MAR GREGORIOS COLLEGE OF ARTS & SCIENCE

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DEPARTMENT OF BUSINESS ADMINISTRATION

SUBJECT NAME: PRINCIPLES OF MANAGEMENT

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SEMESTER: IV

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Core Paper XI - PRINCIPLES OF MANAGEMENT

Objectives **No of Credits : 4**

□□□To make the students to understand the basic concepts of management.

□□□□To prepare the students to know about the significance of the management in Business.

Unit I : Introduction

Definition - Importance - Nature and Scope of Management - Process of Management - Role and functions of Managers - Levels of Management - Scientific Management - Contributions to Management by different Schools of thought.

Unit II : Planning

Nature - Importance - Types of Planning - Steps in planning - Objectives of Planning - Policies - Decision making Process - Types of Decisions.

Unit III : Organisation

Meaning and Types of organisations - Principles - Formal and Inform 20/35 Organisation Structure - Span of Control - Departmentalisation - Basis - Importance of Departmentalisation. Policies - Meaning and Types - Procedures - Forecasting.

Unit IV : Authority and Responsibility

Authority - Definition - Sources - Limitations - Difference between Authority and Responsibility - Delegation of Authority - Meaning - Principles and importance - Centralisation Vs Decentralisation.

Unit V : Direction Co-ordination & Control

Direction - Nature - Purpose. Co-ordination - Need - Types and Techniques - Requisites for Excellent Co-ordination. Controlling - Meaning - Importance - Control Process.

Suggested Readings

1. Gupta, C.B. Management Theory & Practice, Sulthan Chand & Sons, New Delhi.
2. Prasad, L.M. Principles & Practice of Management, Sultan Chand & Sons, New Delhi.
3. Tripathi, P.C. & Reddy, P.N. Principles of Managements, Tata Mc Graw Hill, New Delhi.
4. Weihrich and Koontz, Management - A Global Perspective.
5. Premavathy N, Principles of Management, Sri Vishnu Publications, Chennai.
6. Jayasankar, J. Business Management, Margham Publication, Chennai.
7. Sundar, K. Principles of Management, Vijay Nicole Imprints Pvt. Ltd., Chennai

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UNIT-I

PRINCIPLES OF MANAGEMENT

What is Management?

Management is essential for an organized life and necessary to run all types of management. Good management is the backbone of successful organizations. Managing life means getting things done to achieve life's objectives and managing an organization means getting things done with and through other people to achieve its objectives.

Definition:

Management can be defined as the **process of administering and controlling the affairs of the** organization, irrespective of its nature, type, structure and size. It is an act of creating and maintaining such a business environment wherein the members of the organization can work together, and achieve business objectives efficiently and effectively.

Management acts as a guide to a group of people working in the organization and coordinating their efforts, towards the attainment of the common objective.

According to F.W. Taylor, ' Management is an art of knowing what to do when to do and see that it is done in the best and cheapest way '.

According to Harold Koontz, 'Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals.'

In other words, it is concerned with **optimally using 5M's, i.e. men, machine, material, money and methods** and, this is possible only when there proper direction, coordination and integration of the processes and activities, to achieve the desired results.

Characteristics of Management

- **Universal**: All the organizations, whether it is profit-making or not, they require management, for managing their activities. Hence it is universal in nature.

- **Goal-Oriented**: Every organization is set up with a predetermined objective and management helps in reaching those goals timely, and smoothly.
- **Continuous Process**: It is an ongoing process which tends to persist as long as the organization exists. It is required in every sphere of the organization whether it is production, human resource, finance or marketing.
- **Multi-dimensional**: Management is not confined to the administration of people only, but it also manages work, processes and operations, which makes it a multi-disciplinary activity.
- **Group activity**: An organization consists of various members who have different needs, expectations and beliefs. Every person joins the organization with a different motive, but after becoming a part of the organization they work for achieving the same goal. It requires supervision, teamwork and coordination, and in this way, management comes into the picture.
- **Dynamic function**: An organization exists in a business environment that has various factors like social, political, legal, technological and economic. A slight change in any of these factors will affect the organization's growth and performance. So, to overcome these changes management formulates strategies and implements them.
- **Intangible force**: Management can neither be seen nor touched but one can feel its existence, in the way the organization functions.

Precisely, all the functions, activities and processes of the organization are interconnected to one another. And it is the task of the management to bring them together in such a way that they help in reaching the intended result.

Levels of Management

1. **Top-Level Management**: This is the highest level in the organizational hierarchy, which includes **Board of Directors and Chief Executives**. They are responsible for defining the objectives, formulating plans, strategies and policies.
2. **Middle-Level Management**: It is the second and most important level in the corporate ladder, as it creates a link between the top and lower-level management. It includes **departmental and division heads and managers** who are responsible for implementing and controlling plans and strategies which are formulated by the top executives.

3. **Lower Level Management**: Otherwise called as functional or operational level management. It includes **first-line managers, foreman, supervisors**. As lower-level management directly interacts with the workers, it plays a crucial role in the organization because it helps in reducing wastage and idle time of the workers, improving the quality and quantity of output.

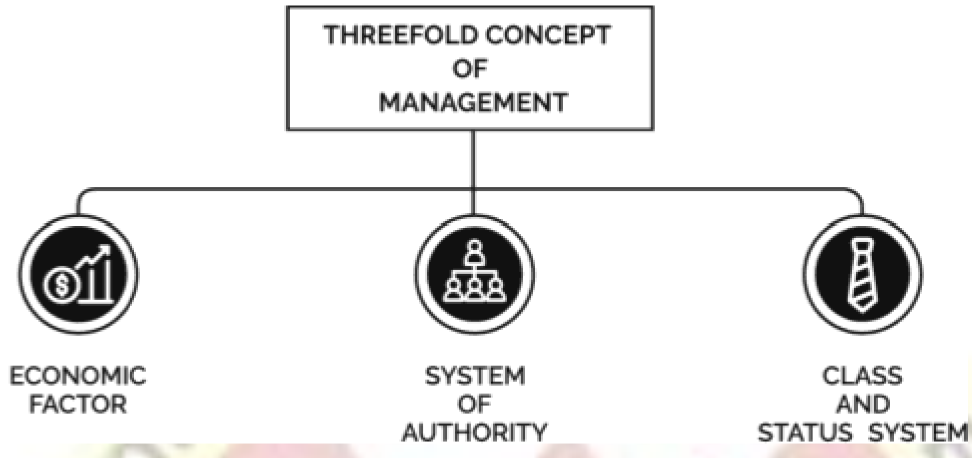
The three management levels form the management hierarchy, that represents the position and rank of executives and managers in the chart.

Functions of Management

- **Planning**: It is the first and foremost function of management, i.e. to decide beforehand what is to be done in future. It encompasses formulating policies, establishing targets, scheduling actions and so forth.
- **Organizing**: Once the plans are formulated, the next step is to organise the activities and resources, as in identifying the tasks, classifying them, assigning duties to subordinates and allocating the resources.
- **Staffing**: It involves hiring personnel for carrying out various activities of the organization. It is to ensure that the right person is appointed to the right job.
- **Directing**: It is the task of the manager to guide, supervise, lead and motivate the subordinates, to ensure that they work in the right direction, so far as the objectives of the organization are concerned.
- **Controlling**: The controlling function of management involves a number of steps to be taken to make sure that the performance of the employees is as per the plans. It involves establishing performance standards and comparing them with the actual performance. In case of any variations, necessary steps are to be taken for its correction.
- **Coordination** is an important feature of management which means the integration of the activities, processes and operations of the organization and synchronisation of efforts, to ensure that every element of the organization contributes to its success.

CONCEPT OF MANAGEMENT

To understand the definition of management and its nature, a threefold concept of management for emplacing a broader scope for the viewpoint of management.



Management is an Economic Factor

For an economist, management is one of the factors of production together with land, labor, and capital.As the industrialization of a nation increases, the need for management becomes greater. The managerial resources of a firm determine, in large measure, its productivity and profitability. Executive development, therefore, is more important for those firms in a dynamic industry in which progress is rapid.

Management is a System of Authority

From an administrator's point of view, management is a system of authority. Historically, management first developed an authoritarian philosophy. Later on, it turned paternalistic. Still, later, constitutional management emerged, characterized by a concern for consistent policies and procedures for dealing with the working group.Finally, the trend of management turned towards a democratic and participatory approach. Modern management is nothing but a synthesis of these four approaches to authority.

Management is a Class and Status System

As viewed by a sociologist, management is a class-and-status system.The increase in the complexity of relationships in modern society demands that managers become elite of brain and education. Entry into this class of executives is being more and more dependent on excellence in education and knowledge rather than family or political connections.

Some scholars view this development as a "Managerial Revolution". But you might have a different point of view about management but the purpose of it remains static; reach the goal effectively and efficiently.

It is a set of activates directed at an organization's resources to achieve **organizational goals efficiently and effectively**. The basic managerial functions or activities are planning, organizing, leading, and controlling. These activities are undertaken by the managers to combine all resources (human, financial, physical, information) efficiently and effectively to work toward achieving the goals of the organization.

NATURE OF MANAGEMENT

Management as a systematic process of planning, organizing, staffing, leading and controlling. As managers, people carry out the managerial functions of planning, organizing, staffing, leading, and controlling.

- The concepts and activities of management apply to all levels of management, as well as to all types of organizations and activities managed.
- The aim of all managers is universal: to create a surplus.
- Management identifies a special group of people whose job is to direct the effort and activities of other people towards common objectives.
- **Management is concerned with productivity, thereby implying efficiency and effectiveness**. Factors of production of an organization such as labor, capital, land, equipment, etc. are used efficiently and effectively prepared through management for achieving organizational goals.
- Management has to pay attention to fulfilling the objectives of the interested parties.
- **Management is the art and science of getting work done** by other peoples.
- "Maximum results with the minimum of efforts" is the motto of management of any organization.

Management as a concept has broadened in scope with the introduction of new perspectives by different fields of study, such as economics, sociology, psychology and the like.

FEATURES OF MANAGEMENT

1. Management is Associated with Group Efforts
2. Management is Purposeful
3. Management is Accomplished Through the Efforts of Others
4. Management is Goal-oriented
5. Management is Indispensable
6. Management is Intangible
7. Management can Ensure Better Life

Management is Associated with Group Efforts

Although people as individuals manage many personal affairs, the **group emphasis on management is universal**.

Every enterprise entails the existence of a group to achieve goals. It is now established that goals are achieved more readily by a group than by any one person alone.

Management is Purposeful

Wherever there is management, there is a purpose. Management deals with the achievement of something definite expressed as a goal or objective.

Management success is commonly measured by the extent to which objectives are achieved. Management exists because it is an effective means of getting the necessary work accomplished.

Management is Accomplished Through the Efforts of Others

Management is sometimes defined as "getting things done through others' efforts."

Besides the manager of a firm, there may be accountants, engineers, system analysts, salesmen and a host of other employees working but it is the manager's job to integrate all their activities.

Thus it can well be said that participation in management necessitates relinquishing the normal tendency to perform all things oneself and getting tasks accomplished through group efforts.

Management is Goal-oriented

Managers focus their attention and efforts on bringing about successful action. **Successful managers have an urge for accomplishment**.

They know when and where to start, what to do with keeping things moving, and how to follow a goal-oriented approach.

Management is Indispensable

Management can neither be replaced nor substituted by anything else.

Even the computer which is the wonderful invention of the twentieth century can only aid but not replace management.

We know that the computer is an extremely powerful tool for management.

It can widen a manager's vision and sharpen his insight by supplying more and faster information for making key decisions.

The computer has enabled the manager to conduct analysis far beyond the normal analytical capacities of man.

But what happens, in reality, is that the computer can neither work by itself nor can it pass any judgment.

The manager plays his/her role by providing judgment and imagination as well as interpreting and evaluating what the information/data mean in each case.

Management is Intangible

Management is often called the unseen force; its presence is evidenced by the results of its efforts – motivation among employees, discipline in the group, high productivity, adequate surplus, etc.

Conversely, the identity of management may also be felt by its absence or by the presence of its direct opposite mismanagement. The consequence of mismanagement is anybody’s guess.

Management can Ensure Better Life

A manager can do much to improve the work environment, stimulate people to perform better, achieve progress, bring hope and accomplish better things in life.The study of management has evolved into more than just the use of means to achieve ends; today it includes moral and ethical questions concerning the selection of the right ends towards which managers should strive .Management is the science and art of getting people together to accomplish desired goals and objectives by coordinating and integrating all available resources efficiently and effectively.

Five basic operations of a manager

In general, there are five basic functions of a manager:

1. Setting objectives
2. Organizing
3. Motivating the team
4. Devising systems of measurement
5. Developing people

1. Setting objectives

Setting and achieving objectives is the primary way a manager accomplishes and maintains success. They must also be able to convey them to their staff or employees in a compelling manner. For instance, a restaurant manager could state they want to improve service times and remind employees that faster service increases revenue and tips.

2. Organizing

Managers evaluate the type of work, divide it into achievable tasks and effectively delegate it to staff. Organization consists of a series of relationships among individual staff as well as departments or entities inside the organization. It is the manager’s responsibility to ensure that these individuals and entities work together in harmony, which includes motivating staff members and departments to stay on task. A good manager is skilled at building interpersonal relationships among their team members and can troubleshoot when members confuse their encounter challenges.

3. Motivating the team

In addition to the tasks of organization and delegation, motivation includes having the skills to handle different types of personalities in a team. An effective manager must know how to form and lead successful teams and know how to galvanize team members around a cause.

4. Devising systems of measurement

Managers need to set targets or key performance indicators that the team aims for and then generate ways to measure whether their team is on track to meet those goals. Because it can be challenging to come up with measurable ways of understanding performance, managers must often be creative and thoughtful. However, like the other functions of management, measurement is critical to improving business performance.

5. Developing people

In addition to leading their team toward a goal and measuring their progress along the way, good managers invest in their staff's development. Managers can, for example, work with their team to help them set goals to move up in their careers.

Managers must have leadership skills to use these five operations successfully. They are responsible for coaching their team members by helping them recognize their strengths and weaknesses and improve their performance. Different managers may have different styles of leadership. Regardless of their style, managers should develop their leadership skills to be an effective supervisor.

What Are the Responsibilities of a Manager?

Management concepts

A manager needs to understand a few simple ideas to employ the five basic operations. These concepts are essential to ensure their team comes together to reach the business' goals:

- **Control:** Employees of an organization need to understand the goals that they are aiming for as well as the measurement that will be used to determine whether they have been successful. Different staff members in a company have different roles that entail separate levels of responsibility. A manager must have control over what the members do, how they do it and how to measure their progress. Control over these factors helps a manager reach success.

- **Planning:** The best managers know that planning is critical before the implementation of any strategy, but it is also an ongoing activity. Planning does not end when implementation begins. Rather, management needs to be prepared to answer the questions of who, what, when and where a team is working to implement the organization's mission. Planning should include selecting objectives as well as implementing them.
- **Staffing:** Staffing is an underappreciated but crucial function of management. Managers need to ensure that they have the right people for the job, but they also need to pay attention to issues like organizing workplace policies. The company needs to retain the best talent by providing incentives such as benefits, paid time off and a thorough training program.

ROLE OF MANAGERS

Managers are the primary force in an organization's growth and expansion. Larger organizations are particularly complex due to their size, process, people and nature of business. However, organizations need to be a cohesive whole encompassing every employee and their talent, directing them towards achieving the set business goals. This is an extremely challenging endeavor, and requires highly effective managers having evolved people management and communication skills.

The Top Management

The top level executives direct the organization to achieve its objectives and are instrumental in creating the vision and mission of the organization. They are the strategic think-tank of the organization.

Senior Management

The General Manager is responsible for all aspects of a company. He is accountable for managing the P&L (Profit & Loss) statement of the company. General managers usually report to the company board or top executives and take directions from them to direct the business.The Functional Manager is responsible for a single organizational unit or department within a company or organization. He in turn is assisted by a Supervisor or groups of managers within his unit/department. He is responsible for the department’s profitability and success.

