healthy body. On this basis, a leader should be physically and mental fit so that he can exercise a positive influence on his followers.

9. Self-confidence – It is important for leaders to have a self-confidence in order to win over his followers completely. Self-confidence should depend on the leaders own knowledge. If leaders have a lack of self-confidence, then decisions cannot be successfully implemented.

10. Ability to tolerance – Tolerance means acting with patience in the face of difficulties. If patience is not exercised at the time of difficulties, the decisions taken are likely to be wrong and it will result in failure. On the other hand, if the decision is taken after realising the situation and thinking over it, success is certain to follow.

13.2.3 Functions of a Leader

1. Setting Goals - A leader is expected to perform creative function of laying out goals and policies to persuade the subordinates to work with zeal and confidence.

2. Organizing - The second function of a leader is to create and shape the organization on scientific lines by assigning roles appropriate to individual abilities with the view to make its various components to operate sensitively towards the achievement of enterprise goals.

3. Initiating Action - The next function of a leader is to take the initiative in all matters of interest to the group. He should not depend upon others for decision and judgment. He should float new ideas and his decisions should reflect original thinking.

4. Co-ordination - A leader has to reconcile the interests of the individual members of the group with that of the organization. He has to ensure voluntary co-operation from the group in realizing the common objectives.

5. Direction and Motivation - It is the primary function of a leader to guide and direct his group and motivate people to do their best in the achievement of desired goals, he should build up confidence and zeal in the work group.

6. Link between Management and Workers - A leader works as a necessary link between the management and the workers. He interprets the policies and programmes of the management to his subordinates and represents the subordinates' interests before the management. He can prove effective only when he can act as the true guardian of the interests of his subordinates.

7. To understand feelings and problems of subordinates - The functions of leadership in management are also to understand the feelings and problems of the subordinates, so that information may be available for making decisions regarding them and also to ensure that the subordinates feel mentally secure and satisfied.

8. Maintaining discipline – A leader can inspire his subordinates to observe the prescribed rules only through discipline. It is important to note that the type of discipline which a leader expects from his followers has to be first made applicable to his ownself.

9. To represent the organization – The leader also represent the organization. When he gives orders and directions, apart from being the manager, he is representing the enterprise also. Similarly, when he handles the outside people, he represents the enterprise.

10. To design environment as per result expectation – Function of a leader is to create such an environment or conditions within the organization which will be appropriate for the achievement of expected results. It is not only to be created but also has to be maintained.

11. To divide the work as per capability – After having determined the works required for the achievement of the objectives of the organization, they are divided among the employees according to their capabilities. The more difficult and important works are assigned to educated and trained employees.

13.2.4 Importance or Significance of Leadership

Leadership is an important function of management which helps to maximize efficiency and to achieve organizational goals. The following points justify the importance of leadership in a concern.

1. Initiates action- Leader is a person who starts the work by communicating the policies and plans to the subordinates from where the work actually starts.

2. Motivation- A leader proves to be playing an incentive role in the concern's working. He motivates the employees with economic and non-economic rewards and thereby gets the work from the subordinates.

3. Providing guidance- A leader has to not only supervise but also play a guiding role for the subordinates. Guidance here means instructing the subordinates the way they have to perform their work effectively and efficiently.

4. Creating confidence- Confidence is an important factor which can be achieved through expressing the work efforts to the subordinates, explaining them clearly their role and giving them guidelines to achieve the goals effectively. It is also important to hear the employees with regards to their complaints and problems.

5. Building morale- Morale denotes willing co-operation of the employees towards their work and getting them into confidence and winning their trust. A leader can be a morale booster by achieving full co-operation so that they perform with best of their abilities as they work to achieve goals.

6. Builds work environment- Management is getting things done from people. An efficient work environment helps in sound and stable growth. Therefore, human relations should be kept into mind by a leader. He should have personal contacts with employees and should listen to their problems and solve them. He should treat employees on humanitarian terms.

7.Co-ordination- Co-ordination can be achieved through reconciling personal interests with organizational goals. This synchronization can be achieved through proper and effective co-ordination which should be primary motive of a leader.

8. *Induces change* - A leader persuades, clarifies and inspires employees to accept any change in the organization without much resistance and discontentment. He makes sure that employees don't feel insecure about the changes.

9. *Creating Successors* - A leader trains his subordinates in such a manner that they can succeed him in future easily in his absence. He creates more leaders.

10. Fulfilling social responsibility – Through efficient leadership the employees rise above their individual interests and work for the interests of the enterprise. This benefits the employees also. They are provided the necessary facilities because of which their standard of living improves.

13.2.5 Leadership Styles

Under leadership the subordinates are motivated in such a way that they start following the leader after having been impressed with his behaviour. In this way with the help of the subordinates the objectives of the enterprise are easily obtained. The methods with the help of which a manager establishes his effect on his subordinates are called styles of leadership. Different managers can have different leadership styles. Following are different leadership styles

1. Motivational Leadership Style – (i) Positive Leadership Style

(ii) Negative Leadership Style

2. Power Based Leadership Style - (i) Autocratic Leadership Style

(ii) Democratic Leadership Style

(iii) Free-rein Leadership Style

3. Result Based Style - (i) Employee Oriented Leadership Style

(ii) Production Oriented Leadership Style

1. **Motivational Leadership Style** – Under this style the employees are motivated with a view to utilising their maximum capability. Motivational leadership style is of two kinds:

(i) Positive Leadership Style – When a leader satisfies his followers by economic and non-economic incentives to get their cooperation for the attainment of the objectives of the organization. Economic incentives mean increase in pay, share in profit etc. while non-economic incentives include respecting their feelings, participation in taking decision etc. This style creates a feeling of satisfaction among the employees and on the other hand some slothful employees become careless. They do not work even after getting the incentives. Therefore, this style of leadership should be adopted carefully keeping in mind whether the work is being done according to the incentives given or not.

(ii) Negative Leadership Style – Under this style getting work through coercion, removing from the job, deduction from the salary, getting them to over work, stopping annual increment etc. In this style employees are motivated by some unhelpful behaviour, it is only because of this that it is called negative style of leadership. This style is harmful to employees morale and their attachment to the enterprise gradually declines and the industrial peace is hindered.

2. **Power Based Leadership Style** – This leadership style suggests a leader uses his power under this style. The use of power does not mean that the leader always keeps an unnecessary pressure on his followers, but all the styles in this category are related with the authority of the leader. Sometime the leader uses his absolute authority, while sometimes he uses his authority a little less and still sometimes he does not use his authority at all. The different forms of this style of leadership are as under:

(i) Autocratic Leadership. Autocratic leadership style is also known as authoritarian leadership or leader-centred style. Under this style the leader keeps all the authority centred in his hands and the employees have to perform the work without changing any of his orders. In this approach leaders make decisions without consulting with their team members. Such leaders do not take suggestions from team members even if their input would be useful. The leader motivates his followers to achieve objectives by creating an environment of fear and punishment. Simply Autocratic leaders make choices based on their own ideas, experience and judgments and rarely accept advice from team members. The job or promotion all depends on the will of the autocratic leader. The employees do not have the least right to present their opinion in respect of any decision. This approach is suitable for those situations when you need to make decisions quickly, when team agreement is not necessary for a successful outcome and when there is no need for team input. However, this leadership style can be demoralizing for an organization as well as it can lead to high levels of staff turnover and absenteeism.

Characteristics of autocratic leadership style

(i) Formal Relations – It creates formal relations among the leader and his followers. Formal relation means relations with individuals in accordance with the organizational structure.