Line and Staff Managers

Line Managers are directly responsible for managing a single employee or a group of employees. They are also directly accountable for the service or product line of the company. For example, a line manager at Toyota is responsible for the manufacturing, stocking, marketing, and profitability of the Corolla product line. Staff Managers often oversee other employees or subordinates in an organization and generally head revenue consuming or support departments to provide the line managers with information and advice.

Project Managers

Every organization has multiple projects running simultaneously through its life cycle. A project manager is primarily accountable for leading a project from its inception to completion. He plans and organizes the resources required to complete the project. He will also define the project goals and objectives and decide how and at what intervals the project deliverables will be completed.

The Changing Roles of Management and Managers

Every organization has three primary interpersonal roles that are concerned with interpersonal relationships. The manager in the figurehead role represents the organization in all matters of formality. The top-level manager represents the company legally and socially to the outside world that the organization interacts with.

In the supervisory role, the manager represents his team to the higher management. He acts as a liaison between the higher management and his team. He also maintains contact with his peers outside the organization.

Mintzberg's Set of Ten Roles

Professor Henry Mintzberg, a great management researcher, after studying managers for several weeks concluded that, to meet the many demands of performing their functions, managers assume multiple roles.

He propounded that the role is an organized set of behaviors. He identified the following ten roles common to the work of all managers. These roles have been split into three groups as illustrated in the following figure.

Interpersonal Role

- **Figurehead** − Has social, ceremonial and legal responsibilities.
- **Leader** − Provides leadership and direction.
- **Liaison** − Networks and communicates with internal and external contacts.

Informational Role

- **Monitor** − Seeks out information related to your organization and industry, and monitors internal teams in terms of both their productivity and well-being.
- **Disseminator** − Communicates potentially useful information internally.
- **Spokesperson** − Represents and speaks for the organization and transmits information about the organization and its goals to the people outside it.

Decisional Role

- **Entrepreneur** − Creates and controls change within the organization - solving problems, generating new ideas, and implementing them.
- **Disturbance Handler** − Resolves and manages unexpected roadblocks.
- **Resource Allocator** − Allocates funds, assigning staff and other organizational resources.
- **Negotiator** − Involved in direct important negotiations within the team, department, or organization.

Managerial Skills

Henri Fayol, a famous management theorist also called as the Father of Modern Management, identified three basic managerial skills - technical skill, human skill and conceptual skill.

Technical Skill

- Knowledge and skills used to perform specific tasks. Accountants, engineers, surgeons all have their specialized technical skills necessary for their respective professions. Managers, especially at the lower and middle levels, need technical skills for effective task performance.
- Technical skills are important especially for first line managers, who spend much of theirtime training subordinates and supervising their work-related problems.

Human Skill

- Ability to work with, understand, and motivate other people as individuals or in groups. According to Management theorist Mintzberg, the top (and middle) managers spend their time: 59 percent in meetings, 6 percent on the phone, and 3 percent on tours.
- Ability to work with others and get co-operation from people in the work group. For example, knowing what to do and being able to communicate ideas and beliefs to others and understanding what thoughts others are trying to convey to the manager.

Conceptual Skill

- Ability to visualize the enterprise as a whole, to envision all the functions involved in a given situation or circumstance, to understand how its parts depend on one another, and anticipate how a change in any of its parts will affect the whole.
- Creativity, broad knowledge and ability to conceive abstract ideas. For example, the managing director of a telecom company visualizes the importance of better service for its clients which ultimately helps attract a vast number of clients and an unexpected increase in its subscriber base and profits.

Other Managerial Skills

Besides the skills discussed above, there are two other skills that a manager should possess, namely diagnostic skill and analytical skill.

Diagnostic Skill − Diagnose a problem in the organization by studying its symptoms. For example, a particular division may be suffering from high turnover. With the help of diagnostic skill, the manager may find out that the division's supervisor has poor human skill in dealing with employees. This problem might then be solved by transferring or training the supervisor.

Analytical Skill − Ability to identify the vital or basic elements in a given situation, evaluate their interdependence, and decide which ones should receive the most attention. This skill enables the manager to determine possible strategies and to select the most appropriate one for the situation.

For example, when adding a new product to the existing product line, a manager may analyze the advantages and risks in doing so and make a recommendation to the board of directors, who make the final decision.

<u>HENRY FAYOL 14 PRINCIPLES OF MANAGEMENT</u>

Henry Fayol, also known as the 'father of modern management theory' gave a new perception of the concept of management.

Name of 14 principles of management given by Henri Fayol

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D	Division of work	O	Order
A	Authority and Responsibility	I	Initiative
D	Discipline	S	Subordination of individual interest to general interest
U	Unity of Command	E	Equity
C	Centralisation and Decentralisation	E	Esprit de Corps
U	Unity of direction		
S	Scalar chain		
S	Stability of Tenure		
R	Remuneration		

1. Division of Work-

Henri believed that segregating work in the workforce amongst the worker will enhance the quality of the product. Similarly, he also concluded that the division of work improves the productivity, efficiency, accuracy and speed of the workers. This principle is appropriate for both the managerial as well as a technical work level.

2. Authority and Responsibility-

These are the two key aspects of management. Authority facilitates the management to work efficiently, and responsibility makes them responsible for the work done under their guidance or leadership.

3. Discipline-

Without discipline, nothing can be accomplished. It is the core value for any project or any management. Good performance and sensible interrelation make the management job easy and comprehensive. Employees good behaviour also helps them smoothly build and progress in their professional careers.

4. Unity of Command-

This means an employee should have only one boss and follow his command. If an employee has to follow more than one boss, there begins a conflict of interest and can create confusion.

5. Unity of Direction-

Whoever is engaged in the same activity should have a unified goal. This means all the person working in a company should have one goal and motive which will make the work easier and achieve the set goal easily.

6. Subordination of Individual Interest-

This indicates a company should work unitedly towards the interest of a company rather than personal interest. Be subordinate to the purposes of an organization. This refers to the whole chain of command in a company.

7. Remuneration-

This plays an important role in motivating the workers of a company. Remuneration can be monetary or non-monetary. However, it should be according to an individual's efforts they have made.

8. Centralization-

In any company, the management or any authority responsible for the decision-making process should be neutral. However, this depends on the size of an organization. Henri Fayol stressed on the point that there should be a balance between the hierarchy and division of power.

9. Scalar Chain-

Fayol on this principle highlights that the hierarchy steps should be from the top to the lowest. This is necessary so that every employee knows their immediate senior also they should be able to contact any, if needed.

10. Order-

A company should maintain a well-defined work order to have a favourable work culture. The positive atmosphere in the workplace will boost more positive productivity.

11. Equity-

All employees should be treated equally and respectfully. It's the responsibility of a manager that no employees face discrimination.

12. Stability-

An employee delivers the best if they feel secure in their job. It is the duty of the management to offer job security to their employees.

13. Initiative-

The management should support and encourage the employees to take initiatives in an organization. It will help them to increase their interest and make then worth.

14. Esprit de Corps-

It is the responsibility of the management to motivate their employees and be supportive of each other regularly. Developing trust and mutual understanding will lead to a positive outcome and work environment.

FW Taylor Principles of Scientific Management

Frederick Taylor and Scientific Management

Frederick Winslow Taylor (1856-1915) was an American inventor and engineer that applied his engineering and scientific knowledge to management and developed a theory called scientific management theory. His two most important books on his theory are *Shop Management* (1903) and *The Principles of Scientific Management* (1911).

Frederick Taylor's scientific management theory can be seen in nearly all modern manufacturing firms and many other types of businesses. His imprint can be found in production planning, production control, process design, quality control, cost accounting, and even ergonomics. If you understand the principles of scientific management, you will be able to understand how manufacturers produce their goods and manage their employees. You will also understand the importance of **quantitative analysis**, or the analysis of data and numbers to improve production effectiveness and efficiency.

1. Science, not the Rule of Thumb-

This rule focuses on increasing the efficiency of an organisation through scientific analysis of work and not with the 'Rule of Thumb' method. Taylor believed that even a small activity like loading paper sheets into boxcars can be planned scientifically. This will save time and also human energy. This decision should be based on scientific analysis and cause and effect relationships rather than 'Rule of Thumb' where the decision is taken according to the manager's personal judgement.

2. Harmony, Not Discord-

Taylor indicated and believed that the relationship between the workers and management should be cordial and complete harmony. Difference between the two will never be beneficial to either side. Management and workers should acknowledge and understand each other's importance. Taylor also suggested the mental revolution for both management and workers to achieve total harmony.

3. Mental Revolution-

This technique involves a shift of attitude of management and workers towards each other. Both should understand the value of each other and work with full participation and cooperation. The aim of both should be to improve and boost the profits of the organisation. Mental Revolution demands a complete change in the outlook of both the workers and management; both should have a sense of togetherness.

4. Cooperation, not Individualism-

It is similar to 'Harmony, not discord' and believes in mutual collaboration between workers and the management. Managers and workers should have mutual cooperation & confidence and a sense of goodwill. The main purpose is to substitute internal competition with cooperation.

5. Development of Every Person to his Greatest Efficiency-

The effectiveness of a company also relies on the abilities and skills of its employees. Thus, implementing training, learning best practices and technology, is the scientific approach to brush up the employee skill. To assure that the training is given to the right employee, the right steps should be taken at the time of selection and recruiting candidates based on a scientific selection.

MANAGEMENT AS AN ART, SCIENCE AND PROFESSION

To decide whether management is science, art or profession, one has to comprehend the characteristics and definitions of science, art and profession and associate them with management definition and traits.

Management as an Art:

Art is the experienced and personal utilisation of subsisting information to accomplish solicited outcomes. It can be procured via education, research and practice. As art is involved with the personal utilisation of data some kind of inventiveness and creativity is needed to follow the fundamental systems acquired. The essential characteristics of art are as follows:

- **The presence of theoretical knowledge**: Art assumes the presence of specific academic knowledge. Specialists in their particular fields have obtained specific elementary postulates which are appropriate to a specific sort of art. For instance, the literature on public speaking, acting or music, dancing is publicly acknowledged.
- **Personalised application**: The application of this primary information differs from person to person. Art, hence, is a highly personalised notion.
- **Based on custom and creativity**: Art is practical. Art includes the creative practice of subsisting intellectual knowledge. We know that music is based on 7 notes. However, what makes the style of a musician different or distinctive is his performance of these notes in an artistic way that is uniquely his own solution.

Management as a Science:

Science is an organised collection of knowledge that emphasises definite universal truths or the action of comprehensive laws. The central characteristics of science are as follows:

- **The organised body of knowledge**: Science is a precise entity of knowledge. Its systems are based on a purpose and consequence association.
- **Universal validity**: Scientific conventions have global genuineness and application.
- **Systems based on experimentation**: Scientific conventions are originally formed via research and then tested via repeated trial and error under the regulated situations.

Management as a Profession:

The profession can be described as an occupation upheld by specific education and practice, in which entry is limited. A profession has the following features:

- **The well-defined theory of knowledge**: All services are based on a well-defined form of education that can be procured through education.
- **Restricted entry**: The entrance to a profession is defined through an examination or through obtaining an educational degree. For instance, to become a chartered accountant in India an aspirant has to clear a detailed examination regulated by the Institute of Chartered Accountants of India (ICAI).
- **Professional community**: All professions are affiliated to a professional association which controls entry, presents a certificate of training and expresses and supports a system of government. To be qualified to study in India, lawyers have to become members of the Bar Council which monitors and regulates their actions.

Henry Fayol's Contribution to Management!

Henry Fayol (1841-1925) started his career as a junior engineer in a coal mine company in France and became its general manager in 1880.

He not only saved a large coal and steel company from bankruptcy, but also led to crowning success.

His ideas on management have been summed up as the Administrative Management Theory, which later evolved into the Management Process School. A contemporary of Taylor, Fayol for the first time attempted a systematic analysis of the overall management process. In 1916, he published his famous book in French language 'Administration Industrielle Generale.'

It was reprinted several times in French and later published in English language under the title, General and Industrial Management in 1929. Fayol's contribution to management can be discussed under the following four heads:

1. Division of Industrial Activities:

Fayol observed the organizational functioning from manager's point of view.

He found that all activities of the industrial enterprise could be divided into six groups:

(i) Technical (relating to production);

(ii) Commercial (buying, selling and exchange);

(iii) Financial (search for capital and its optimum use) ;

(iv) Security (protection of property and persons);

(v) Accounting (Preparation of various statements, accounts, returns etc.) and

(vi) Managerial (planning, organisation, command, co-ordination and control)

He pointed out that these activities exist in every enterprise. He further said that the first five activities are well known to a manager and consequently devoted most of his book to analyse managerial activities.

2. Qualities of an Effective Manager:

Henry Fayol was the first person to recognise the different qualities for manager.

According to him these qualities are:

(i) Physical (health, vigour, and address);

(ii) Mental (ability to understand and learn, judgement, mental vigour, and adaptability)

(iii) Moral (energy, firmness, willingness to accept responsibility, initiative, loyalty, tact and dignity);

(iv) Educational (acquaintance with matters related to general functioning) ;

(v) Technical (peculiar to the functions being performed); and

(vi) Experience (arising from the work).

Functions of Management:

Fayol classified the elements of management into five and all such elements were considered by him as the functions of management.

According to him following are the functions of management:

(i) Planning:

Deciding in advance what to do. It involves thought and decision relating to a future course of action.

(ii) Organizing:

Providing everything that is useful to a business enterprise for its operation i.e., men, materials, machines and money etc.

(iii) Commanding::

Maintaining activity among personnel (lead the personnel in a better way).

(iv) Co-ordinating:

The channelisation of group efforts in the direction of achieving the desired objective of the enterprise (binding together-unifying and harmonizing all activity).

(v) Controlling:

Seeing that everything is being carried out according to the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from occurring again.

Fayol observed that these principles apply not only to business enterprise, but also to political, religious, philanthropic or other undertakings.

4. Principles of Management:

Hentry Fayol evolved 14 principles that can be applied in all management situations irrespective of the types of organization. He named Division of work (Specialisation), Parity between Authority and Responsibility, Discipline, Unity of Command, Unity of Direction, Subordination of Individual Interest to General Interest, Fair Remuneration to workers.

Effective Centralisation, Scalar Chain, Order, Equity, Stability in the tenure of personnel, Initiative and Esprit de Corps (Union is Strength) principles which he himself used on most occasions. Fayol made distinction between management principles and management elements.

The management principle is a fundamental truth and establishes cause-effect relationship while management element gives the functions performed by a manager. (These have already been explained in a separate chapter The Management Process). These principles not only influenced but also dominated management thought.

HAWTHORNE EXPERIMENTS- ELTON MAYO

Introduction

Elton Mayo's team conducted a number of experiments involving six female workers. These experiments are often referred to as the Hawthorne experiments or Hawthorne studies as they took place at The Hawthorne Works of the Western Electric Company in Chicago.

Hawthorne Experiment Details

Over the course of five years, Mayo's team altered the female worker's working conditions and monitored how the change in working conditions affected the workers morale and productivity. The changes in working conditions included changes in working hours, rest brakes, lighting, humidity, and temperature. The changes were explained to the workers prior to implementation.

Hawthorne Experiment Results

At the end of the five year period, the female worker's working conditions, reverted back to the conditions before the experiment began. Unexpectedly the workers morale and productivity rose to levels higher than before and during the experiments. The combination of results during and after the experiment (ie the increase in the workers productivity when they were returned to their original working conditions) led Mayo to conclude that workers were motivated by psychological conditions more than physical working condition.

Hawthorne Experiment Conclusions

After analysing the results from the Hawthorne experiments Mayo concluded that workers were motivated by more than self interest and the following had an impact too:

Psychological Contract

There is an unwritten understanding between the worker and employer regarding what is expected from them; Mayo called this the psychological contract.

Interest in Workers

A worker's motivation can be increased by showing an interest in them. Mayo classified studying the workers (through the experiments) as showing an interest in the workers.

Work is a Group Activity

Work is a group activity, team work can increase a worker's motivation as it allows people to form strong working relationships and increases trust between the workers. Work groups are created formally by the employer but also occur informally. Both informal and formal groups should be used to increase productivity as informal groups influence the worker's habits and attitudes.

Social Aspect of Work

Workers are motivated by the social aspect of work, as demonstrated by the female workers socialising during and outside work and the subsequent increase in motivation.

Recognise Workers

Workers are motivated by recognition, security and a sense of belonging.

Communication

The communication between workers and management influences workers' morale and productivity. Workers are motivated through a good working relationship with management

Main Contribution of Mayo in Developing Management Thought

Some of the major contribution of mayo in developing management thought are as follows: 1. Human Relations Approach 2. Non-Economic Awards 3. Social Man 4. Organisation as a Social System. Mayo was the first person to plead for the understanding of workers' problems the context of growth of science and technology.

His main contributions are discussed as follows:

1. Human Relations Approach:

Mayo is rightly called the father of human relations movement. His ideas were a milestone and a turning point in human relations approach of the management. He recognised the importance of human beings in management. He said that human beings are complex and influential input into organisational performance. The social and psychological needs of human beings cannot be ignored, if management wants to enhance productivity.

2. Non-Economic Awards:

The earlier assumption was that workers will work more if they are offered more monetary incentives. Taylor was the main proponent of this approach. Elton Mayo said that the techniques of economic incentives were not only inadequate but also unrealistic.

He was able to show that humane and respectful treatment, sense of participation and belonging, recognition, morale, human pride and social interaction are sometimes more important than pure monetary rewards.

3. Social Man:

Mayo developed a concept of 'social man'. He said that man is basically motivated by social needs and obtains his sense of identity through relationships with others. He is more responsive to the social forces of the informal group rather than managerial incentives and controls. He also related productivity to a social phenomenon.

4. Organisation as a Social System:

Mayo was of the view that informal relationships in the organisation are more effective than formal relationships. People form informal groups to give a bent to their feelings and seek guidance for action from such groups.

In Mayo's words, "An organisation is a social system, a system of cliques, grapevines, informal status systems, rituals and a minute of logical, non-logical and illogical behaviour." He was of the opinion that managers should maintain an equilibrium between the logic of efficiency' demanded by the formal organisation. He thought that besides logic and facts people are also guided by sentiments and feelings.

Hawthorne's experiments were criticized for lack of scientific and vigorous research. The experiments were too narrow to warrant generalizations. Despite these observations Mayo's work was a turning point in the development of management thought.

Taylor's contribution can be summed up as under:

1. Application of scientific principles to the problems of management.

2. "He was the first to state that it was the duty of management to tell the workers what was expected of them" — Haimann.

3. "He was the first to specify the way in which the job is to be performed" —Haimann.

4. Ushering in of mental revolution on the part of employers and employees both.

5. He was the first man in the history of management thought to use systematic experiments of time and motion study.

6. Planning of work separated from its execution was first introduced by him.

7. "Functional foremanship" concept was first coined and introduced by Taylor in management thought.

Taylor summed up his contribution in the following words: Science and not rule of thumb Harmony not discord Co-operation, not individualism Maximum output in place of restricted output. The development of each man to his greatest efficiency and prosperity.

Dr. Taylor's contribution to management philosophy can best be appreciated in his human approach. It was his unprecedented contribution to the management thought that to have the best from an employee the maximum incentive should be given not only in terms of money but also through employer—employee relationship.

However criticised, Scientific Management has definitely marked out a place in management thought which no authority could challenge — a new concept that had never before been conceived. Nothing is an unmixed blessing in this world — so Scientific Management concept cannot be an exception. It has given much more than it has taken away from the business management.

Major Contributions of Peter Drucker to Management

Some of the major contributions of Peter Drucker are as follows: 1. Nature of Management 2. Management Functions 3. Organisation Structure 4. Federalism 5. Management by Objectives 6. Organizational Changes.

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

The more important books are; Practice of Management (1954), Managing by Results (1964), The Effective Executive (1967), The Age of Discontinuity (1969), Management: Tasks, Responsibilities and Practices (1974), and Management Challenges for 2Century (1999),

1. Nature of Management:

Drucker is against bureaucratic management and has emphasised management with creative and innovative characteristics. The basic objective of management is to read towards innovation. The concept of innovation is quite broad. It may include development of new ideas, combining of old and new ideas, adaptation of ideas from other fields or even to act as a catalyst and encouraging others to carry out innovation.

He has treated management as a discipline as well as profession. As a discipline, management has its own tools, skills, techniques and approaches. However, management is more a practice rather than a science. Thus, Drucker may be placed in 'empirical school of management'.

While taking management as a profession. Drucker does not advocate to treat management as a strict profession but only a liberal profession which places more emphasis that managers should not only have skills and techniques but should have right perspective putting the things into practice. They should be good practitioners so that they can understand the social and cultural requirements of various organisations and countries.

2. Management Functions:

According to Drucker, management is the organ of its institution. It has no functions in itself, and no existence in itself. He sees management through its tasks. Accordingly, there are three basic functions of a manager which he must perform to enable the institution to make its contribution for:

(i) the specific purpose and mission of the institution whether business, hospital or university;

(ii) making work productive and the worker achieving; and

(iii) managing social impacts and social responsibilities.

All these three functions are performed simultaneously within the same managerial action. A manager has to act as administrator where he has to improve upon what already exists and s already known. He has to act as an entrepreneur in redirecting the resources from seas of tow or diminishing results to areas of high or increasing results.

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

3. Organisation Structure:

Drucker has decried bureaucratic structure because of its too many dysfunctional effects. Therefore, it should be replaced. He has emphasised three basic characteristics of an effective organisation structure.

These are:

(i) Enterprise should be organised for performance;

(ii) it should contain the least possible number of managerial levels;

(iii) it must make possible the training and testing of tomorrow’s top managers—responsibility to a manager while still he is young.

He has identified three basic aspects in organising activity analysis, decision analysis, and relation analysis. An activity analysis shows what work has to be performed, what kind of work should be put together, and what emphasis is to be given to each activity in the organisation structure.

Decision analysis takes into account the four aspects of a decision: the degree of futurity In the decision, the impact of decision over other functions, number of qualitative factors that enter into it, and whether the decision is periodically recurrent or rare. Such an analysis will determine the level at which the decision can be made. Relation analysis helps in defining the structure and also to give guidance in manning the structure.

4. Federalism:

Drucker has advocated the concept of federalism. Federalism refers to centralised control in decentralised structure Decentralised structure goes far beyond the delegation of authority. It creates a new constitution and new ordering principle. He has emphasised the close links between the decisions adopted by the top management on the one hand and by the autonomous unit on the other.

This is just like a relationship between federal government and state governments. In a federal organisation, local managements should participate in the decision that set the limits of their own authority. Federalism has certain positive values over other methods of organising.

These are as follows:

(i) It sets the top management free to devote itself to its proper functions;

(ii) It defines the functions and responsibilities of the operating people;

(iii) It creates a yardstick to measure their success and effectiveness in operating jobs; and

(iv) It helps to resolve the problem of continuity through giving the managers of various units education in top management problems and functions while in an operating position.

5. Management by Objectives::

Management by objectives (MBO) is regarded as one of the important contributions of Drucker to the discipline of management. He introduced this concept in 1954. MBO has further been modified by Schleh which has been termed as management by results'. MBO includes method of planning, setting standards, performance appraisal, and motivation.

According to Drucker, MBO is not only a technique of management but it is a philosophy of managing. It transforms the basic assumptions of managing from exercising cattalo to self-control. Therefore, in order to practice MBO, the organisation must change itself MBO has become such a popular way of managing that today t is regarded as He most modern management approach. In fact, it has revolutionalised the management process.

6. Organizational Changes:

Drucker has visualised rapid changes in the society because of rapid technological development. Though he is not resistant to change, he feels concerned for the rapid changes and their impact on human life. Normally, some changes can be absorbed by the organisation but not the rapid changes.

Since rapid changes are occurring in the society, human beings should develop philosophy to face the changes and take them as challenges for making the society better. This can be done by developing dynamic organizations which are able to absorb changes much faster than static ones. Drucker's contributions have made tremendous impact on the management practices. His contributions have been recognised even by the management thinkers of Socialist Bloc.

For example, Vishiani a USSR management thinker writes about Drucker as follows:

"Drucker shows certain foresightedness and understanding of the development prospects of modern production when he opposes the view that worker is no more than an appendage of machine. Moved by a desire to strengthen the position of capitalism, he endeavors to give due consideration also to some objective trends in production management.

Drucker, therefore, tells the industrialists not to fear a limited participation of the workers in the management of production process. He warns them that if they do not abandon that fear, the consequences may be fatal to them." Drucker is perhaps the only Western management thinker who has attracted so much attention of the communist world.

Contribution of Mary Parker Follet towards Management Thought:

Mary Parker Follet was a Boston-born social worker who becomes eminent as a political and social philosopher. She was a "modest spinster lady who has never managed a business in her life". She deserves special mention for her keen penetration into situations in industry and the application of psychological and sociological concepts to resolve them. She was consulted by many successful business administrators for help in their immediate difficulties involving group and personal relationships.

Her ideas on leadership, constructive conflict, power, co-ordination, control, responsibility, conciliation and arbitration, consent and participation were coloured with realism and conviction.

Her important contributions are:

(a) On Consent:

She analysed the nature of consent and its influence on democratic group by examining its psychological foundations. She suggested that the consent was not static but a continuing process and it generates new and living group ideas through interpretation of individual ideas which is a factor of social relationships.

In this regard, she advocated that conflict can be resolved by integration wherein the parties to the conflict can examine together new ways of achieving the conflicting desires. The managers are not to use compromise or arrive at a settlement by domination.

(b) On Authority:

She showed that authority and subordination offends human beings. So she advocated of the concept of final authority by personal power. This means each individual has final authority for his own allocated task. By this means personal power gives place to 'Law of the situation'.

(c) On Leadership:

The leader should be capable of securing interpenetration within the group of the best ideas of both leader and the followers. He should have foresight to meet next situation and make it successful. She is of the view that leaders are not only born but can also be made through training in the understanding of human behaviour.

(d) Principles of Co-Ordination:

She advocated four important principles of co-ordination as the basis of good management.

They are:

(i) Co-ordination by direct contact by the responsible people concerned.

(ii) Co-ordination in the early stages.

(iii) Co-ordination as a reciprocal relation of all features in a situation.

(iv) Co-ordination is a continuous process.

3. Contributions of Chester I towards Management Thought:

Barnard Chester I. Barnard developed the concept of social system. He viewed organisation as a social system consisting of people who work in co-operation. His publication the Function of Executive is a highly significant work. He wrote this book with two objectives.

They are:

(i) To set forth a theory of co-operation and organisation

(ii) To present a description of the executive process.

The main features of the social system are as follows:

(a) Organisation is treated as a social system.

(b) Relationships exist between the external and internal environment of the organisation.

(c) Co-operation among group members is necessary for the achievement of organisational goals.

(d) For effective and successful management there should be no conflict between organisational objectives and those of various groups.

Secondly, regarding the functions of an executive he has identified:

(a) Maintenance of organisational communication.

(b) Securing essential services from individuals in the organisation.

(c) Formulating and defining the purpose.

According to him by performing these functions executives can achieve good human relations in the organisation.

Thirdly, he developed a new concept known as acceptance authority.

He advocated, to make communication effective and make it acceptable as authoritative the following conditions are to be satisfied:

(a) Make the communication under-stable.

(b) Employees are to believe that the communication is consistent with organisational objectives.

(c) Employees believe that it is compatible with their own personal interests.

(d) He can mentally and physically able to comply with it.

Finally, Barnard is often remembered for his views on social responsibility of management. The term social responsibility means management should provide fair wages and security to employees and the management must create an atmosphere to the growth and development of the worker as an employee and as a citizen.

Chester Barnard is considered as the founding father of social system school. His definition of the formal organisation is considered as a major contribution to the field of management. An organisation as a social system is affected by the socio-cultural environment and different types of pressures.

The concept of informal organisation is also a contribution of social system school. The analysis of social and group behaviour in the context social system has enriched the knowledge of management. Finally the important advocation of this school is to achieve harmony between the objectives of the organisation and the objectives of the groups and individuals.

Difference Between MBO and MBE

Key Difference – MBO vs MBE

The difference between management by objectives (MBO) and management by exception (MBE) can be found in the management principles and practice. Different management authors have proposed different models of management which suit different leadership styles and motivation ideologies. Management by objectives and management by exception are significant models out of such models. Both have their own advantages and disadvantages. Now, we will focus on each model and will reflect on its differences thereafter.

What is Management by Objectives (MBO)?

MBO was first proposed by Peter Drucker in his book of *Practice of Management* in 1954. Management by objective can be defined as "**a management model that attempts to devise a common objective that is acceptable for both the management and employees**, **which will improve the overall performance of the organisation**. The **important aspect of MBO** is that participative goal setting with a strategic plan which ensures the objectives have an alignment throughout the organisation. This aids in better participation and commitment among employees. Further, employees understand their roles and responsibilities due to the participative goal setting. So, employee performance can be measured with the standards set without grievances.

The goals can be set for a department such as marketing, finance, human resources, etc. or for the whole organisation. In MBO, the objectives need quantifying and monitoring. This task is usually carried out by powerful management information systems. Appraisal is linked with the system to identify objective achievement levels.

The benefits of MBO are:

1. **Motivation** – Due to the participative goal setting employees are better empowered. This raises the job satisfaction and commitment.
2. **Clarity of objectives** – Due to the participative goal setting, the goals are better understood across the organisation.
3. **Better communication** – Reviews and constant interactions with managers and employees aids in a better relationship between them and helps coordination.
4. **Drive to achieve** – As goals are set by them for them, they will have more urge to achieve the objectives.
5. **Objectives** can be set **at all levels** and for **all functions**.

MBO has its disadvantages too. The product quality can be adversely affected as employees will try to achieve the production targets ignoring the product quality. In addition, the process may be time-consuming and hard to implement. Another disadvantage is that innovation is not encouraged, and this can create a non-adaptive organization.

What is Management by Exception (MBE)?

In most organizations, a set of objectives and the action plan would have been communicated to relevant stakeholders such as the owners, senior managers, junior managers and employees. The action plan will be the norm or standards for the organization. Management by exception is a management style which **identifies the practical deviations from the standards or the best practice**. If the actual performance does not show a significant deviation, no action needs to be taken. This lets the senior management concentrate on more important work. If the deviation is significant, the issue is reported to senior management for evaluation and rectification. On an event of a significant deviation, senior management is alerted, this is referred to as "exception has occurred" and solve the "exception" urgently.

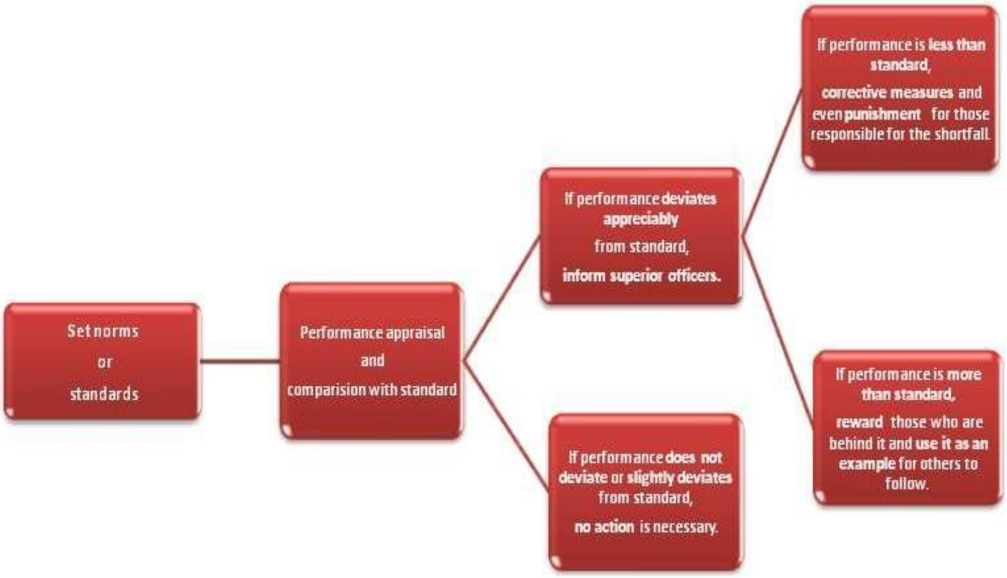
The accounting department plays a pivotal role in MBE. They need to devise a practical forecasted budget which is not understated or overstated to their best ability. On revelation of results, a variance study between the budget and actual is carried out by accounting operations. Results of variance analysis are reported on an event of significant deviation.