(ii) Centralised Authority – In this, manager is not prepared to share his authority and responsibility with others.

(iii) Single Man Decisions – In this style of leadership the manager himself takes all the decisions.

(iv) Negative Motivation – Manager maintains an environment of threat and fear for the sake of his own satisfaction. Such an environment motivates the employees in a a negative manner and consequently, their morale declines.

(v) Only Downward Communication – In this style, communication is only downward which means that the managers only tell them their ideas but do not listen to the employees' ideas.

(ii) Democratic Leadership - Democratic leadership style is also known as participative leadership or group centred leadership style. In this style leaders make the final decisions, but they also include their business or project team members in the decision-making process. This style based on the decentralisation of authority and as a result of which encourages creativity of team members, and they are often highly engaged in projects and decisions. Researchers have found that this leadership style is one of the most effective among leadership styles and this lead to higher productivity, better contributions and increased team morale. This also results in high job satisfaction, high productivity and good industrial relations.

Characteristics of Democratic Leadership Style

(i) Group Decision Making – All the decisions are taken by the managers with the cooperation of the subordinates.

(ii) Open Communication – Open communication means two way communication, apart from saying their own thoughts the managers receive the suggestions of the employees with pleasure.

(iii) Positive Motivation – In this style the employees are motivated by economic and non-economic incentives. The economic incentives include rise in salary while the uneconomic incentives are in the form of more authority and more respect.

(iv) Cooperative Relations – In this style existence of cooperative relations among the managers and the employees. Participation in the management decisions gives the employees a feeling of self-respect.

(iii) Laissez-Faire Leadership - Laissez-faire leadership is also known as delegated leadership style or individual centred style or free-rein leadership style. These are the leaders who give their team members a lot of freedom in how they do their work, how they set goals and objectives, and how they set their deadlines. Leaders in this style provide support, resources and advice to group member if needed, except this they don't get involved. This autonomy may lead to high job satisfaction, but it usually decrease the productivity damaging if team members do not manage their time well, or if they lack the skills,, knowledge, or self-motivation to do their work effectively. This style may also automatically take place when managers don't have control over their work and their team.

Characteristics of Laissez-Faire Leadership

(i) Decentralization of Authority – In this, managers widely distribute their authority to enable every individual to determine his objective and make his plans accordingly. The managers only perform the function of coordination, direction and general control.

(ii) Motivation through Authority - The subordinates are encouraged by giving them more authority. On receiving authority they develop a feeling of self-respect which motivates them.

(iii) Independent Decision-Making System – In this style the management related decisions are taken by the subordinates instead of the managers. They can, however, consult the managers.

(iv) Self-directed, Supervisory and Controlled – after defining objectives, job of the manager is to interfere only in adverse situations. The supervision and control is done by the employees themselves.

(v) Sense of Responsibility in Employees

(vi) Full Faith in Subordinates

(vii) Cooperative Relations

(viii) Two Way Communication

3. **Result Based Leadership Style –** In this style of leadership the leader or the manager keeps in mind the results of works.

(i) Employees Oriented Leadership Style – In this style leader considers his followers above all the others. This concept is based on the idea that if the employees are treated in a human way, their feelings are respected, their problems are solved and work conditions are improved, the desired results are automatically achieved. This type of idea motivates the employees to work unitedly. On the other hand, this style is not useful where most of the people in the human group happen to be careless and irresponsible.

(ii) Production Oriented Leadership Style – In this style more attention is paid to the increase in production rather than human welfare. This style is based on the idea that by adopting new techniques of production, keeping the employees busy and motivating them regularly to work, the objectives of the organization can be easily achieved and there is no need to adopt a human attitude towards them. Merit of this style is that maximum production can be achieved with the minimum cost. On the other hand, no good effect on human relations. Since employees are not given enough attention, a feeling of insecurity and instability is created. Hence, it is possible in this style to affect economy in production costs for a short time and not on long time basis.

Following are other different leadership style

Blake and Mouton Managerial Grid

This was first published in 1964, the Blake and Mouton Managerial Grid focuses on the best leadership style to use, this grid give importance to people and also greatly concern with production/tasks.

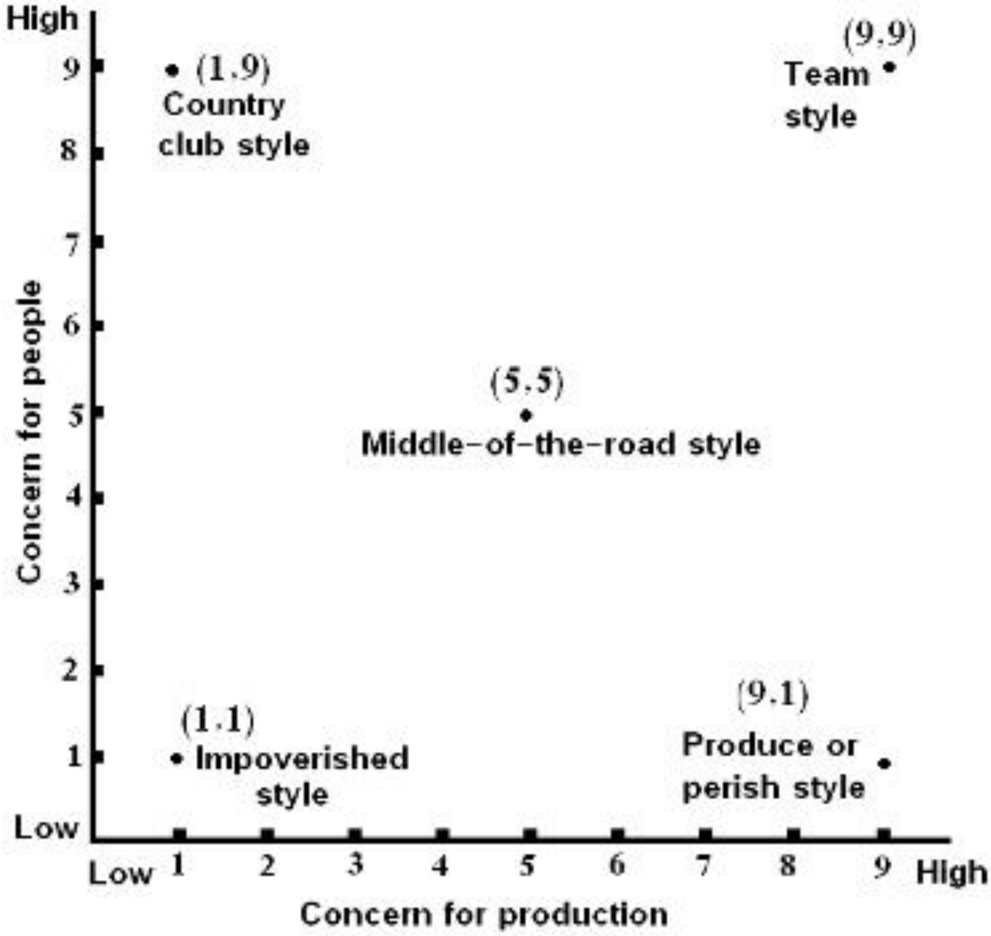
The main features of Blake Mouton Managerial Grid are: People oriented style, Supporting & encouraging, Participative approach and Highly task-oriented.

Impoverished Leadership. Under **1.1** style (referred to as **impoverished management**, managers concern themselves very little with either people or production and have minimum involvement in their jobs; to all intents and purpose they have abandoned their jobs and only mark time or act as messengers communicating information from superiors to subordinates.

Team Leadership. At the other extreme are the 9.9 managers who display in their actions the highest possible dedication both to people and to production. They are the real **team mangers** who are able to mesh the production needs of the enterprise with the needs of individuals.

Country Club Leadership. Another style is 1.9 management (called **Country Club Management**" by some in which managers have little or no concern for production but are concern only for people. They promote an environment in which everyone is relaxed friendly and happy and no one is concerned about putting forth coordinated effort to accomplish enterprise goals.

The following are Blake and Mouton five leadership styles.



Autocratic Leadership. At another extreme are the **9.1 managers** sometimes referred to as **autocratic mangers**") who are concerned only with developing an efficient operation. They have little or no concern for people, and who are quite autocratic in their style of leadership.

Middle of the Road Leadership. By using these four extremes as points of reference, every managerial technique, approach or style can be place somewhere on the gird. Clearly**, 5.5 managers** have medium concern for production and for people. They obtain adequate, but not outstanding, morale and production. They do to set goals too high, and they are likely to have a rather benevolently autocratic attitude toward people.

This people-oriented leadership style focus on organizing, motivating, and developing team members. This participatory leadership style encourages good teamwork and provides a platform for creative collaboration.As this is a task-oriented leadership style so it focuses on achieving tasks. People who follow this leadership style define the task and the roles required, put structures in place via assigning responsibilities, then organize, and monitor work.

Six Emotional Leadership Styles- In 2002, Daniel Goleman, Richard Boyatzis and Annie McKee described their Six Emotional Leadership Styles theory in their book Primal Leadership. This theory tells in details about the strengths and weaknesses of six leadership styles that management or leader can use. Theory also shows how each leadership style can affect the emotions of team members. The six leadership styles are as under:

1. Visionary
2. Coaching
3. Affiliative
4. Democratic
5. Pacesetting and
6. Commanding

Transformational Leadership Style - Transformational leadership theory was first published in 1978, and after that it was further developed in 1985. Transformational leadership style frameworks are all useful in different situations. In organizational or business environment "transformational leadership" is often the most effective leadership style to use and many organizations consider this as the best leadership style. Transformational leaders are those leaders who have integrity and high emotional intelligence. In this best leadership style leaders motivate their team with a shared vision of the future, and they also communicate well. Transformational leaders are also typically self-aware, empathetic, authentic and humble. Transformational leaders motivate and regularly inspire their team members because they expect the best from everyone, and they hold themselves responsible for their actions. They set clear goals and objectives and then communicate them to team as well as they have good conflict-resolution skills. This leadership finally leads to high productivity and engagement.

Bureaucratic Leadership Style - Bureaucratic leaders remain stick to the purpose or objective and follow rules strictly. They ensure that their team members follow procedures precisely. This leadership style is most suited for those work which involving serious safety risks like working with heavy machinery, with toxic elements or substances, or with large sums of money. Bureaucratic leadership style is also helpful for managing those employees who perform routine tasks. Bureaucratic leadership style is less effective for those organizations that rely on flexibility, creativity, or innovation.

Charismatic Leadership Style - A charismatic leadership style is almost resembles with transformational leadership. In both these styles leaders inspire and motivate their team members. The main difference between these two leadership styles lies in their intent. Transformational leaders actually want to transform their team members and organizations, while charismatic leaders rely on themselves and their own ambitions, so they usually not want to change anything. Charismatic leaders believe in themselves and they think that they can do no wrong. This feeling of invincibility can severely damage a project team or a company, as this already happened in the 2008 financial crisis.

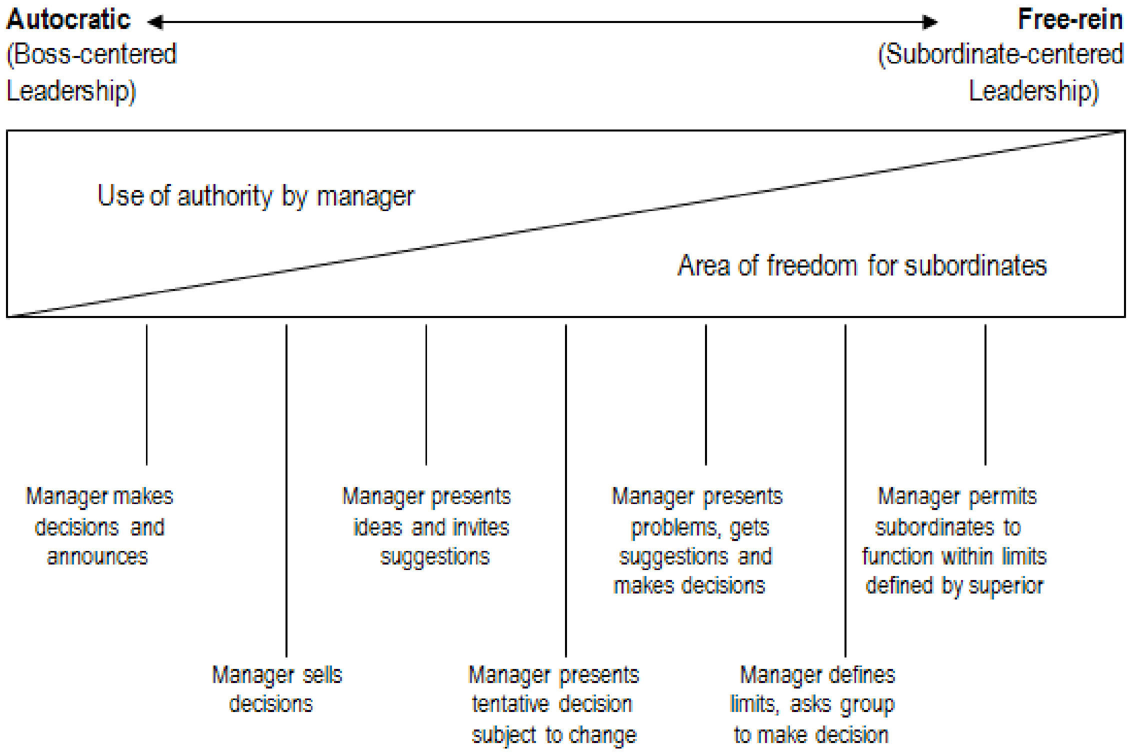
Transactional Leadership Style - This leadership style states that “project team members should agree to obey their leader when they accept a job or task”. The “transaction” actually refers to the organizational pay for team members in return for their effort on a short-term task. Transactional leaders have a right to “punish” any team members if his/her work doesn’t meet an appropriate or described standard. Transactional leadership is present in many organizations, and it does offer some benefits. For instance, it clarifies the roles and responsibilities of each and every team member. The drawback of transactional leadership style is that, on its own, it can be chilling and unethical, and this style can lead to high staff turnover. This style of leadership also has serious limitations for creative or knowledge-based work so team members cannot improve their job satisfaction.

13.2.6 Leadership as a Continuum

Managers or leaders would always prefer to adopt a blend of different styles rather than follow a particular style of leadership. A blend of different leadership styles is called Continuum of Leadership behaviour. The thought of this style of leadership was developed by Robert Tannenbaum and Warren H. Schmidt.

The diagram divided into two equal parts which shows upper part the area of authority of the leader, while the lower half shows the area of freedom of the subordinate. In this, total seven points displayed and every point indicates a separate style of leadership. All these points are called the range of styles of leadership.