The **key benefit of MBE** is managers do not have to overlook all monitoring procedures. They can concentrate on their core responsibilities and can only respond to important deviations. This saves precious time and energy of the management which benefits the overall organization in carrying out their business. Delays in daily operations will not be hindered frequently. Also, problematic issues can be identified more rapidly. Further, as employees are given a task and less supervised, they are indirectly motivated by a self-driven approach to attaining the given goals / tasks.

MBE has its disadvantages too:

1. Mistakes in calculations the budgets can lead to higher variances and finding the root causes can be a time-consuming task.
2. Dependency on accounting department is too high, and the probability of accurate forecasting is questionable.

3. Important decisions will be with senior management and participation of employees is less. This can be a demotivating factor.



What is the difference between Management by Objectives (MBO) and Management by Exception (MBE)?

Definition of Management by Objectives (MBO) and Management by Exception (MBE)

Management by objectives: Management by objectives can be defined as a management model that attempts to devise a common objective that is acceptable for both the management and employees, which will improve the overall performance of the organization.

Management by exception: Management by exception can be defined as a management mode that provides the objectives for employees and only concentrate on significant deviations from the set objectives or task which will reduce the energy and time lost on unnecessary monitoring and evaluation procedures.

Characteristics of Management by Objectives (MBO) and Management by Exception (MBE)

Employee Participation

Management by objectives: Employee participation is essential for an MBO model as it needs a common objective acceptable for management and employees.

Management by exception: Employee participation in objective setting and decision making is minimal in an MBE model as that responsibility is rested with senior management.

Role Ambiguity

Management by objectives: In MBO, the clarity of personal responsibility towards organizational goals is better communicated and understood by the employee.

Management by exception: In MBE, the clarity will be lacking, and employees will perform a generic responsibility without understanding his role in the overall objective achievement.

Dependency

Management by objectives: In MBO, the dependency on one department or group is less as operations are handled with organizational wide participations.

Management by exception: In MBE, the dependency on one department especially of financial analysis / account is high as they are responsible for forecasting, budgeting and monitoring. Further, they are responsible for communicating significant deviations.

Efficiency

Management by objectives: In MBO, the active involvement of whole organization in decision making can lead to delays and complex procedures which can reduce efficiency.

Management by exception: In MBE, as only a certain group makes important decisions and investigations are performed only in instances of significant deviation the time devoted to daily work is more which can result in better efficiency.

UNIT-II

PLANNING

INTRODUCTION

It is often remarked that 'Planning is a mere ritual in a fast changing environment'. This statement implies that in a highly turbulent and competitive environment planning becomes an empty academic exercise. Rapid changes in the economic and non-economic environment of business reduce the effectiveness of plans.

DEFINITIONS:

Koontz and O'Donnell – "Planning is deciding in advance what to do, when to do, how to do and who is to do it. It is bridging the gap from where we are to where we want to go."

Alford and Beatt – "Planning is the thinking process, the organised foresight, the vision based on fact and experience that is required for intelligent action."

Louis A. Allen – "Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets."

Characteristics of Planning

1. **Managerial function**: Planning is a first and foremost managerial function provides the base for other functions of the management, i.e. organising, staffing, directing and controlling, as they are performed within the periphery of the plans made.

2. **Goal oriented**: It focuses on defining the goals of the organisation, identifying alternative courses of action and deciding the appropriate action plan, which is to be undertaken for reaching the goals.

3. **Pervasive**: It is pervasive in the sense that it is present in all the segments and is required at all the levels of the organisation. Although the scope of planning varies at different levels and departments.

4. **Continuous Process**: Plans are made for a specific term, say for a month, quarter, year and so on. Once that period is over, new plans are drawn, considering the organisation's present and future requirements and conditions. Therefore, it is an ongoing process, as the plans are framed, executed and followed by another plan.
5. **Intellectual Process**: It is a mental exercise at it involves the application of mind, to think, forecast, imagine intelligently and innovate etc.
6. **Futuristic**: In the process of planning we take a sneak peek of the future. It encompasses looking into the future, to analyse and predict it so that the organisation can face future challenges effectively.
7. **Decision making**: Decisions are made regarding the choice of alternative courses of action that can be undertaken to reach the goal. The alternative chosen should be best among all, with the least number of the negative and highest number of positive outcomes.

PLANNING – **NATURE**

1. Primary of Planning:

The functions of management include planning, organising, staffing, directing and controlling. Eminent writers may add other new ones to these functions or those which have not been included in these functions.

2. Planning Contributes to Objectives:

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

3. Planning an Intellectual Activity:

Planning includes the selection of the best alternative available and thinking before selection of the best alternative. It involves the ability to foresee mishaps in future which might affect the smooth functioning of an organisation. So, planning is an intellectual activity.

4. Planning Results in Higher Efficiency:

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

5. Planning is a Continuous Process:

Planning does not come to an end with the establishment of a business concern. Planning in other functions is also required. After the establishment of a business concern, certain decisions are taken. Planning is necessary to implement the decisions.

6. Planning is Flexible:

While planning, any one of the available alternatives is selected. Planning selects the best alternative based on certain assumptions. If the assumptions are proved wrong, the selected alternative tends to be an incorrect one.

7. Unity and Consistency:

Every department manager resorts to planning at different times. The planning is related to the achievement of objectives. In other words, managerial actions of different managers are unified in order to achieve the objectives. Policies and procedures of the organisation provide a basis for the consistency of executive behaviour and action in matters of planning.

8. Planning is Common to All:

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

9. Basis for All Managerial Functions:

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

10. Getting Co-Ordination:

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

11. Considering Limiting Factors:

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

PLANNING – <u>**IMPORTANCE**</u>

1. Making Objectives Clear:

It makes objectives clean, clear, and specific, it also serves as guide for deciding what action should be taken in present and future conditions.

2. Planning Provides Direction:

Planning helps the organisation to keep on the right path. It provides definite direction to manager to decide what to do and when to do it.

3. It Reduces Risk and Uncertainty:

It helps organisation to predict future events and prepare to take necessary actions against unexpected events. It is helpful in assessing and meeting future challenges. As per view of Peter F. Drucker, “Planning enables a manager to affect rather than accept the future”.

4. Planning is Economical:

As per views of Koontz and O' Donnell," Planning substitutes jointly directed effort against uncoordinated, piecemeal activity, an even flow of work for an uneven flow, and deliberate decisions for snap judgments". The effective plans coordinate organisational work and economical.

5. Planning Provides the Basis for Control:

Planning provides the standard against which the actual performance can be measured and evaluated. There is nothing to control without planning and without proper control. Plans serve as yardsticks for measuring performance.

6. Planning Facilitates Decision Making:

Planned targets serve as the criteria for the evaluation of different alternatives so that the best one may be chosen with the help of planning hasty decisions and random actions can be avoided.

7. Planning Improve Efficiency of Operations:

It is rational activity that leads to efficient and economical operations, planned action is always better than unplanned. Planning makes the task of managing more efficient and effective manner. It helps to minimize the cost of operations and improves the competitive strength of an organisation.

8. Planning Improves Morale:

If the role of employee is cleared and well defines goals, then the employee feels highly motivated and contribute his full potential towards accomplishment of objectives. Planning improves the behavioural climate in the organisation and reduces the friction between departments.

9. Effective Co-Ordination:

According to Koontz and O' Donnell "Plans are selected courses along with the management desires to coordinate group action." The effective coordination integrates the physical and human resources between departments.

10. Planning Encourages Innovation and Creativity:

Planning compels the managers to be creative and innovative all the time. It forces managers to find out new and improved ways of doing things in order to remain competitive and avoid the threats in the environment.

CLASSIFICATION OF PLANS

1. Based on Importance:

Plans can be strategic, tactical, or operational. Strategic plans are important, future-oriented plans that form the hub of fulfilling the vision. Usually, they concern the entire organisation. Tactical plans are required to implement strategic plans. Examples, are redesigning the shop floor layout or closing a few non-performing outlets of a retail chain.

2. Based on Time:

Plans can be short, medium, or long term. Short term usually refers to plans of one year or less; medium term, to two to five years; and long term, to five to 10 or even 20 years. It depends on the nature of the project. Some projects such as building the Metro in Mumbai or Bengaluru may have a short-term plan that covers 50 km of Metro in five years; a medium- term plan that covers 200 km in 10-12 years, and a long-term plan that covers 300 or 400 km of rail that in 20 to 30 years.

3. Based on Level:

A plan can be called corporate level, business level, or functional level plan. The Tatas entering the airlines business is an example of corporate-level plan and Precision Connectors becoming an OEM is an example of a business-level plan. Functional-level plans are made by departments, for example, a plan on how the marketing department will achieve its goals.

4. Based on Formality:

A plan can be formal or informal. It is formal when planning is done as per the defined steps and documented, and informal when the documentation is not very rigorous.

5. Based on Approach:

A plan can be called proactive when it is meant to meet an anticipated situation. For instance, a compensation plan based on a three-year salary negotiation is a proactive plan to ensure industrial peace. If the same compensation plan came up as a result of a flash strike, it would be a reactive plan. The former leads to growth and the latter helps to regain balance and to ensure survival.

FEATURES OF PLANNING

Feature # 1. Main Focus on Objectives:

While goals are the broad, long-term accomplishments an organisation wishes to attain, objectives are specific, short-term statements detailing how to achieve the organisation's goals. Planning specifies the objectives to be attained by an organisation in the future. It also lays down the steps to be followed to achieve the objectives. By determining the objectives planning provides clear directions and guidelines to an organisation's activities — both current and future.

Feature # 2. Basic (Key) Function:

Planning is typically the starting point in the management process. To be successful, organisations need a great deal of planning. People in organisations need goals and the plans to achieve them. Planning lays the foundation for the whole management process. It makes an organisation efficient.

Feature # 3. Universal (Pervasive) Function:

Planning is the basic function of managers at various levels of an organisation. The exercise is carried out by all three levels of managers — the upper, middle and lower. However, the nature, type and scope of planning is not the same at each managerial level. In most organisations upper-level and some middle level managers spend more time developing strategic, broad/directional, long-range and single-use plans for the organisation.**Feature # 4. Continuous (On-Going) Process:**

Planning is a continuous process. A plan which worked yesterday may not be successful in today's market. Most planning also follows a pattern. Old plans are to be revised and modified and new ones to be introduced as demanded by the needs of the situation for achieving organisational objectives. In today's rapidly changing environment planning is becoming more and more difficult because changes are occurring so fast that plans — even those for just few months into the future — may soon be obsolete.

Feature # 5. Forward-Looking Nature:

Any planning exercise at the business level is a forward- looking-one. It is carried out to achieve certain objectives in the future. It involves forecasts of future demand, market competition and government policies. And business managers try to cope with future uncertainty effectively through proper planning.

Feature # 6. Decision-Making Aspect:

Decision-making is essentially a choice of an appropriate course of action from among alternatives. The process of planning involves searching for alternatives and choice of the best alternative from those which are available for achieving certain specified and pre-determined organisational objectives.

Thus decision-making is an inherent part of the planning exercise. For example, financial planning involves choice between bond (debenture) financing and equity financing of investment projects. Proper decision-making techniques are crucial for selecting the organisational goals, plans and strategic options.

Feature # 7. Mental Exercise*:*

Planning involves some sort of intellectual (brain storming) exercise. It requires a lot of thinking in advance, foresight and proper judgment on the part of management.

Feature # 8. Flexibility:

In today's era of rapid changes in technology, market conditions and government policies, the planning process has to be flexible enough in order to enable managers to face and meet newer and newer challenges. Due to rapidly changing environment, some companies are making shorter-term plans which allow for quick responses to customer needs and requests. The goal is to be flexible and responsive to the market.

Feature # 9. Shared Responsibility:

Planning means that a manager must involve his subordinates actively in order to determine resource requirement, fix goals and identify and exploit opportunities. During the process, the manager may need to go outside the work unit for information about products, competitors, markets, and the like.

Feature # 10. Choice:

Planning involves choice. Planning is essentially an act of choosing from alternative courses of action. And choice involves decision-making. In truth, in order to make a rational choice, it is necessary to evaluate and compare the possible alternatives.

Feature # 11. Efficiency:

Planning seeks to promote efficiency. By helping to economise the use of scarce resources, sound planning leads to accomplishment of desired objectives in the best possible may, i.e., at the minimum possible cost. And this implies efficient operation which is the primary objective of a business.

LEVELS OF PLANNING: Strategic, Tactical and Operational Planning

Planning is ubiquitous – that is, it exists in the entire organisation. All levels in the organisation carry out the planning function, but in varying degrees. In other words, the scope and timescale of planning varies. Planning commences at the strategic or top level of the management.

Strategic planning commences with defining the purpose or mission of the organisation, establishing strategic priorities and formulating major policies. Strategic planning becomes the basis for successive levels of planning namely, tactical planning (at the middle level) and operational planning (at the lower level).

These are discussed in detail here:

1. Strategic Planning:

Strategic planning includes plans made by the top management to pursue long term goals with the resources likely to be available.

It involves:

i. Formulating a mission for the entire organisation.

ii. Identifying the business that helps to meet a mission.

iii. Determination of financial requirements.

iv. Working out authority relationships in terms of organisation structure.

v. Allocating resources effectively.

It has a time horizon of five years or more. The chief executive or chairman, members of the board, managing directors, and divisional heads (these constitute the top level management) take part in strategic planning.

2. Tactical Planning:

Tactical planning specifies how the mission of an organisation can be accomplished.

It involves the decisions in respect of:

i. Products or services to be added or deleted

ii. Size of capital investments required

iii. Pricing the products and services to be provided

iv. Facilities, methods and systems necessary

v. Withdrawing investments from, or closing down operations of unprofitable departments or products or services.

Tactical planning has a time horizon of six months to two years. It is done by the middle-level management, which comprises functional managers, product line managers and department heads. Tactical planning is also called intermediate planning.

3. Operational Planning:

Operational planning works out the basic details of how the specific tasks can be accomplished with the available resources.

It involves decisions in respect of:

i. Best suitable production methods.

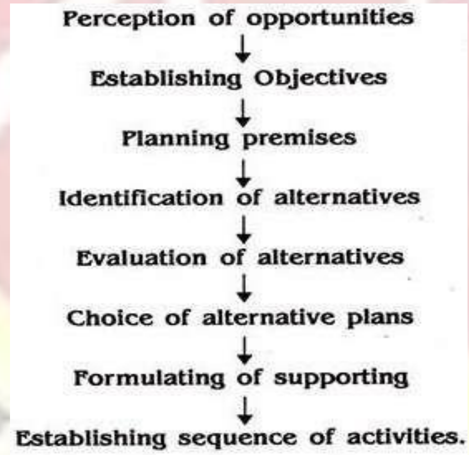
ii. Effective marketing plans.

iii. Organisation structure in terms of customer, product or region etc.

iv. Facilities required in the office, factory, sales outlets etc.

The time horizon for operational planning is between one week to one month. Operational planning is carried out by lower-level management comprising unit managers, foremen, line supervisors etc.

STEPS INVOLVED IN PLANNING PROCESS



Step # 1. Perception of Opportunities:

Perception of opportunities is not strictly a part of the planning process. But this awareness of opportunities in the external environment as well as within the organisation is the real starting point for planning. It is important to take a preliminary look at possible future opportunities and see them clearly and completely.

Step # 2. Establishing Objectives:

This is the second step in the planning process. The major organisational and unit objectives are set in this stage. This is to be done for the long term as well as for the short range. Objective specify the expected results and indicate the end points of what is to be done, where the primary emphasis is to be placed and what is to be accomplished by the various types of plans.