1. A leader take decision and announce it.
2. A leader tells his decision.
3. A leader presents ideas and invites questions.
4. A leader presents a tentative decision subject to change.
5. A leader invites ideas before taking a final decision.
6. A leader defines the limits within which the subordinates take decisions.
7. A leader permits the group to take decision according to the situation.



13.2.7 Approaches or Theories of Leadership

1. Trait theory of Leadership –leadership ability in a particular person depends on his special individual qualities. This theory believes that leadership ability is inborn and it cannot be achieved by making any effort Among the core traits identified are:

- *Achievement drive:* High level of effort, high levels of ambition, energy and initiative
- *Leadership motivation:* an intense desire to lead others to reach shared goals
- *Honesty and integrity:* trustworthy, reliable, and open
- *Self-confidence:* Belief in one's self, ideas, and ability
- *Cognitive ability:* Capable of exercising good judgment, strong analytical abilities, and conceptually skilled
- *Knowledge of business:* Knowledge of industry and other technical matters
- *Emotional Maturity:* well adjusted, does not suffer from severe psychological disorders.

- *Others:* charisma, creativity and flexibility
- *Physical Traits:* energy, appearance, height etc. are included in it.

Strengths/Advantages of Trait Theory

- It is naturally pleasing theory.
- It is valid as lot of research has validated the foundation and basis of the theory.
- It serves as a yardstick against which the leadership traits of an individual can be assessed.
- It gives a detailed knowledge and understanding of the leader element in the leadership process.

Limitations of The Trait Theory

- There is bound to be some subjective judgment in determining who is regarded as a ‘good’ or ‘successful’ leader
- The list of possible traits tends to be very long. More than 100 different traits of successful leaders in various leadership positions have been identified. These descriptions are simply generalities.
- There is also a disagreement over which traits are the most important for an effective leader
- The model attempts to relate physical traits such as, height and weight, to effective leadership. Most of these factors relate to situational factors. For example, a minimum weight and height might be necessary to perform the tasks efficiently in a military leadership position. In business organizations, these are not the requirements to be an effective leader.
- The theory is very complex

2. **The Situation Theory**- Situational leadership is a theory of leadership that is part group of theories known as contingency theories of leadership. Generally speaking, contingency theories of leadership hold that a leader's effectiveness is related to the leader's traits or behaviors in relation to differing situational factors. According to situational leadership theory, a leader's effectiveness is contingent on his ability to modify his management behavior to the level of his subordinates' maturity or sophistication. The style a leader uses under situational leadership is based upon combining levels of directive behavior and supportive behavior. You can think of directive behavior as an order and supportive behavior as providing support or guidance.

Hersey and Blanchard focused on four different leadership behaviors based on the levels of directive and supportive behavior:

1. Telling is where the leader demonstrates high directive behavior and low supportive behavior

2. Selling is where the leader demonstrates high directive behavior and high supportive behavior

3. Participating is where the leader demonstrates low directive behavior and high supportive behavior

4. Delegating is where the leader demonstrates low directive behaviour and low supportive behaviour.

3. **The Follower's Theory –** According to this the leadership ability of a person depends on his followers. Why the follower accept a particular individual as their leader. The reason for this is their primary necessities. Anybody who can make a maximum contribution to the fulfilment of their needs, is accepted as their leader and they start following him. In reality the leadership ability depends on the fulfilment of the necessities of the followers. Hence, in order to find out the leadership ability of a person it is important to know as to how many followers are ready to accept him as their reader. One criticism of this theory is that followers determine the leadership ability.

4. **Group Approach Theory** – This theory has been developed by Kurt Lewin. According to him a leader should be studied as a group rather than as an individual because a leader is connected not with one individual but a human group. Each group tends to develop its own unique norms and an individual can become an effective leader only if he accepts the norms of the group and operates within them.

5. **Behavioural Theory of Leadership -** Behavioral Theory of Leadership is a leadership theory that considers the observable actions and reactions of leaders and followers in a given situation. In this, the behaviour of a leader should be ideal. Behavioral theories focus on how leaders behave and assume that leaders can be made, rather than born and successful leadership is based on definable, learnable behavior. Behavioral theories of leadership are classified as such because they focus on the study of specific behaviors of a leader. For behavioral theorists, a leader behavior is the best predictor of his leadership influences and as a result, is the best determinant of his or her leadership success. These theories concentrate on what leaders actually do rather than on their qualities. Different patterns of behavior are observed and categorized asstyles of leadership.

6. **X and Y Theory** - McGregor Theory X assumes that employees of an organization or team members are naturally unmotivated and dislike working, and this encourages an authoritarian leadership style. According to this view, management of an organization must actively involve in get things done by their employees. Theory X assumptions are:

1. Employees dislike working and not put their best.
2. Team members avoid responsibility and need to be directed.
3. Employees of the organization have to be controlled, forced, and threatened to deliver work
4. Employees of the organization need to be supervised at every step
5. Workers need to be enticed about producing desired results

If leader will not entice employees they have no ambition or incentive to work.

In X-Type organizations managers and supervisors of the organizations control their workers at every. There is very little delegation of authority and control usually remains firmly centralized.

Theory Y

Theory Y focuses on a participative leadership style that is de-centralized. According to Type Y employees of organizations are happy to work, task oriented, self-motivated and creative. This further assumes that many employees enjoy working with greater responsibility. Leader should motivate and encourage their team members in accomplishment of goals and objectives. Theory Y assumes that:

1. Employee of the organization take responsibility and are motivated to achieved the desired goals
2. Employees accept the responsibility and do not need much direction for achieving task.
3. Employees consider work as a natural part of life
4. Employees of the organization solve work problems imaginatively.

This more participative leadership style is more widely applicable. In Y-Type organizations, management also involves the lower level employees in decision making hence the have sense of belonging and work with more responsibility.

7.Path Goal Theory – According to this point of view, in order to find out the presence of the leadership ability in an individual, it has to be found out as to what amount of strength and expectancy leader generates among his employees. This point of view is based on expectancy model of motivation. Strength here means encouraging the all round development of the employees and expectancy means preparing the way for the attainment of goals. The Path-Goal model is a theory based on specifying a leader's style or behavior that best fits the employee and work environment in order to achieve a goal. The goal is to increase an employee's motivation, empowerment, and satisfaction so they become a productive member of the organization. Employee satisfaction is contingent upon the leader's performance as both a facilitator and coach and rewards their employees for effective performance. The original Path-Goal theory identifies achievement-oriented, directive, participative,and supportive leader behaviors rooted in four (4 styles).

The Four Styles are -

1. The directive path-goal clarifying leader behavior - refers to situations where the leader lets employees know what is expected of them and tells them how to perform their tasks. The theory argues that this behavior has the most positive effect when the employees' role and task demands are ambiguous and intrinsically satisfying.
2. The achievement-oriented leader behavior - refers to situations where the leader sets challenging goals for employees, expects them to perform at their highest level, and shows confidence in their ability to meet this expectation. Occupations in which the achievement motive were most predominant were technical jobs, sales persons, scientists, engineers, and entrepreneurs.
3. The participative leader behavior - involves leaders consulting with employees and asking for their suggestions before making a decision. This behavior is predominant when employees are highly personally involved in their work.
4. The supportive leader behavior - is directed towards the satisfaction of employees' needs and preferences. The leader shows concern for the employees' psychological well-being. This behavior

is especially needed in situations in which tasks or relationships are psychologically or physically distressing.