Step # 3. Planning Premises:

After determination of organisational objectives, the next step is establishing planning premises that is the conditions under which planning activities will be undertaken. Planning premises are planning assumptions the expected environmental and internal conditions.

Step # 4. Identification of Alternatives:

The fourth step in planning is to identify the alternatives. Various alternatives can be identified based on the organisational objectives and planning premises. The concept of various alternatives suggests that a particular objective can be achieved through various actions.

Step # 5. Evaluation of Alternatives:

The various alternative course of action should be analysed in the light of premises and goals. There are various techniques available to evaluate alternatives. The evaluation is to be done in the light of various factors. Example, cash inflow and outflow, risks, limited resources, expected pay back etc., the alternatives should give us the best chance of meeting our goals at the lowest cost and highest profit.

Step # 6. Choice of Alternative Plans:

This is the real point of decision-making. An analysis and evaluation of alternative courses will disclose that two or more .ire advisable and beneficial. The fit one is selected.

Step # 7. Formulation of Supporting Plan:

After formulating the basic plan, various plan are derived so as to support the main plan. In an organisation there can be various derivative plans like planning for buying equipment, buying raw materials, recruiting and training personal, developing new product etc. These derivative plans are formulated out of the basic or main plan and almost invariably required to support the basic plan.

Step # 8. Establishing Sequence of Activities:

After formulating basic and derivative plans, the sequence of activities is determined so those plans are put into action. After decisions are made and plans are set, budgets for various periods and divisions can be prepared to give plans more concrete meaning for implementation.

PRINCIPLES OF PLANNING

1. Goal Orientation: A plan should be absolutely goal focused and adhere to the scope and time frame set by the goal.

2. Specificity:

Plans must be specific and should avoid generalities and non-verifiable statements/propositions such as ‘complete as early as possible’, ‘resources will be mustered in due course’, ‘using least resources’, and so on. Rather one should use terms such as ‘complete the task by 30^{th} April 2016′, ‘complete the task with an expense not more than Rupees 20 lakhs’ and so on.

3. Accuracy: Plans are like maps, and we all know that an inaccurate map can lead us to the wrong place. For example, if Rajendra makes a plan to produce 1,000 connectors a day, it must be based on the number of connectors a person/team can make per day and the number of people/teams available.

4. Comprehensiveness:

If plans leave some blanks, either there will be confusion due to different interpretation, or there will be delay for clarifications.

5. Flexibility:

As the execution of the plan progresses, there will be changes to the external environment, internal environment, and resources. Plans must envisage these possible changes and cater for them from the beginning. For example, if you are building a mall and the contracting economy decreases demand, then you should have away to build part of it and open the business leaving the completion for better days to come.

6. Objectivity:

While selecting from various options available, you should be objective. When quantitative parameters are used, the data should be fair and impartial, and when qualitative parameters are used, individual bias should not creep in.

7. Simplicity:

Plans are implemented by several people and more importantly by people who may not be as smart as the planners. Therefore, each part of a plan must be simple, the parts of a plan must be easily connectible, and the overall plan should be simple for everyone to understand and implement.

For example, if you have to set up a chain of coffee shops, the design of each shop should be simple, resources that would be shared such as purchase, promotion, and so on, should also be simple for everyone to understand and manage.

8. Communicability:

A plan needs approval from internal and external agencies. For example, Rajendra's plan to make connectors as an OEM supplier for two wheelers would need acceptance by internal teams, funding approval from the bank, and approval related to production, quality assurance, and purchase from the two-wheeler company. Hence, it should not be vague, but should be in an easily communicable format.

9. Implementable:

This implies that there should not be any external environmental restrictions to implement the plan. Coca Cola had a bottling plant in Plachimada in Kerala, India. Most bottling plants need copious water, and ground water is a practical source. Plachimada had plenty of water and there is no national law against using it.

Advantages of planning

Planning helps the organisation achieve its objectives early. In this way, planning helps the organisation in many ways.

Some of the advantages of planning are briefly explained below:

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

2. Helps in achieving objectives – Planning sets goals or objectives of an organisation. This gives effective direction to the control of employees of the organisation. In this way, planning helps the organisation accomplish the pre-determined goals or objectives.

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Development of efficient methods – Planning helps the management develop efficient methods and procedures of action.

17. Delegation of authority facilitated – A well-prepared plan will always facilitate the delegation of authority.

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

Planning – 9 Major **Limitations of** Planning

Planning has various limitations. This is why it becomes less effective in most cases, if not completely ineffective.

The following points are observed in this context:

1. Lack of Flexibility:

Plans lay down a specified course of action regarding the future, which cannot be changed even if situations so demand. This often proves to be costly for the organisation, particularly when there is need for a change in the actual course of action. And this is why some progressive firms now rely on contingency planning. The object is to overcome crisis situations as and when they arise.

2. Lack of Creativity and Initiative:

Due to inherent rigidity of the plans managers lack the initiative to do new things or to venture out in new directions to cope with changes in the environment. So even advance thinking by managers does not lead to the generation of new ideas. And creative thinking or creativity is out of question.

3. Environmental Uncertainty:

At times planning loses its practical relevance due to various uncertainties surrounding the environment. So managers cannot fully rely on existing plans. They have to revise or modify existing plans or change their strategies to get the desired results even in adverse situations. For instance, a company might be required to revise its advertisement budget to maintain competitive parity, i.e., to match the efforts of its major and nearest rivals.

4. Time Lag:

Planning which involves several steps such as – defining objectives, collecting and analysing data and choosing from alternatives is a time-consuming and lengthy exercise. It loses effectiveness due to delay in taking necessary action. In other words, planning loses its relevance in situations which demand quick decision(s) and immediate action(s).

5. Costly Process:

Planning is also a costly exercise. Since management is a valuable resource, the cost of planning varies directly and proportionately with the time managers devote to planning. If managers do not devote sufficient time to planning, their decisions may prove to be impractical or wrong.

6. No Guarantee for Action:

A plan is just a programme of action regarding the future, not a guarantee for action. The success of planning depends on its effective implementation. The effectiveness of planning depends on the outlook and the actual behaviour of the planners. Planning makes managers feel secured. So they just want to maintain the status quo. They just try to fulfill the requirements of existing plans rather than improving their performance or venturing out in new directions.

7. Inaccurate Forecast:

Planning is based on the timely availability of reliable and complete information and accuracy of forecasts of demand, price and technology. If forecasts are based on incomplete information or if the forecasting method is not reliable, then plans are bound to be ineffective or likely to fail.

8. Time Constraint:

Planning requires a manager to set aside necessary time to do it. Managers who have very busy schedules may react adversely when superiors order them to prepare a 5-year plan for their work unit. The reason is that they are expected to do this and still find time to meet the current year's target. However, the time for planning has to be found. Otherwise, managers will just react to events.

9. Internal and External Constraints:

In spite of Internet connections and speedy access to computer databases, every manager cannot use available information to make an intelligent decision. The caliber of employees he needs may not be immediately available at the salary he is willing to pay. A competitor may quickly enter his market with a more attractive product. A change in buying habits of consumer may occur.

MEASURES TO OVERCOME LIMITATIONS

The following measures help to overcome the limitations of planning:

1. Scientific Selection of Goals:

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 the costs.

2. Use of Mathematical Methods:

Fear of failure to achieve the goals can be removed by applying mathematical models to the goal selection process. These models help in accurate predictions and practical implementation of plans. Besides, managers should make flexible plans which be changed according to changing situations.

3. Sound Communication System:

Lack of knowledge can be overcome through a well-connected communication system where managers at all levels remain informed of the organisational activities. A well-developed management information system can solve this problem.

4. Forecasting:

Managers remain informed of the external environment through an effective system of communication. Regular contact with outside parties, through seminars and conferences provides information about the 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 need is to predict the environmental changes through forecasting techniques like time series, forecasts, causal models and other statistical methods. They help to know the environmental factors and their effect on organisational goals.

5. Develop Managerial Confidence:

The above measures develop confidence to build rational and realistic goals which are challenging but attainable. Important, overall organisational goals are set at the top level and goals lower in priority are framed by lower-level managers in consultation with the superiors.

6. Help Organisational Members to Accept Change:

Organisational members should realise that change is the essence of life and reduce resistance to change through the following measures-

(a) Managers should explain the causes and effects of change to organisational members. Members should know the benefits that accrue to them and the organisation because of changes in the current system of working.

(b) The existing benefits should be compared with future benefits that will accrue as a result of change and unwillingness of members to give up existing benefits should be removed.

(c) If members feel that plans have deficiencies and weaknesses, management should involve organisational members in framing the plans. Thus, members become aware of the effects of changes and minimise the impact of their weaknesses, if any.

7. Top Management Support:

Planning process should initiate at the top-level. Managers should keep in mind the barriers to planning and set realistic and attainable goals.

8. Setting Responsibility:

If responsibility is fixed for framing and implementing the plans, plans will be more realistic. Strategic plans should be the responsibility of top management, tactical plans should be the responsibility of middle-level managers and operating plans should be the responsibility of lower-level managers.

9. Encourage Group Participation:

Rather than framing and communicating plans to organisational members for implementation, top managers should encourage group participation where people frame and implement plans collectively in the planning process.

10. Prepare Contingency Plans:

Organisations operating in the dynamic and complex environment should prepare contingency plans which can be adopted if unpredicted situations occur.

Policies: Meaning and Types

Meaning of Policies:

The term policy is derived from the Greek word **“Politicia”** relating to policy that is citizen and Latin work **“politis”** meaning polished, that is to say clear. These policies which are generally formulated at top level helps managers sufficient freedom to make judgments and helps to achieve the organizational goals and objectives.

The term “Policy” is defined by koontz and O ‘Donnel as **“policies are general statements or understandings which guide mangers thinking in decision making”.** They ensure that decisions fall within certain boundaries. They usually don’t require action but are intended to guide managers in their commitment to the decision they ultimately make.
George R.Terry defined “policy is a verbal written or implied overall guide setting up boundaries that supply the general limits and direction in which managerial action will take place”.

According to JS Chandan, “Policy is a statement and a predetermined guidelines that provides direction for decision making and taking action.

From the above definitions the following general characteristics can be identified:
(i) It is a guide to thinking in decision making and action.

(ii) Lays down course of action.

(iii) Lays down the limits within which decisions are made.

(iv) Framed at all levels of management.

(v) Does not become valid for all times. Periodically it is necessary to review and modifications are made.

Type of Policies:
Policies may be divided into different types of policies from different approaches.

A. On the Basis of Source:
Koontz and O’Donnell divide the sources of policy into the following four types:
(i) Originated Policy.

(ii) Appealed Policy.

(iii) Implied Policy.

(iv) Externally imposed policy.

1. Originated Policy:
By originated policy they refer to policy which originates from the top management itself. These policies are aimed at guiding the managers and their subordinates in their operations. They flow basically from the organisation’s objectives as defined by top management. From the broad policy at the top, other derived policies may be developed at subsequent levels depending upon the extent of decentralization. However all such policies, whether originated by top management or subordinate managers, are described as “originated policy”.

2. Appealed Policy:

It is meant decisions given in case of appeals in exceptional cases upto management hierarchy. In case of doubts, an executive refers to higher authority on how he should handle the matter. The direction that he gets is described as appealed policy and constitutes a precedent for future managerial action.

3. Implied Policy:

Implied policy is meant policies which emanate from conduct. It also originates where existing policies are not enforced. Again, guidelines may be provided by the decision makers unconsciously and become implied policies.

4. Externally Imposed Policy:

Policies may be imposed externally that is from outside the organisation on such as by Government control or regulation, trade associations and trade union etc.

B. On the Basis of different Levels::

Policies are divided into the following types on the basis of levels:

1. Basic Policies.

2. General policies.

3. Departmental Policies.

1. Basic Policies:

Policies which are followed by top management level are called as basic policies. For example, the branches will be opened in different place where the sales exceed Rs. Five, lakhs.

2. General Policies:

These policies affect the middle level management and more specific than basic policies.

Example:

Payment will be provided for overtime work only if it is allowed by the management.

3. Department Policies:

These policies are highly specific and applicable to the lower levels of management.

Example:

Tea will be provided free for workers in night shifts.

C. On the Basis of Managerial Functions:

Policies arise from decision pertaining to fundamental managerial functions are called managerial policies.

These includes the following policies:

1. Planning policies.

2. Organisation policies.

3. Motivation and control policies.

1. Planning Policies:

Planning policies involve the future course of action. Mere policies are formulated as to achieve the targets regarding the future. Planning policies may formulate for whole organisation or for divisional departments.

2. Organisation Policies:

These policies are highly specific to organisational goals and objectives.

3. Motivation and Control Policies:

Here policies are formulated to motivate people and control the activities, which leads to achieve the organisational objectives with the fullest satisfaction of employees.

D. On the Basis of Dissemination:

Policies can be classified into two types on the basis of dissemination:

1. Written statements—Explicit policies.

2. Oral dissemination—Implicit policies.

1. Explicit Policies:

Policies which are in writing or included in the manual or records are called explicit policies. In case of written statements adequate media should be used.

The following are some of the written media:

(a) Bulletins or notice boards.

(b) Hews releases.

(c) Company manuals or handbooks.

Advantages of written policy:

(a) All the members of the organisation can be guided as to the exact interpretation of policies so that they all possess a common understanding.

(b) It can be more easily reviewed from time to time to meet changing conditions.

(c) It can be checked more readily for compliance within the organisation.

(d) Policies becomes available in the same form to all concerned.

(e) They can be communicated and taught to new employees more readily.

(f) The process of writing down policies forces the managers concerned to think through more clearly about the policy.

Disadvantage of written policies:

(a) Written policies are inclined to promote rigid thinking and prevent flexibility which may be undesirable in special circumstances.

(b) It is difficult to adopt written policies to situations and conditions which change from time to time. There is bound to be a time lag for incorporation of such changes into existing written policies.

(c) Although in one sense there is uniform communication of policies in the form of a written statement it is likely to be interpreted in many cases differently depending on the background of the interpreter.

(d) In case of confidential policy statements, there is a greater chance of their being communicated to those from whom they are to be kept secret, thus, probably marring the strength of the organisation.

(e) Difficult to write it accurately and adequately.

2. Implicit Policies: Implicit policies are disseminated merely by word of mouth through the key people in an organisation. Policies which are not in writing or not included in the manuals or records but which are well understood and practised are called implicit policies.

E. On the Basis of Functions:

Policies which affect the functions of business are called as functional policies.

Functional policies can be classified as follows:

1. Marketing policies.

2. Production policies.

3. Finance policies.

4. Personnel policies.

1. Marketing Policies:

Basically marketing policies relate to each of the “four Ps in marketing” namely.

(a) Product,

(b) Pricing,

(c) Promotion, and

(d) Physical distribution.

(a) Product Policies:
In connection with product policies for example a policy decision might have to be taken as to whether to make or buy the product. Policy decisions might have to be laid down with regard to the nature and extent of diversification, for example whether diversification in the future will always be in terms of related products or whether new product ideas can be considered in connection with unrelated products.

The make or buy decision can also be a part of the product on policy but can be part of the marketing strategy which is concerned with the overall strategy of the business.

(b) Pricing Policies:
Policy decisions have to be taken in the area of pricing. The market segment or segments aimed at determination of price range. The policy decisions on pricing are also affected by the type of trade channels and the discounts that might have to be offered.

(c) Promotion Policies:
The promotional policy is also tied in with the pricing policies. The policy to concentrate on certain advertising media would be dictated in terms of product policies and the customer segment involved. Policy decisions would also help in arriving at the amount to be spent on promotional activities.

Certain organisations fix a policy of budgeting a certain percentage, say 5% of the rates for advertising expenditure. Some organisations adhere the policy of certain fixed return on investment for arriving at the advertising expenditure to be permitted.

(d) Physical Distribution Policies:
Policy decisions have to be taken in the area of physical distribution of the product which involves considerations of channels of distribution and logistics. Difficult policy decisions are involved in arriving at the selection of an appropriate set of distribution channels for the products of the company..

2. Production Policies:
Production policy decisions involves with the following:
a) The size of the run,

b) Automation,

c) Production stabilisation,

d) Extent of making or buying component, and

e) Inventory levels.

(a) The Size of the Run Policy:
This depend on the backlog or orders as well as the nature of automation introduced. It will also depend on the type of the market. The temptation is to increase the size of the run to take advantage of avoiding the setup costs. However, these have to be weighed against the cost of heavier inventories.

(b) Automation Policy:
The automation involves consideration of technical problems apart from economic aspects. The policy of increasing automation or mechanisation may be merely with a view to avoid repetitive and uninteresting work or it may be to reduce costs. Policy decisions, however, have to be taken in this behalf at the top level.

(c) Production Stabilisation Policy:
It is related to the size of the run and the extent of automation. Production has to be stabilized through proper timing as market demands cannot be overlooked.

(d) Make or Buy Policy:
It is related to both the marketing policy as well as production policy. Policy decisions have to be taken as to the extent of the product that has to be manufactured within the organisation itself and the extent, if any of purchases from outside.

(e) Inventory Levels Policy:
This policy involves with the levels of inventory or stocks. These should be maintained in the exact extent. Higher inventories increase the costs and reduce the ultimate profits.

3. Financial Policies:
Financial policies related to the following:
(a) Sources of capital

(b) Working capital

(c) Profit distribution.

(d) Depreciation allowances.

(a) Sources of Capital:

This policy involves the sources of capital, `that is from which ways, an organisation can accumulate its capital. For example in case of sole trader, he/ she provide the capital form his/her own money or by loans from individual or bank. In partnership, partners provide the basic capital. In companies, large capital is possible from large number of shareholders.

(b) Working Capital Policy:

The difference between the current assets and current liabilities is the working capital. Since the working capital determines how far the business organisation or business unit can immediately meet its obligations, the policy decision will have to take in the area of working capital. These policies are also concerned with the extent of bank borrowings permissible and allowances of credit facilities that should be extended to the customers.

(c) Profit Distribution Policy:

It involves with regard to how much profits should be distributed by way of dividends to the shareholders and how much should be kept back for future capital requirements. Some companies follow a policy of dividend equalization by setting aside profits in good years to be used for payment of dividend in lean years.

(d) Depreciation Allowance Policy:

Policy decisions have to be taken on the extent of depreciation to be written off whilst keeping in mind the tax provision as well as its possible use as a source of funds for the enterprise.

4. Personnel Policies:

This policy decisions have to be taken in connection with personnel administration.

These relate to the following.

(a) Personnel selection.

(b) Training and promotion.

(c) Remuneration and benefits.

(d) Industrial relations.

(a) Personnel Selection Policy:

It involves with the source of recruitment e.g., policy decisions may be taken with regard to the minimum educational or experience requirements.

(b) Training and Promotion Policy:

Policy decisions have to be taken with regard to manpower planning and filling up higher vacancies by promotion from within. A policy of promotion from within presupposes the existence of adequate training policies to develop persons for each higher positions.

(c) Remuneration and Benefit Policy:

These policies regard with the remuneration and other benefits of employees. Other benefits include sick leave, vacations, canteen facilities and working conditions. In case of sales force, some organisations prefer to rely merely on salaries, but some other companies wish to build in a commission component to provide the necessary incentive.

(d) Industrial Relations Policies:

Proper policy decisions must be taken in connection with dealing with labour disputes and avoiding them in the future.

DECISION MAKING

WHAT IS DECISION MAKING ?

Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager. Decisions play important roles as they determine both organizational and managerial activities.

A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision making process is continuous and indispensable component of managing any organization or business activities. Decisions are made to sustain the activities of all business activities and organizational functioning.

Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.

Definition of Decision Making

According to the Oxford Advanced Learner's Dictionary the term decision making means - the process of deciding about something important, especially in a group of people or in an organization.

Trewatha & Newport defines decision making process as follows:, "**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**".

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

1. Defining the problem
2. Gathering information and collecting data
3. Developing and weighing the options
4. Choosing best possible option
5. Plan and execute
6. Take follow up action

FEATURES OR CHARACTERISTICS OF DECISION-MAKING:

- **Selective**: It is a selective process in which the optimal alternative is opted, among the various alternatives. The selection of the alternative is done, only after evaluating all the alternatives against the objectives.
- **Cognitive**: As the decision making encompasses the application of intellectual abilities, such as analysis, knowledge, experience, awareness and forecasting, it is a cognitive process.
- **Dynamic**: It is a dynamic activity in the sense that a particular problem may have different solutions, depending upon the time and circumstances.
- **Positive or Negative**: A decision is not always positive, sometimes even after analysing all the points a decision may turn out as a negative one.
- **Ongoing process**: We all know that a company has perpetual succession and various decisions are taken daily by different levels of management to keep the firm going. These decisions are taken, keeping in mind the objectives of the organization.
- **Evaluative**: Evaluation of the possible alternatives using critical appraisal methods, is a part of the decision-making process.

It is a problem-solving activity which produces a solution considered as the most favourable and appropriate one, as per the situation.

PROCESS OF DECISION MAKING

Decision making involves the identification and selection of the alternatives on the basis of the values, preferences, requirements, and beliefs. To begin the process objectives must be defined, classified and arranged in the order of their importance.

1. **Defining the problem**: The first and foremost step in the decision-making process is to clearly identify the problem for which a decision has to be taken.
2. **Collecting information**: Gathering the relevant information concerning the problem is the next step in the process. For this purpose, an internal assessment needs to be done, while seeking external sources for the information.
3. **Identifying alternatives**: After collecting the pertinent information, you will come across the multiple courses of action which can be taken to solve the given problem.
4. **Weighing the alternatives**: On the basis of different parameters such as risk, economy for effort, timing, and limitation of resources weigh each alternative and check how accurately it resolves the issue and what are its consequences.
5. **Selecting the best possible option**: After weighing each and every alternative, the next step in this process is to select the best possible course of action, or a combination thereof. The alternative which is able to attain the objectives is regarded as the tentative decision, which is evaluated for possible consequences.
6. **Planning and Execution**: To convert the decision into action, the course of action so selected is taken, along with that supplementary actions are taken to block negative consequences (if any).
7. **Taking the follow up of the action**: In the last step, the outcome of the decision is reviewed and evaluated as to whether it is capable of resolving the problem.

A decision passes through different stages, so as to solve the problem at hand. The solution depends on how effectively the decision is being made and implemented. An ideal decision is action-oriented, goal-directed and efficient.

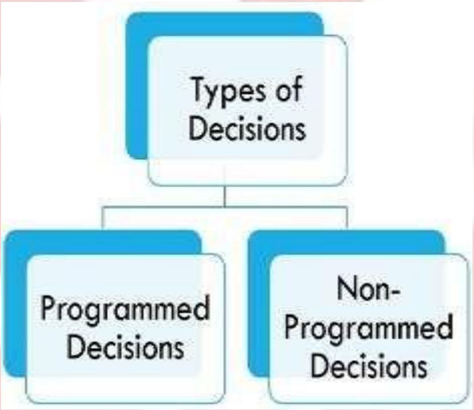
Problems in Decision Making

There are a number of problems which arise at the time of decision making, which are:

- Accuracy
- Timing
- Communication
- Participation
- Implementation

A decision acts as a direction to the others, as to what can be done or what to avoid in a particular situation.

Types of Decisions

: 

1. **Programmed Decisions**: The decisions taken by way of standard operating procedures or another method. The situations are routine and recurring in nature. These are effective for solving day to day issues.
2. **Non-programmed Decisions**: These are unique and once in a lifetime decisions, as these are not structured. To make such decision logical reasoning and judgement are required.

Intuition and Reasoning are the two determinants of a decision, wherein intuition is all about the gut feeling or instinct of the decision-maker concerning the courses of action, while the reasoning means using the logical thinking, facts and figures to decide something.

TYPES OF DECISION MAKING

Type # 1. Tactical and Strategic Decisions:

Tactical decisions are those which a manager makes over and over again adhering to certain established rules, policies and procedures. They are of repetitive nature and related to general functioning. Authority for taking tactical decisions is usually delegated to lower levels in the organisation.

Strategic decisions on the other hand are relatively more difficult. They influence the future of the business and involve the entire organization. Decisions pertaining to objective of the business, capital expenditure, plant layout, production etc., are examples of strategic decisions.

Type # 2. Programmed and Non-Programmed Decisions:

Prof. Herbert Simon (June 15, 1916 – February 9, 2001), an American economist and psychologist, has used computer terminology in classifying business decisions. These decisions are of a routine and repetitive nature. The programmed decisions are basically of a routine type for which systematic procedures have been devised so that the problem may not be treated as a unique case each time it crops up.

Type # 3. Basic and Routine Decisions:

Prof. Katona has classified decisions as basic and routine. Basic decision are those which require a good deal of deliberation and are of crucial importance. These decisions require the formulation of new norms through deliberate thought-provoking process. Examples of basic decisions are plant location, product diversification, selecting channels of distribution etc.

Type # 4. Organizational and Personal Decisions:

Organizational decisions are those which an executive takes in his official capacity and which can be delegated to others. On the other hand, personal decisions are those which an executive takes in his individual capacity but not as a member of organization.

Type # 5. Off-the-Cuff and Planned Decisions:

Off-the-cuff decisions involve “shooting from the hip”. These decisions can be taken easily and may be directed towards the purposes of the enterprise. On the other hand, planned decisions are linked to the objectives of organization. They are based on facts and involve the scientific process in problem solving.

Type # 6. Policy and Operating Decisions:

Policy decisions are those which are taken by top management and which are of a fundamental character affecting the entire business. Operating decisions are those which are taken by lower management for the purpose of executing policy decisions. Operating decisions relate mostly to the decision marker’s own work and behaviour while policy decisions influence work or behaviour pattern of subordinates.

Type # 7. Policy, Administrative and Executive Decisions:

Ernest Dale (born in Hamburg, Germany and died at the age of 79) has classified decisions in business organization as under:

(a) Policy Decisions:

Policy decisions are taken by top management or administration of an organisation. They relate to major issues and policies such as the nature of the financial structure, marketing policies, outline of organization structure.

(b) Administrative Decisions:

Administrative decisions are made by middle management and are less important than policy decisions. According to Ernest Dale the size of the advertising budget is a policy decision but selection of media would be an example of administrative decision.

(c) Executive Decisions:

Executive decisions are those which are made at the point where the work is carried out. Distinguishing between these three types of decisions Dale writes, "policy decisions set forth goals and general courses of action, administrative decisions determine the means to be used and executive decisions are those made on a day-to-day basis as particular cases come up".

UNIT-III

ORGANISATION

Organisation is the backbone of management because without an efficient organization no management can perform its functions smoothly.

In the management process this organization stands as a second state which tries to combine various activities in a business to accomplish pre-determined goals.

It is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve business goals.

In other words, organization is simply people working together for a common goal. It is a group of people assembling or congregating at one place and contributes their efforts to achieve a common goal.

What is Organisation?

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Organisation Involves:

(i) Identification of work

(ii) Grouping of work into smaller groups

(iii) Assigning work to every individual at every level in every department

(iv) defining its authority and responsibility, and

(v) Establishing relationships amongst people to make them contribute towards organisational goals in an integrated manner.

Organisation structure and process are not independent concepts. They are complementary to each other. Once the organisation process is defined, organisation structure is the end result or outcome of that process. Organisation structure is the result of organisation process. Organisation is, in fact, a structured, on-going process that defines how to achieve pre-defined goals.

Definitions

Louis Allen: Organisation is the process of identifying and grouping work to be performed, defining ad delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." In the words of Allen, organization is an instrument for achieving organizational goals. The work of each and every person is defined and authority and responsibility is fixed for accomplishing the same.

Wheeler: "Internal organization is the structural framework of duties and responsibilities required of personnel in performing various functions within the company, it is essentially a blue print for action resulting in a mechanism for carrying out function to achieve the goals set-up by company management". In Wheeler's view, organization is a process of fixing duties and responsibilities of persons in an enterprise so that organizational goals are achieved.

Koontz and O'Donnell: The establishment of authority relationships with provision for co-ordination between them, both vertically and horizontally in the enterprise structure. These authors view organization as a coordinating point among various persons in the business.

Oliver Sheldon: "Organisation is the process so combining the work which individuals or groups have to perform with the facilities necessary for its execution, that the duties so performed provide the best channels for the efficient, systematic, positive and coordinated application of the available effort". Organization helps in efficient utilization of resources by dividing the duties of various persons.

Concept of Organization:

An organization refers to a structure in which people come together to attain some common goals. People feel that they can fulfill their needs more effectively when they become part of a group. In an organization, the individual goals are foregone for the group goals and the group goals are compromised for organizational goals so the maximum benefit can be derived by using limited available resources.

An organization is influenced by many external and internal factors. External factors include politics, country's economy, and legal rules and regulations; whereas internal factors include plans, objectives, and policies of an organization. Internal factors can be controlled by an organization; however, external factors are beyond the organization's control. An organization requires constant caution and adaptability to effectively manage situations arising due to such factors.

Scope of Organisation

Organisation is the executive structure of an enterprise and a basic framework within which the executive's decision making behaviour occurs.

Organisation, as an element of management, is concerned with the following aspects, called as scope of organisation:

1. Identifying and grouping of activities to attain corporate objectives and goals.
2. Assigning these activities to appropriate divisions, departments, sections and individuals.
3. Providing authority, delegation, co-ordination and communication.
4. Providing facilities and equipment, i.e. physical factors of good work environment. There are four basic elements of all forms of living organisations around which any organisation centers – (i) The work (ii) The People, (iii) The authority, responsibility and (iv) The relationships.

Clear-cut division of work defines and prescribes each part of the work to be handled by each person, giving allocation of duties and responsibilities and defining authority or power at each position in the organisation chart. Co-ordination and integration ensure elimination of duplication of work and unity of action.

A good organisation has to fulfill four special functions:

1. It must enable the management to maximise the outputs through provision of an efficient man-machine system.
2. It must ensure smooth and effective net-work of communication and information.
3. It must offer interesting and meaningful jobs to all individuals working in the organisation. This alone will ensure job satisfaction. Organisation is developed for people. It must, therefore, be humanistic also and not merely mechanistic. Both the approaches can be reconciled.
4. It must create, maintain and develop its own image or individuality. This ensures customer goodwill. Investors will also have confidence in the enterprise. Employees can develop a sense of belonging to the organisation.

CHARACTERISTICS OF AN ORGANISATION

(a) Modern organisational is too large in terms of number of people in employment and in terms of the amount of investment. Direct contact between employer and employee is not possible in modern organisation.

(b) Division of Work:

In organisation the total work of the enterprise is divided into activities and functions. For efficient accomplishment various activities are assigned to different persons. This brings in division of labour. Specialisation in different activities is necessary to improve one's efficiency. Organisation helps in division of work into related activities so that they are assigned to different individuals.

(c) Co-Ordination of Various Activities:

Co-ordination among various activities of a department and of the organisation is necessary for the harmonious functioning of the organisation. Co-ordination is done by the divisional head and the organisation-head.

(d) Huge Investment and Complicated Technology:

Modern organisation involves huge investment and complicated technology, their management and operation is a complex affair. It needs assistance from specialists at all levels.

(e) Mutually Agreed Purpose:

There must be mutually agreed purpose because all activities in an organisation are goal-oriented.

(f) Proper System of Working in All Organisations:

There must be proper system of working in all organizations. It means there must be well defined hierarchical levels, a chain of command, rules and procedures and communication network, so that consistency and uniformity in behaviour may exist.

(g) Differentiation is a Must:

A chain of systematic division of labour takes place by assigning authority and responsibility to an individual who is supposed to be specialized in the job and this leads to differentiation.

(h) Interaction with Other Systems is Also Must:

All systems are interdependent and exert influence on others and are influenced by others. Mutual dependence necessitates interaction and consequently adaptation.

Thus, the modern organisation is an ideal co-ordination of the functions of a number of people for attaining the mutually agreed purposes through a well-defined system of working, i.e., hierarchical levels, chain of command, rules and procedures and communications and through the principle of division of labour. It influences and is influenced by the social systems.