13.3 Check Your Progress

Fill in the blanks:-

1. The ………… leadership style is an expression of the leaders’ trust in the abilities of his subordinate.
2. Situational theory of leadership emphasize on ……….. .
3. …….. style of leadership that takes account of others' views, opinions and ideas.
4. A leader is honest in speech and upright in character exhibits a …………. .

13.4 Summary

In modern era, leadership is most crucial component for smoothly working of an organization. In organization, employees comes from different areas of a country, different background with respect to education, family, varsity in culture or customs etc. For competing other organizations, creating cooperation or unity among employees and leads in right direction is done with the help of good and dynamic leader. Leader with his inherent and acquired knowledge influences people easily and directs them to achieving a particular or common goal of an organization. Therefore, leaders adopt different leadership style for commanding employees like positive leadership style, negative leadership style, autocratic leadership style, democratic leadership style, free-rein leadership style, employees oriented leadership style and production oriented leadership style etc. Every leader adopt different leadership style according to the situations. Various approaches of leadership advises for taking strategic decisions and creates coordination among employees.

13.5 Keywords

l. **Leadership** – Leadership means that ability of an individual with the help of which he gets the desired work done by a group of his followers willingly and without any coercion.

2. **Leader -** A leader is a person who influences a group of people towards the achievement of a goal.

3. **Management style** - Every leader has a unique style of handling the employees (Juniors/Team). The various ways of dealing with the subordinates at the workplace is called as management style.

13.6 Self-Assessment Test

Q1. Define Leadership? What are the main leadership functions?

Q2. Explain in detail the essential qualities for leadership.

Q3. What do you mean by Leadership and Leader? Discuss the role of leadership in modern business organization.

Q4. Discuss the different styles of leadership.

Q5. Describe the importance of leadership and briefly describe its main theories.

13.7 Answers to Check Your Progress

1. Participative
2. Events
3. Democratic
4. Integrity

13.8 References/Suggested Readings

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Subject: **Principles of Business Management**	
Course Code: DBA-101	Author: **Deepika**
Lesson No: **14**	Vetter: Prof. Anil Kumar
CONTROLLING: CONCEPTS, PROCESS AND TECHNIQUES	

Structure

14.0 Learning Objective

After reading this lesson, you should be able to:

- Describe the meaning and characteristics of controlling.
- Know the process of control and types of control.
- Understand the various techniques of controlling.

14.1 Introduction

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals. Controlling is, thus, a goal-oriented function. Controlling function of a manager is a pervasive function. It is a primary function of every manager. Managers at all levels of management- top, middle and lower-need to perform controlling functions to keep a control over activities in their areas. Moreover, controlling is as much required in an educational institution, military, hospital, and a club as in any business organisation. Controlling should not be misunderstood as the last function of management. It is a function that brings back the management cycle back to the planning function. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. This process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods. Thus, controlling only completes one cycle of management process and improves planning in the next cycle.

14.2 Meaning of Controlling

Control, or Controlling, is one of the managerial functions just like planning, organizing, staffing and directing. It is an important function becauseit helps to check the errors, helps in taking the correct actions so that there is a minimum deviation from standards and helps in achieving the stated goals of the organization in the desired manner. According to modern concepts, control is a foreseeing action. Whereas the earlier concept of control was used only when errors were detected.

Philip Kotler defines – Control is the process of taking steps to bring actual results and desired results close together.

Dale Henning defines – Control is the process of bringing about conformity of performance with planned action.

Control means that in order to achieve the desired objectives efficiently, economically and successfully the real progress of the work should be assessed from time to time so that the actual progress of the work is in accordance with the expected progress.

14.2.1 Characteristics of Control

1.Basic Function - Control is an essential function of every manager who is performing the functions like planning, organising, staffing and directing. In fact it is a follow up action to other functions of management.

2.Continuous Process - Controlling is a continuous process having no definable end. It involves constant and regular monitoring of activities in order to improve the performance.According to Koontz and O'Donnell, "just as the navigator continuously takes a planned action, so should the business manager continually lake a reading to assure to himself that his enterprise or department is on course". The manager has to perform this function continuously along with other functions of management.

3. Dynamic Process - Control is dynamic in the sense, not static. It involves review of standards as well as corrective actions which may lead to changes in other managerial functions. A properly designed control system can help managers anticipate, monitor and respond to changing circumstances.

4.Forward Looking - Control is related to future because past cannot be controlled. It involves postmortem examination of past events. It seeks to improve future results on the basis of experience gained in the past. A successful control process is one that effects corrections to the organisation before the deviations become serious.

5. People Oriented - R.C. Davis has said that the approach of managerial control is people oriented. It is attained through people and not things. The attitudes of people are more important for the success of control.

6.Pervasive Function - It is an essential function of every manager. Every manager working in organisation irrespective of his position has to control and command over the activities of subordinates as to produce desired results. The nature and extent of control may differ from one level to another.

7. Goal Oriented - Control guides activities towards predetermined goals. The function of controlling is positive. It should not be considered negative in character. The primary focus of controlling is to active results.

8.Action Oriented - The essence of control lies in the corrective action taken to bridge the gap between standards and actual performance. The corrective action is designed to improve the performance in future. The timely action to correct defeats minimise waste of time, money and efforts.

Types of Control- There are three types of control -

1. Feedback Control: This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.

2. Concurrent control: It is also called real-time control. It checks any problem and examines it to take action before any loss is incurred. Example: control chart.

3. Predictive/ feedforward control: This type of control helps to foresee problem ahead of occurrence. Therefore action can be taken before such a circumstance arises.

In an ever-changing and complex environment, controlling forms an integral part of the organization.

14.2.2 Process of Control

Controlling is a systematic process involving the following steps.

1. Setting performance standards

2. Measurement of actual performance

3. Comparison of actual performance with standards

4. Analysing deviations

5. Taking corrective action

(i) Setting Performance Standards: The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards. At the time of setting standards, a manager should try to set standards in precise quantitative terms as this would make their comparison with actual performance much easier. For instance, reduction of defects from 10 in every 1,000 pieces produced to 5 in every 1,000 pieces produced by the end of the quarter. However, whenever qualitative standards are set, an effort must be made to define them in a manner that would make their measurement easier. For instance, for improving customer satisfaction in a fast food chain having self-service, standards can be set in terms of time taken by a customer to wait for a table, time taken by him to place the order and time taken to collect the order. It is important that standards should be flexible enough to be modified whenever required. Due to changes taking place in the internal and external business environment, standards may need some modification to be realistic in the changed business environment.

(ii) Measurement of Actual Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier. It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance. For instance, in case of assembling task, each part produced should be checked before assembling. Similarly, in a manufacturing plant, levels of gas particles in the air could be continuously monitored for safety. Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals. Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share etc., whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a batch. In small organisations, each piece produced may be checked to ensure that it conforms to quality specifications laid down for the product. However, this might not be possible in a large organisation. Thus, in large organisations, certain pieces are checked at random for quality. This is known as sample checking.

(iii) Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

(iv) Analysing Deviations: Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

1. Critical Point Control: It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.

2. Management by Exception: Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management. Thus, if the plans lay down 2 per cent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter has to receive immediate action of management on a priority basis. After identifying the deviations that demand managerial attention, these deviations need to be analysed for their causes. Deviations may have multiple causes for their origin. These include unrealistic standards, defective process, inadequacy of resources, structural drawbacks, organisational constraints and environmental factors beyond the control of the organisation. It is necessary to identify the exact cause(s) of deviations, failing which, an appropriate corrective action might not be possible. The deviations and their causes are then reported and corrective action taken at appropriate level.