Nature of Organisation and Nature Business Organisation

Nature of Organization:

1. Common goal – The main reason for the existence of an organization is to accomplish some common goals. The structure of the organization is bound by a common purpose.

2. Division of labour – The work needed to accomplish the goals is divided into a number of functions and sub-functions. These, functions are organized in the form of departments. Each department is headed by a specialist. Such a division of function on specialty basis infuses specialisation.

3. Authority structure – There is an arrangement of positions into graded series. Such an arrangement creates a series of superior and subordinate relationships called chain of command. Authority and responsibility associated with various positions are defined.

4. Group – It is people who constitute the dynamic element of an organization. They work in groups in the various departments of an organization.

5. Communication – There is free flow of communication through various official channels among the people across various departments. Most of the communication is in a written form. However, grapevine communication is also in vogue.

6. Coordination – The diverse efforts of various functional departments are integrated towards the common objective through the process of coordination.

7. Environment – No organization is functioning in a vacuum. Social, political, economic and legal factors exert influence on the environment. Beside it is influenced by internal factors like materials, machines, level of technology, economic resources, human resources, etc.

8. Rules and regulations – Every organization is governed by a set of rules and regulations for the orderly functioning of people.

Nature of Business Organisation: At present a good deal of confusion has arisen about the nature of business organisation. Some authors are of this opinion that in nature of business organisation we may discuss whether business organisation is an art or a science.

(1) Business Organisation—an Art:

Before discussing business organisation as an art it is essential that we must know what is an art?

(a) "In any activity that is classed an art the emphasis is an applying skills and knowledge and accomplishing an end through deliberate effort." – T. L. Massie

(b) "Art is bringing about of a desired result through application of skill". – G. L. Terry

(c) According to C. L. Barnard-"The function of an art is to accomplish concrete ends, effect results, produce situations that would not come about without the deliberate effort to secure them".

Therefore, an art is a system for the attainment of a given end. Art is concerned with the application of knowledge and skills. So, business organisation is an art in so far as one has to use his skill and knowledge in solving many complicated problems of business to achieve the enterprise objectives. Organisation is one of the most creative art in the sense that it is concerned with getting work done through others by motivating them to work and coordinating their activities.

In the ancient times it was felt that the skills of organizing business cannot be codified and communicated. But now, it has been realised that the principles of business organisation may be codified and communicated. This has given the concept of business organisation as a science.

(2) Business Organisation—a Science:

In the words of Keynes – "Science is a systematical body of knowledge which establishes relationship between cause and effect".

Science has three basic important features:

(a) It is a systematized body of knowledge that uses scientific methods of observation.

(b) The principles are evolved on the basis of continued observation.

(c) The principles are exact and have universal applicability without any limitation.

Business organisation is a science as it is an organized body of knowledge built up by management practitioners, thinkers and philosophers, over a period of years. It has developed certain principles and rules after continued observation. But unlike Physics, Chemistry and Biology, business organisation is not an exact or accurate science. Its principles cannot be considered as fundamental truths.

Sometimes, they may not bring desired results and may not have universal applicability. The main reason for this in exactness is that it deals with human beings whose behaviour cannot be predicted. Thus, organisation is a 'Soft Science' or "Behavioural Science".

OBJECTIVES OF AN ORGANISATION:

1. To Administer Economy in Production:

Any company aims at reducing its cost of production. Similarly any commercial undertaking aims at a reduction of its operating cost. An effective and fruitful organisation also aims at a reduction on cost of production, distribution or operation to justify its very existence. To effect economy in the whole organisational structure is a main task of an organisation economy affected results into cheaper availability of goods to the ultimate consumer.

2. To Serve the Society:

Any organisation aims at – (i) service of the society, and (ii) service of the enterprise of which it is one of the part. From service to the society it gains – (a) recognition, (b) strength, and (c) stimulus.

Society needs goods at proper time, of standard quality, in adequate quality, at a cheaper rate and regularly. An organisation ensures the society that it would not be lacking. Social gain should be the main aim of any organisation.

3. To Economies the Use of Available Resources:

Though in India men are in abundance and other resources are scarce. But the use, of both should be economised in order to guard against the future non-availability of resources. If this happens because of non-judicious and un-planned use of resources then future generation is not going to forgive us. For this reason also-economic use of available resources is desirable.

4. To Establish Healthy Relations between Labour and Capital:

Human relations and behavioural sciences form the basis of any organisational structure today. A capital labour harmonious relations may help in attaining the objectives of the enterprise quickly and honestly. Prosperity to both is ensured by good, relations. Profitability and productivity both increase.

In India the capital and labour a not at their mutual best. Though we talk of 'workers sector' but we have made no sincere efforts in this direction. We have not been able to develop even harmonious relations between the two. A developing country like India can ill afford this situation. We have to find out some way out for better relations and effective achievement of the objectives of the company.

ESSENTIAL AND IMPORTANT ELEMENTS OF A GOOD ORGANISATION

Element # 1. It Must be Helpful in the Achievement of Objectives:

A good organisation must be capable of overcoming the problems of an enterprise. An organisation is considered as good only when it is capable in achieving the predetermined objects of enterprise. It is not in a position to achieve these objects; it cannot be regarded as a good organisation.

Element # 2. There Must be Harmonious Grouping of Functions:

A good organisation should divide the functions of an enterprise in such a manner so that they may be implemented easily and successfully. There must be harmonious adjustment in different activities of the organisation.

Element # 3. An Organisation Must be Complete in All Respect:

A Very important essential element of a good organisation is that it must be complete in all respects. It must include all the activities of an enterprise. Further, there must not be the repetition of activities.

Element # 4. There Must be Perfect Co-Ordination in All the Activities of an Organisation:

Co-ordination is the essence of management. If the activities of an enterprise are not co-ordinated, the achievement of the objects of enterprise cannot be thought of. Therefore, all the activities of an organisation must be co-ordinated.

Element # 5. There Must be Reasonable Span of Control:

The span of control of officers must be limited because an officer cannot control a large number of sub-ordinates. Therefore, the number of sub-ordinates under the control of one officer should not be more than five to six. So that proper control may become possible at all levels of management.

Element # 6. Proper Utilisation of Resources be Made:

Success of a business and industrial enterprise depends to a large extent on the proper utilization of resources. If the resources are not properly utilized, the business enterprises cannot be successful.

Element # 7. Provision of Expansion:

The organisation must provide for adequate flexibility so that necessary adjustments may be made in it according to the need of changing circumstances. If it is not so, there may be a possibility of missing the opportunity.

Element # 8. Employees Satisfaction is Essential:

An organisation can be regarded as good and efficient if it satisfies its employees because it will increase the morale of its employees and they will be encouraged to do more work for the success of the enterprises.

Element # 9. Policy be Such Which Can be Executed Easily and Economically:

An organisation system can be regarded as good and efficient system, if the system can be easily understood and implemented. All the activities of the organisation should be framed in such a manner that all the employees may contribute their efforts in their execution. Therefore, all the functions of the organisation must be of the nature that they may be executed easily and economically.

STEPS INVOLVED IN ORGANISATION PROCESS

Step # 1. Knowledge of Objectives:

While organising it is important to bear in mind the objectives or targets of the enterprise or department. The objectives must be determined keeping in view the environmental situation. They must be clear, precise but complete and free from ambiguity or confusion. Unless the manager or supervisor knows the objectives he may not be able to organise properly and motivate people towards the attainment of the objectives.

Step # 2. Division of Work into Activities:

After laying down the objectives, the manager must identify the total work involved in achieving them. The total work to be performed should be divided into component activities. For instance, the total work of a manufacturing enterprise may be divided into production, finance, personnel, marketing and such other activities.

Step # 3. Grouping the Activities:

The next step is to group the various activities into practical units based on similarity and importance as well as to indicate the person who would do the work. Similar activities should be grouped together under one heading, For instance purchasing, machining, assembling may be placed under manufacturing while recruiting, training, job grading, compensation may be placed under personnel, Other basis for grouping the activities may be utilised such as geographical location, particular equipment utilisation or process to be employed.

Step # 4. Defining and Assigning Activities to Jobs:

Jobs must be clearly defined and the activities related to them must be clearly identified and assigned. This will help the management to fix the authority and responsibility of the employees concerned.

Step # 5. Fitting Personnel into Jobs:

A job must be allotted to a properly qualified person so that none becomes a square peg in a round hole. Each person should be assigned specific job or jobs and be made responsible for it.

Step # 6. Delegation of Required Authority:

Proper authority must be vested in the personnel to enable them to carry out the job. Authority must be commensurate with responsibility. Authority without responsibility and vice-versa is meaningless and futile.

Step # 7. Creating Organisational Relationships:

Creation of different authority relationships such as line, functional or line and staff is essential for the achievement of the objectives. Everyone in the organisation must know as to whom he is accountable and his relationship with other persons in the organisation should be clearly established.

REQUIREMENTS OF A SOUND ORGANISATION

1. Realisation of Objectives:

Organisation is an instrument for realising the objectives, goals and purposes of the enterprise as a whole. Therefore every division, branch, department and section as well as the entire organisation must be tuned to the objectives and must contribute to their realisation.

2. Harmonious Grouping of Functions:

For achieving the objectives and goals of a business concern, the functions and tasks involved in the enterprise should be grouped in such a manner that active consultation and co-ordination can take place with a minimum of over lapping, delay or confusion.

3. Clear Allocation of Duties and Responsibilities:

There should be a clear organisational plan with well-defined duties, responsibilities and relationships. It is often achieved with the help of organisation charts.

4. Reasonable Span of Control:

The number of sub-ordinates over whom control is to be exercised at each level of management should neither be so large as to be unwieldy nor too small for the effective performance of the work or fuller utilisation of the managers ability to control.

5. Promotion of Satisfaction:

The most important element in organisation is human beings. For biological necessity they first seek to achieve their own personal goals. The objectives of the enterprises are realised more easily where there are good chances of the achievement of such personal goals. Moreover, in an organisation men work in groups rather than as individuals. Therefore the success of an organisation depends largely on how far it can promote the satisfaction of its members as individuals and as groups.

6. Effective Communication:

This is very essential for smooth working of an organisation. Top management must explain the policies and programmes of the enterprise to the rank and file workers. The later must also be given the opportunity to convey their feelings, reaction and grievances to the former. The flow of information must be quick, easy and two-way. It removes uncertainty, ambiguities, misunderstanding and friction.

7. Provision for Growth:

While an organisation ought to be fairly stable over a long period, it must contain within itself, the elements of growth and expansion. The mechanism must be such that it can adapt itself, to changing circumstances. A business organisation has to be dynamic in character in this changing work environment.

Functions of Organisation

The functions of organisation includes:

1. Determination of activities,
2. Grouping of activities,
3. Allotment of duties to specified persons,
4. Delegation of authority,
5. Defining relationships, and
6. The co-ordination of various activities.

1. Determination of Activities:

It includes the deciding and division of various activities required to achieve the objectives of the organisation. The entire work is divided into various parts and again each part is sub-divided into various sub-parts. For example, the purchase work may be divided into requisition of items, placing of an order, storage and so on.

2. Grouping of Activities:

The next function of organisation is that the identical activities are grouped under one individual or a department. The activities of sales such as canvassing, advertisements and debt collection activities are grouped under one department i.e., sales department.

3. Allotment of Duties to Specified Persons:

In order to ensure effective performance, the grouped activities are allotted to specified persons. In other words, the purchasing activities are assigned to the Purchase Manager; the production activities are assigned to Production Manager; the sales activities are assigned to Sales Manager and the like. Besides, adequate staff members are appointed under the specified persons.

4. Delegation of Authority:

Assignment of duties or allotment of duties to specified persons is followed by delegation of authority. It will be very difficult for a person to perform the duties effectively, if there is no authority to do it. While delegating a authority, responsibilities are also fixed.

5. Defining Relationship:

When a group of persons is working together for a common goal, it becomes necessary to define the relationship among them in clear terms. If it is done, each person will know who is his boss, from whom he has to receive orders and to whom he is answerable. In another sense, each boss should know what authority he has and over which person.

6. Co-Ordination of Various Activities:

The delegated authority and responsibility should be co-ordinated by the Chief Managerial Staff. The reason is that there must be a separate and responsible person to see whether all the activities are going on to accomplish the objectives of the organisation or not.

IMPORTANT PRINCIPLES OF AN ORGANISATION

The work can be completed in time whenever a technique or a principle is adopted. So, the success or failure of an organisation depends upon the principles to be followed in the organisation. The principles of organisation may be termed as a tool used by the organisation. Some experts like Taylor, Fayol and Urwick have given the principles of organisation.

1. Principle of Definition:

It is necessary to define and fix the duties, responsibilities and authority of each worker. In addition to that the organisational relationship of each worker with others should be clearly defined in the organisational set up.

2. Principle of Objective:

The activities at all levels of organisation structure should be geared to achieve the main objectives of the organisation. The activities of the different departments or sections may be different in nature and in approach, but these should be concentrated only for achieving the main objectives.

3. Principle of Specialisation or Division of Work:

Division of work means that the entire activities of the organisation are suitably grouped into departments or sections. The departments or sections may be further divided into several such units so as to ensure maximum efficiency. This will help to fix up the right man to the right job and reduce waste of time and resources.

The work is assigned to each person according to his educational qualification, experience, skill and interests. He should be mentally and physically fit for performing the work assigned to him. The required training may be provided to the needy persons. It will result in attaining specialisation in a particular work or area.

4. Principle of Co-Ordination:

The objectives of the organisation may be achieved quickly whenever co-ordination exists among the workers. At the same time each work can be done effectively by having co-ordination. The final objective of all organisations is to get smooth and effective co-ordination.

5. Principle of Authority:

When many persons are working together in one place, there will be a difference of power and authority. Of these persons, some will rule and others will be ruled. Normally, maximum powers are vested with the top executives of the organisation. These senior members should delegate their authorities to their subordinates on the basis of their ability. In certain cases, 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 of the organisation. But the responsibility can be delegated to some extent. While delegating the authority, there is no need of delegation of responsibility. So, the responsibility of the junior staff members should be clearly defined.

7. Principle of Explanation:

While allocating duties to the persons, the extent of liabilities of the person would be clearly explained to the concerned person. It will enable the person to accept the authority and discharge his duties.

8. Principle of Efficiency:

Each work can be completed efficiently wherever the climate or the organisational 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 organisation should make the work distribution in such a manner that there should be an equal status and equal authority and powers among the same line officers. It will avoid the problems of dual subordination or conflicts in the organisational set up. Besides, it increases co-ordination among the officers.

10. Principle of Correspondence:

Authority and responsibility should be in parity with each other. If it is not so, the work cannot be effectively discharged by any officers, whatever his ability may be. At the same time, if authority alone is delegated without responsibility, the authority may be misused. In another sense, if responsibility is delegated without the authority, it is a dangerous one.

11. Principle of Unity of Command:

This is also sometimes called the principle of responsibility. The organisational set up should be arranged in such a way that a subordinate should receive the instruction or direction from one authority or boss. If there is no unity of command in any organisational set up, the subordinate may neglect his duties. It will result in the non-completion of any work. In the absence of unity of command, there is no guidance available to the subordinates and there is no controlling power for the top executives of the organisation. Further, some subordinates will have to do more work and some others will not do any work at all.

12. Principle of Balance:

There are several units functioning separately under one organisational set up. The work of one unit might have been commenced after the completion of the work by another unit. So, it is essential that the sequence of work should be arranged scientifically.

13. Principle of Equilibrium Balance:

The expansions of business activities require some changes in the organisation. In certain periods, some sections or departments are overloaded and some departments are under loaded. During this period, due weightage should be given on the basis of the new work load. The overloaded sections or departments can be further divided into sub sections or sub-departments. It would entail in the effective control over all the organisational activities.

14. Principle of Continuity:

It is essential that there should be a re-operation of objectives, re-adjustment of plants and provision of opportunities for the development of future management. This process is taken over by every organisation periodically.

15. Principle of Span of Control:

This is also called span of management or span of supervision or levels of organisation. This principle is based on the principle of relationship.