(v) Taking Corrective Action: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished. Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work. In case the deviation cannot be corrected through managerial action, the standards may have to be revised.

Advantages of Critical Point Control and Management by Exception

When a manager sets critical points and focuses attention on significant deviations which cross the permissible limit, the following advantages accrue:

1. It saves the time and efforts of managers as they deal with only significant deviations.

2. It focuses managerial attention on important areas. Thus, there is better utilisation of managerial talent.

3. The routine problems are left to the subordinates. Management by exception, thus, facilitates delegation of authority and increases morale of the employees.

4. It identifies critical problems which need timely action to keep the organisation in right track.

14.2.3 Prerequisites of an effective control system

1. Focus on objectives – The control system should always focus on objectives. It should aim to achieve the objectives of an organization.

2. Promptness – The control system should be prompt. That is, it should found deviations quickly. This will help the management to correct the deviations quickly.

3. Flexibility – The control system should be flexible. It should change according to change in plans, objectives, situations etc. a rigid control system is always fail. Hence, flexibility is necessary for a control system.

4. Forward Looking – The control system should be forward looking. It should forecast the future deviations. That is, it should find out the deviations before it happens. It should also take steps to prevent these future deviations.

5. Proper Standard – The control system should have proper standards. The standards should be clear. They should be definite, verifiable, specific and measurable. They should not be too high or too low.

6. Motivating – The control system should be motivating. It should give more importance to preventing the mistakes and less importance to punishing the employees. So, it should encourage, not discourage the employees.

7. Economical - Control should be economical and must be worth its costs. Economy is relative, since the benefits vary with the importance of the activity, the size of the operation, the expense that might be incurred in the absence of control and the contribution the control system can make.

8.Reflecting - The control system should reflect organisational pattern by focusing attention on positions in organisation structure through which deviations are corrected.

9. Point out Exceptions - Management by exception is a system of warning the management when the situation is likely to become out of control and the intervention of management is needed. Its main object is to make the task of managing simpler and more effective. If control is based on exception principle, it will allow the managers to concentrate on important issues. Hence, control should point out exception.

10.Remedial Action - An effective control system should point out the deviations, the persons responsible for such deviations and make sure that remedial action is taken. The main purpose of control is taking remedial action to set right the deviations. If no remedial action is taken, controls are not necessary.

11. Suggestive of Corrective Action - An adequate and effective control system should be suggestive of corrective action. It should not stop merely with pointing out deviations. It should go further and try to generate solutions to the problem responsible for deviation from the predetermined standards.

14.2.4 Importance of Controlling

1.Helps in achieving organisational goals - When the plans are made in the organisation these are directed towards achievement of organisational goal and the controlling function ensures that all the activities in the organisation take place according to plan and if there is any deviation, timely action is taken to bring back the activities on the path of planning. When all the activities are going according to plan then automatically these will direct towards achievement of organisational goal.

2. Judging accuracy of standards - Through strategic controlling we can easily judge whether the standard or target set are accurate or not. An accurate control system revises standards from time to time to match them with environmental changes.

3. Making efficient use of Resources - Like traffic signal control guides the organisation and keeps it on the right track. Each activity is performed according to predetermined standards. As a result there is most and effective use of resources.

4. Improving employee motivation - An effective control system communicates the goals and standards of appraisal for employees to subordinates well in advance. A good control system also guides employees to come out from their problems. This free communication and care motivate the employees to give better performance.

5. Ensures order and discipline - Control creates an atmosphere of order and discipline in the organisation. Effective controlling system keeps the subordinates under check and makes sure they perform their functions efficiently. Sharp control can have a check over dishonesty and fraud of employees.

6. Facilitate coordination in action-If there is coordination, the employees will have better communication and work will be quite smooth. The system of controlling makes sure that there is the proper direction to the employees so that they can work in the same direction. And to have a check at them is the major task of this process. One advantage of the control system is that the control system will have unity of direction which means the whole organisation is working as per the set standard.

7. Reduction in the errors **- If there is a good control on the functioning of the organisation, there will be fewer chances of the mistakes. The check is made only with the objective of committing fewer mistakes so that there can be efficient working of the organisation. The errors will be minimised if good controlling is there and a proper check is made. The controlling managers try to identify the errors as soon as possible, and they try to find out the remedies so that they can minimise the risk of the losses or improper functioning.**

14.2.5 Limitation of Controlling

1. Difficult to set standards - It is not that easy to set the standards for the effective and proper function of the organisation. It is not an easy task to set the standards for the tasks of the human and to set a level for the efficiency and how to maintain a level of their satisfaction. In these situations, the management has to create the judgement as per the discretion.

2. Due to external factors - There are things that are not under the control of the manager or the organisation. For instance, there are the policies imposed by the government, the change in the technology, change in the trends and preferences of the people or change in the policies of the competitors. All these are not under the control of the company, and that make the things out of control.

3. Employee's resistance - The employees that resist taking the challenges are not under the control of the organisation in some corner. The manager can

motivate the employees, but they cannot force them to work as per the rules and regulations.

4. No freedom to the employees - With so much of control, the employees feel that their freedom is shortened. They do not feel like working for the organisation that do not let them work as per their will. Thus, they leave the companies that do not give them freedom.

5. Expensive - The control system is very expensive as it involves the exercises that are highly charged. To measure the performance of every individual working in an organisation, there is the need of proper funds for sending the reports to the high authorities. It also requires to hire many employees which also add up to incurring the cost. The performance should be measured quantitatively so that the managers can observe it in a better way. There is the need of putting lot of time and efforts to the control system.

6. Over-controlling might increase the alteration rate - Although, controlling help to enhance various performance yet if overcontrolled the employee might irritate and move to another company. In the current scenario, senior managers often call their subordinates multiple time to evaluate their activities in the field. This might be irritating for the lower subordinates especially in case of newcomers and hence leads to increase alteration rate of the organisation.

14.2.6 Relationship between Planning and Controlling

Planning and controlling are inter-related to each other. Planning sets the goals for the organization and controlling ensures their accomplishment. Planning decides the control process and controlling provides sound basis for planning. In reality planning and controlling are both dependent on each other. In the words of M.C. Niles, "Control is an aspect and projection of planning, whereas planning sets the course, control observes deviations from the course, and initiates action to return to the chosen course or to an appropriately changed one.”

The relationship between planning and control can be explained as follows:

1. Planning Originates Controlling - In planning the objectives or targets are set in order to achieve these targets control process is needed. So planning precedes control.

2. Controlling Sustains Planning - In controlling the actual performance is compared to the standards set and records the deviations, if any. The information collected for exercising control is used for planning also.

3. Planning and Controlling are Interrelated - Planning is the first function of management. The other functions like organizing, staffing, directing etc. are organized for implementing plans. Control records the actual performance and compares it with standards set. In case the performance is less than that of standards set then deviations are ascertained. Proper corrective measures are taken to improve the performance in future. Planning is the first function and control is the last one. Both are dependent upon each other.

5. Planning and Control are Forward Looking - Planning and control are concerned with the future activities of the business. Planning is always for future and control is also forward looking. No one can control the past, it is the future which can be controlled. Planning and controlling are concerned with the achievement of business goals. Their combined efforts are to reach maximum output with minimum of cost. Both systematic planning and organized controls are essential to achieve the organizational goals.

6. Planning is looking ahead and controlling is looking back - Planning and controlling are inseparable. Planning is the primary function of every organisation it is the thinking process, which mean looking ahead or making plans that how desired goal is achieved in future thus it is called a forward looking function, on the other hand controlling is a systematic function which measures the actual performance with the planned performance. It compared and analysed the whole process of an organisation and take correcting actions. Thus, it is a backward looking function but the statement "Planning is looking ahead and controlling is looking back" is partially correct. Though planning is a futuristic concept but it is based on past actions and experiences Planning for future cannot take place without peeping into the past. The corrective action initiated by control function which aims to improve future performance. Thus, planning and controlling are both backward looking as well as a forward looking function.

14.3 Techniques of Controlling

The various techniques of managerial control may be classified into two broad categories:traditional techniques, and modern techniques.

Traditional techniques are those which have been used by the companies for a long time now. These are following-

1. Personal Observation - This is the most traditional method of control. Personal observation enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

2. Statistical Reports - Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

3. Break Even Analysis - Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities. The figure 1 shows breakeven chart of a firm. Breakeven point is determined by the intersection of Total Revenue and Total Cost curves. The figure shows that the firm will break even at 50,000 units of output. At this point, there is no profit no loss. It is beyond this point that the firm will start earning profits. Breakeven point can be calculated with the help of the following formula: Breakeven Point = Fixed Costs Selling price per unit –

Variable cost per unit. Breakeven analysis helps a firm in keeping a close check over its variable costs and determines the level of activity at which the firm can earn its target profit.

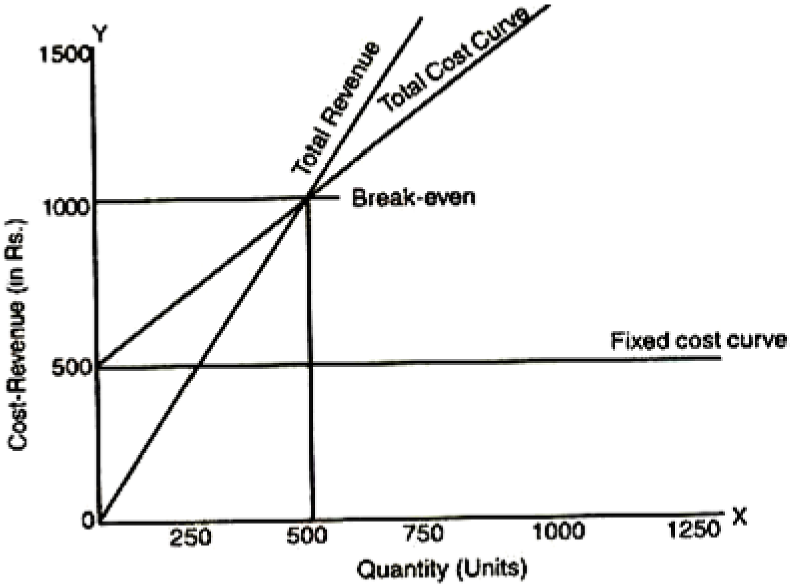

Fig. 1

4. Budgetary Control - Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished. A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities. Budgeting offers the following advantages:

1. Budgeting focuses on specific and time-bound targets and thus, helps in attainment of organisational objectives.

2. Budgeting is a source of motivation to the employees who know the standards against which their performance will be appraised and thus, enables them to perform better.

3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.

4. Budgeting is also used for achieving coordination among different departments of an organisation and highlights the interdependence between them. For instance, sales budget cannot be prepared without knowing production programmes and schedules.

5. It facilitates management by exception by stressing on those operations which deviate from budgeted standards in a significant way.

However, the effectiveness of budgeting depends on how accurately estimates have been made about future. Flexible budgets should be prepared which can be adopted if forecasts about future turn out to be different, especially in the face of changing environmental forces. Managers must remember that budgeting should not be viewed as an end but a means to achieve organisational objectives.

5. Operational or Internal Audit – Internal audit is an important technique of control. The work of internal audit is performed by internal auditor who happens to be an employee in the enterprise. He makes an independent inquiry into the financial and other activities of the enterprise. Apart from this, internal audit evaluates the plans of the enterprise and highlights their weaknesses and suggests way to overcome them. Internal audit is regularly operating which keeps the employees ever alert.

6.**Special Report** – Special reports are prepared in order to control some special problem. Daily statistical reports cannot be of much help in this direction. For example, suppose the production costs are regularly increasing in a company. Statistical figures can tell about the increase but not about the causes of increase. Sometimes, even with the best efforts of the production manager the causes of the mounting production cost cannot be located. Such a situation requires a special report. This report can be prepared by some senior manager working in the enterprise. The help of some outside inquiry agency or some management experts can also be obtained. These reports contain detailed information about the causes of the problem.

Modern Techniques - Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These includes –

1. Return on Investment - Return on Investment (ROI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. ROI can be used to measure overall performance of an organisation or of its individual departments or divisions. Total investment includes both working as well as fixed capital invested in business. According to this technique, ROI can be increased either by increasing sales volume proportionately more than total investment or by reducing total investment without having any reductions in sales volume. ROI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects ROI in an adverse manner.

2. Ratio Analysis - Ratio Analysis refers to analysis of financial statements through computation of ratios. The most commonly used ratios used by organisations can be classified into the following categories:

1. Liquidity Ratios: Liquidity ratios are calculated to determine short-term solvency of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.

2. Solvency Ratios: Ratios which are calculated to determine the long-term solvency of business are known as solvency ratios. Thus, these ratios determine the ability of a business to service its indebtedness.

3. Profitability Ratios: These ratios are calculated to analyse the profitability position of a business. Such ratios involve analysis of profits in relation to sales or funds or capital employed.

4. Turnover Ratios: Turnover ratios are calculated to determine the efficiency of operations based on effective utilisation of resources. Higher turnover means better utilisation of resources.

3. Responsibility Accounting - Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as ‘Responsibility Centres’. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

1. Cost Centre: A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues. For example, in a manufacturing organisation, production department is classified as cost centre.

2. Revenue Centre: A revenue centre is a segment of an organisation which is primarily responsible for generating revenue. For example, marketing department of an organisation may be classified as a revenue centre.

3. Profit Centre: A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. For example, repair and maintenance department of an organisation may be treated as a profit centre if it is allowed to bill other production departments for the services provided to them.

4. Investment Centre: An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as a basis for judging the performance of the centre.

4. Management Audit - Management audit refers to systematic appraisal of the overall performance of the management (managers at all the levels) of an organisation. This work is performed by the Management Auditor whose appointment is made by the Board of Directors. He judges mostly two things: (i) quality of managerial decisions, and (ii) efficiency of management methods. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. Thus, management audit may be defined as evaluation of the functioning, performance and effectiveness of management of an organisation. The main advantages of management audit are as follows.

1. It helps to locate present and potential deficiencies in the performance of management functions.

2. It helps to improve the control system of an organisation by continuously monitoring the performance of management.

3. It improves coordination in the functioning of various departments so that they work together effectively towards the achievement of organisational objectives.

4. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

Conducting management audit may sometimes pose a problem as there are no standard techniques of management audit. Also, management audit is not compulsory under any law. Enlightened managers, however, understand its usefulness in improving overall performance of the organisation.

5. Programme Network Analysis – Programme network analysis is an extremely important latest technique of control. This system is used in those enterprises where many activities have to be done in order to give a final shape to some work or project. In this system different activities are arranged ina sequence in the form of a diagram which is known as Programme Network. On this very basis this system has been given the name of Programme Network Analysis. In this system, two control techniques which are **- PERT(Programme Evaluation and Review Technique) and CPM (Critical Path Method)**– These are important network techniques useful in planning and controlling. These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. These techniques deals with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs. The steps involved in using PERT/ CPM are as follows:

1. The project is divided into a number of clearly identifiable activities which are then arranged in a logical sequence.

2. A network diagram is prepared to show the sequence of activities, the starting point and the termination point of the project.

3. Time estimates are prepared for each activity. PERT requires the preparation of three time estimates – optimistic (or shortest time), pessimistic (or longest time) and most likely time. In CPM only one time estimate is prepared. In addition, CPM also requires making cost estimates for completion of project.

4. The longest path in the network is identified as the critical path. It represents the sequence of those activities which are important for timely completion of the project and where no delays can be allowed without delaying the entire project.

5. If required, the plan is modified so that execution and timely completion of project is under control. PERT and CPM are used extensively in areas like ship-building, construction projects, aircraft manufacture, etc.

Difference between PERT and CPM

Basis of Comparison	**PERT**	**CPM**
Meaning	PERT is a project management technique, used to manage uncertain activities of a project.	CPM is a statistical technique of project management that manages well defined activities of a project.
What is it?	A technique of planning and control of time.	A method to control cost and time.
Orientation	Event-oriented	Activity-oriented
Evolution	Evolved as Research & Development project.	Evolved as Construction project.
Model	Probabilistic Model	Deterministic Model
Focuses on	Time	Time-cost trade-off
Estimates	Three time estimates	One time estimate
Appropriate for	High precision time estimate	Reasonable time estimate
Management of	Unpredictable Activities	Predictable activities
Nature of jobs	Non-repetitive nature	Repetitive nature

Suitable for	Research and Development Project. Used in new projects.	Non-research projects like civil construction, ship building etc. Used in some experience field.

6. Management Information System (MIS) - Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. A decision-maker requires up-to-date, accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers. MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards. MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.

2. It supports planning, decisionmaking and controlling at all levels.

3. It improves the quality of information with which a manager works.

4. It ensures cost effectiveness in managing information.

5. It reduces information overload on the managers as only relevant information is provided to them.

7. Zero Based Budgeting (ZBB) - Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. Developed by Peter Pyhrr in the 1970s,the process of zero-based budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one. Whenever a budget is prepared for a particular period, generally, the budget of the previous period is consulted and the new budget is prepared on its basis. This method of preparing a budget is called Based Budgeting. On the contrary, Zero Based Budgeting is for a particular period of time and the previous budget is not taken as its base, rather a altogether new budget is prepared. In other words, the budget prepared in this way is without any base. The greatest benefit of it is that the weaknesses of the previous year are not repeated in it . Forecasting in respect of each item is made keeping in view the new situations.

Suppose a company had prepared a budget last year for the production of 2000 units and this year the company wants to produce 2500 units. The traditional method of preparing a budget or having a based budgeting, the cost of 500 units will be added in the budget for the last year and in this way a new budget will be ready. But in a Zero Based Budget, all the costs for 2500 units will be determined afresh. By doing so, numerous unnecessary costs shown in the previous year’s budget will be eliminated. In addition to this, if in the coming year some item, which was not in the previous year’s budget, has to be paid, it will be added to the costs.

Advantages of Zero Based Budgeting

1. Efficiency: Zero-based Budgeting helps a business in the allocation of resources efficiently (department-wise) as it does not look at the previous budget numbers, instead looks at the actual numbers

2. Accuracy: Against the traditional budgeting method that involves mere some arbitrary changes to the earlier budget, this budgeting approach makes all departments relook every item of the cash flow and compute their operation costs. This methodology helps in cost reduction to a certain extent as it gives a true picture of costs against the desired performance.

3. Budget inflation: As mentioned above every expense is to be justified. Zero-based budget compensates the weakness of incremental budgeting of budget inflation.

4. Coordination and Communication: Zero-based budgeting provides better coordination and communication within the department and motivation to employees by involving them in decision-making.

5. Reduction in redundant activities: This approach leads to identify optimum opportunities and more cost-efficient ways of doing things by eliminating all the redundant or unproductive activities.

DisadvantagesofZero Based Budgeting

1. High Manpower Turnover: The foundation of zero-based budgeting itself is a zero. Budget under this concept is planned and prepared from the scratch and require the involvement of a large number of employees. Many departments may not have adequate human resource and time for the same.

2. Time-Consuming: This Zero-based budgeting approach is a highly time-intensive for a company to do annually as against incremental budgeting approach, which is a far easier method.

3. Lack of Expertise: Providing an explanation for every line item and every cost is a problematic task and requires training for the managers.

14.4 Check Your Progress

Fill in the blanks:

1. Controlling is related to …….. .
2. Control function of an organization is ………. as well as ……. looking.
3. ………. function of management not only helps in keeping a track on the progress ensures that activities conform to standards.
4. Remedial actions taken to prevent deviation in future is called ………… .
5. ……. and ….. are techniques of programme network analysis.
6. ………. provides the information for planning.

14.5 Summary

Controlling is the process of ensuring that actual activities conform to planned activities.The importance of managerial control lies in the fact that it helps in accomplishing organisational goals. Controlling also helps in judging accuracy of standards, ensuring efficient utilization of resources, boosting employee morale, creating an atmosphere of order and discipline in the organisation and coordinating different activities so that they all work together in one direction to meet targets. n Controlling suffers from certain limitations also. An organisation has no control over external factors. The control system of an organisation may face resistance from its employees. Sometimes controlling turns out to be a costly affair, especially in case of small organisations. Moreover, it is not always possible for the management to set quantitative standards of performance in the absence of which controlling exercise loses some of its effectiveness.The process of control involves setting performance standards, measurement of actual performance, comparison of actual performance with standards, analysis of deviations and taking corrective action. Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray.Personal observation, statistical reports, breakeven analysis and budgetary control are traditional techniques of managerial control.Return on investment, ratio analysis, responsibility accounting, management audit, PERT and CPM and Management Information System are modern techniques of managerial control.

14.6 Key words

1. Controlling – Controlling refers to bringing the actual results closer to the desired results.

2. Break-Even Point Analysis – This analysis makes it clear to the managers that if production and sales go down a fixed quantity, the enterprise may have to face a great loss.

3.Responsibility Accounting – It is that system of accounting under which the manager of each department or responsibility centre is held responsible for the success or failure of his department.

4.Programme Evaluation and Review Technique (PERT) – Under this system for the success of the project the various activities connected with it are so arranged as to consume the minimum time, at the minimum costs, and allow the work to proceed unhindered. Its chief aim is to control the time likely to be consumed in the completion of the project.

5.Critical Path Method (CPM) – This method is used in the repeated activities. Its chief aim is to control costs.

6.**Zero Based Budgeting (ZBB)** – Under this system a budget is prepared a new without making use of the figures of the previous years.

14.7 Self -Assessment Test

Q1. What do you mean by controlling? Explain its characteristics in detail.

Q2. What are the control techniques that are frequently employed by managers in organization?

Q3. Discuss the process of controlling in detail.

Q4. Explain PERT and CPM. Also explain its advantages and limitations.

Q5. Is controlling necessary in an organization? If so, why? What are the requirements of an ideal controlling system?

Q6. Discuss the relationship between planning and controlling in detail.

Q7. Discuss importance of Controlling. What are the limitations of Controlling?

14.8 Answers to Check Your Progress

1. Results
2. Forward and Backward
3. Controlling
4. Taking corrective actions
5. PERT and CPM
6. Control

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