Span of control refers to the maximum number of members effectively supervised by a single individual. The number of members may be increased or decreased according to the nature of work done by the subordinate or the ability of the supervisor. In the administration area, under one executive, nearly four or five subordinates may work. In the lower level or the factory level, under one supervision, the twenty or twenty five number of workers may work. The span of control enables the smooth functioning of the organisation.

16. Principle of Leadership Facilitation:

The organisational set up may be arranged in such a way that the persons with leadership qualities are appointed in key positions. The leadership qualities are honesty, devotion, enthusiasm and inspiration.

17. Principle of Exception:

The junior officers are 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 officers and top level officers. So, the top level officers may use the time gained by reduction in workload for framing the policies and chalking out the plans of organisation.

18. Principle of Flexibility:

The organisational set up should be flexible to adjust to the changing environment of business. The organisation should avoid the complicated procedures and permit an expansion or contraction of business activities.

19. The Scalar Principle:

This is also called chain of command or Line of authority. Normally, the line of authority flows from the top level to bottom level. It also establishes the line of communication. Each and every person should know who is his superior and to whom he is answerable.

20. Principle of Simplicity and Homogeneity:

The organisation structure should be simple. It is necessary to understand a person who is working in the same organisation. If the organisation structure becomes a complex one, junior officers do not understand the level and the extent of responsibility for a particular activity. The simplicity of the organisational structure enables the staff members to maintain equality and homogeneity. If equality and homogeneity are maintained in one organisation, it is possible to determine whether the staff members discharge their duties to realise the objective of the organisation.

21. Principle of Unity of Direction:

This is also called the principle of co-ordination. The major plan is divided into sub-plans in a good organisational set up. Each sub-plan is taken up by a particular group or department. All the groups or departments are requested to co-operate to attain the main objectives or in implementing major plan of the organisation.

22. Principle of Joint Decisions:

In the business organisation, 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 the decisions. Whenever the decision is taken jointly, the decision gives the benefit for a long period and the decision is based on various aspects of the organisational set up.

TYPES OF ORGANISATIONS

Industrial or business organisations are set up as a legal entity under the rules and regulations for companies, partnership firms, etc. Thus, a manager must, know the legal constitution/entity of organisation to which he/she is associated for employment.

Broadly, there are following types of organisations:

a. A sole trader or a trading or a proprietary firm

b. A partnership firm

c. A co-operative society

d. A joint stock company, which may be a public limited company or a private limited company

e. A holding company

f. A subsidiary company

g. A public sector company

h. A corporation

i. An autonomous corporation/enterprise/organization

j. A bank or financial institution

k. A foreign company

l. A joint venture company

m. A multinational company (MNC)

Type # 1. A Sole Trader or a Trading or a Proprietary Firm:

This type of organisation is owned by a single owner. Owner may be an individual or an individual family. ‘Proprietary’ means that besides it being owned by the single owner, it holds a single source of supply for the particular product or service. The particular product may have a unique quality and other technical parameters, which may not be available from others. Therefore, this type of organisations are called proprietary firms.

There are two categories:

i. One is sole trader or trading house

ii. And another is a proprietary firm

Type # 2. A Partnership Firm:

Contrary to the sole trader and trading house, a partnership firm is owned by more than one owner. These owners form a partnership firm registered under partnership act. Partners will be two or three or more with the agreed proportion of their ownership and investments.

Type # 3. A Co-Operative Society:

Co-operative societies are formed under the Co-operative Societies Act. There are several members in the society and managers are appointed to run the business transactions of the society (the organisation).

Type # 4. Joint Stock Company:

Joint stock companies are formed under the Companies Act. These companies are subject to the regulatory authority such as SEBI, if their shares are listed on a stock exchange.

Type # 5. Holding Company and Subsidiary Company:

Holding company has a control of the management of the subsidiary company. Thus, if a company has a control over the other company, this is known as a holding company.

Subsidiary company-A company is known as subsidiary company of another company, when the latter company has a control over the former company.

Type # 6. A Public Limited Company or a Private Limited Company or a Public Sector Company:

The organisation may be a public limited company or a private limited company or a public sector company. There is a difference between the private limited company and a public limited company. In case of a private limited company there are certain restrictions that the company cannot go for public selling of its shares. At the same time, its number of shareholders cannot be more than 50.

Whereas in the case of public limited company, there are no restrictions for selling of its shares to the public and its number of shareholders can be any number for which the company has been registered and permitted under the Companies Act. There are certain advantages and disadvantages in case of both the types of companies.

These are:

I. Decision-making

II. Tax and duty implications

III. Financing, etc.

A public sector company on the contrary is different from the private limited or public limited company under the private sector. This type of company is under the 100% control of State or Central Government. The ownership is with the Central or State Government. These companies have many restrictions on its managers who have to work strictly under the rules and regulations laid down by the Government.

PROCESS OF CREATING AN ORGANIZATION

1. Determination of Total Work:

The first and foremost step in organizing is to estimate and determine the total activity required for realising the objectives of the organization. For example, the total activities in a manufacturing organization include acquiring materials, conversion of materials into finished goods, identifying and employing human resources, arranging finance, marketing and selling goods, ensuring quality, earning returns and so on.

2. Departmentation:

The various activities identified in the earlier step are grouped on a logical basis in the form of departments like materials management, production, marketing, finance, human resources, product development, quality control, finance, etc.

3. Work/Duty Assignment:

Under this step, the individuals working in each and every department are assigned work in terms of their specialisation. For example, persons employed in marketing department may be assigned responsibilities like promotion of products, distribution of products, price determination, advertisement, market research, branding, packaging and so on.

4. Delegation of Authority:

Employees who are assigned duties or responsibilities cannot be expected to perform unless adequate authority is delegated to them to translate the responsibility into reality. For example, person put in charge of materials should be allowed to spend money to identify the sources of supply, to get the materials delivered to stores, to negotiate better terms for the company, to inspect the quality, protect the materials from damage, etc.

5. Creation of Accountability:

Employees who are given responsibilities should be made accountable to his superior for the use of authority and work performance. Superiors ensure that subordinates do the duties as assigned and do not misuse the authority.

6. Defining Relationship:

Management should determine the network of relationship between superior and subordinates. Based on the relationship defined, titles are given to employees.

ADVANTAGES OF ORGANISATION

1. Facilitates Administration:

Without a good organisation, effective administration becomes impossible. Organisation allows delegation of authority. It allows, therefore, management by exception and avoids management by crisis. Jobs are described sharply, and so confusion in the organisation and duplication of efforts are avoided.

2. Facilitates Growth and Diversification:

The organisational structure is the framework within which the company grows. Expansion and diversification tracks its course in the direction of the organisation structure. Some types of organisation augur well for the small company in its infancy; however, with the advent of growth and diversification these structures may prove inadequate.

The firm that grows beyond the scope of its existing organisation finds itself in a serious administrative crisis. It then undertakes reorganisation to cope with the growing workload. On the other hand, a live organisation believes in planning for change to facilitate growth well ahead of the crisis created of its own making.

3. Provides Optimum Use of Technological Advances:

Technological advances exert a great influence on organisational structures and the heavy fixed costs of such equipment calls for proper organisation. Organisations must, therefore, adapt themselves to technological changes in the environment.

4. Encourages Human Relations Approaches:

The organisational structure can deeply affect the staff of the company. Proper organisation facilitates the intensive use of human resources.

5. Stimulates Creativity:

Second organisation gives a fillip to independent, creative thinking and initiative by providing sharp spheres of activity with broad latitude for the development of unconventional and better ways of doing things.

Problems of Organisation

1. At the start, to create a new organisational system;

2. Thereafter to survive;

3. Then to stabilize;

4. To earn a good reputation;

5. To achieve uniqueness;

6. To earn respect and appreciation.

Major problems in running an organisation are indicated below:

1. How to integrate personal needs with organisational goals?

2. How to distribute power and authority?

3. How to develop mechanism capable of reducing intra-organisational conflicts?

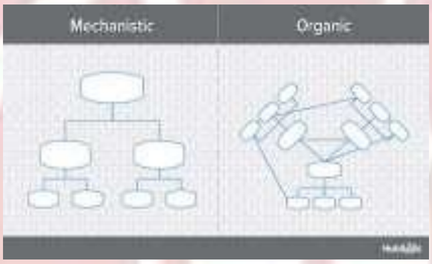
4. How to ensure effective adaptation to changes in the environment? And

5. How to assure vitality and growth and prevent delay?

Mechanistic vs. Organic Organizational Structures

Organizational structures fall on a spectrum, with "mechanistic" at one end and "organic" at the other.

Take a look at the diagram below. As you'll probably be able to tell, the mechanistic structure represents the traditional, top-down approach to organizational structure, whereas the organic structure represents a more collaborative, flexible approach.



Here's a breakdown of both ends of the structural spectrum, their advantages and disadvantages, and which types of businesses are suited for them.

Mechanistic Structure

Mechanistic structures, also called **bureaucratic structures**, are known for having narrow spans of control, as well as high centralization, specialization, and formalization. They're also quite rigid in what specific departments are designed and permitted to do for the company.

This organizational structure is much more formal than organic structure, using specific standards and practices to govern every decision the business makes. And while this model does hold staff more accountable for their work, it can become a hindrance to the creativity and agility the organization needs to keep up with random changes in its market.

Organic Structure

Organic structures (also known as "flat" structures) are known for their wide spans of control, decentralization, low specialization, and loose departmentalization. What's that all mean? This model might have multiple teams answering to one person and taking on projects based on their importance and what the team is capable of -- rather than what the team is designed to do.

As you can probably tell, this organizational structure is much less formal than mechanistic, and takes a bit of an ad-hoc approach to business needs. This can sometimes make the chain of command, whether long or short, difficult to decipher. And as a result, leaders might give certain projects the green light more quickly but cause confusion in a project's division of labor.

Now, let's uncover more specific types of organizational structures, most of which fall on the more traditional, **mechanistic** side of the spectrum.

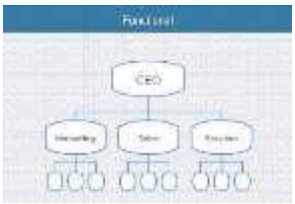
Types of Organizational Structure

1. Functional Organizational Structure
2. Product-Based Divisional Structure
3. Market-Based Divisional Structure
4. Geographical Divisional Structure
5. Process-Based Structure
6. Matrix Structure
7. Circular Structure
8. Flat Structure
9. Network Structure

1. Functional Organizational Structure

One of the most common types of organizational structures, the functional structure departmentalizes an organization based on common job functions.

An organization with a functional org structure, for instance, would group all of the marketers together in one department, group all of the salespeople together in a separate department, and group all of the customer service people together in a third department.



The functional structure allows for a high degree of specialization for employees, and is easily scalable should the organization grow. Also this structure is mechanistic in nature -- which has the potential to inhibit an employee's growth -- putting staff in skill-based departments can still allow them to delve deep into their field and find out what they're good at.

Disadvantages

Functional structure also has the potential to create barriers between different functions -- and it can be inefficient if the organization has a variety of different products or target markets. The barriers created between departments can also limit peoples' knowledge of and communication with other departments, especially those that depend on other departments to succeed.

2. Product-Based Divisional Structure

A divisional organizational structure is comprised of multiple, smaller functional structures (i.e. each division within a divisional structure can have its own marketing team, its own sales team, and so on). In this case -- a product-based divisional structure -- each division within the organization is dedicated to a particular product line.

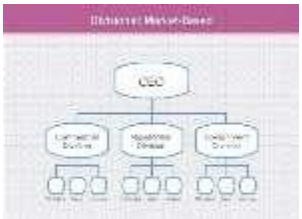
This type of structure is ideal for organizations with multiple products and can help shorten product development cycles. This allows small businesses to go to market with new offerings fast.

Disadvantages

It can be difficult to scale under a product-based divisional structure, and the organization could end up with duplicate resources as different divisions strive to develop new offerings.

3. Market-Based Divisional Structure

Another variety of the divisional organizational structure is the market-based structure, wherein the divisions of an organization are based around markets, industries, or customer types.



The market-based structure is ideal for an organization that has products or services that are unique to specific market segments, and is particularly effective if that organization has advanced knowledge of those segments. This organizational structure also keeps the business constantly aware of demand changes among its different audience segments.

Disadvantages

Too much autonomy within each market-based team can lead to divisions developing systems that are incompatible with one another. Divisions might also end up inadvertently duplicating activities that other divisions are already handling.

4. Geographical Divisional Structure

The geographical organizational structure establishes its divisions based on -- you guessed it -- geography. More specifically, the divisions of a geographical structure can include territories, regions, or districts.

This type of structure is best-suited to organizations that need to be near sources of supply and/or customers (e.g. for deliveries or for on-site support). It also brings together many forms of business expertise, allowing each geographical division to make decisions from more diverse points of view.

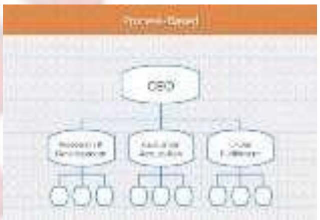
Disadvantages

The main downside of a geographical org structure: It can be easy for decision- making to become decentralized, as geographic divisions (which can be hundreds, if not thousands of miles away from corporate headquarters) often have a great deal of autonomy. And when you have more than one marketing department -- one for each region -- you run the risk of creating campaigns that compete with (and weaken) other divisions across your digital channels.

5. Process-Based Structure

Process-based organizational structures are designed around the end-to-end flow of different processes, such as "Research & Development," "Customer Acquisition," and "Order Fulfilment." Unlike a strictly functional structure, a process-based structure considers not only the activities employees perform, but also how those different activities interact with one another.

In order to fully understand the diagram below, you need to look at it from left to right: The customer acquisition process can't start until you have a fully developed product to sell. By the same token, the order fulfillment process can't start until customers have been acquired and there are product orders to fill.



Process-based organizational structure is ideal for improving the speed and efficiency of a business, and is best-suited for those in rapidly changing industries, as it is easily adaptable.

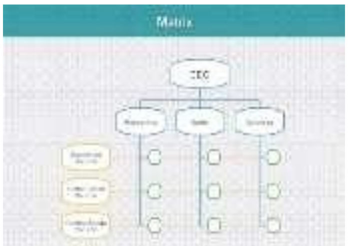
Disadvantages

Similar to a few other structures on this list, process-based structure can erect barriers between the different process groups. This leads to problems communicating and handing off work to other teams and employees.

6. Matrix Structure

Unlike the other structures we've looked at so far, a matrix organizational structure doesn't follow the traditional, hierarchical model. Instead, all employees (represented by the green boxes) have dual reporting relationships. Typically, there is a functional reporting line (shown in blue) as well as a product- based reporting line (shown in yellow).

When looking at a matrix structure org chart, solid lines represent strong, direct-reporting relationships, whereas dotted lines indicate that the relationship is secondary, or not as strong. In our example below, it's clear that functional reporting takes precedence over product-based reporting.



The main appeal of the matrix structure is that it can provide both flexibility and more balanced decision-making (as there are two chains of command instead of just one). Having a single project overseen by more than one business line also creates opportunities for these business lines to share resources and communicate more openly with each other -- things they might not otherwise be able to do regularly.

Disadvantages

The primary pitfall of the matrix organizational structure? Complexity. The more layers of approval employees have to go through, the more confused they can be about who they're supposed to answer to. This confusion can ultimately cause frustration over who has authority over which decisions and products -- and who's responsible for those decisions when things go wrong.

7. Circular Structure

While it might appear drastically different from the other organizational structures highlighted in this section, the circular structure still relies on hierarchy, with higher-level employees occupying the inner rings of the circle and lower-level employees occupying the outer rings.

That being said, the leaders or executives in a circular organization aren't seen as sitting atop the organization, sending directives down the chain of command. Instead, they're at the center of the organization, spreading their vision outward.

From an ideological perspective, a circular structure is meant to promote communication and the free flow of information between different parts of the organization. Whereas a traditional structure shows different departments or divisions as occupying individual, semi-autonomous branches, the circular structure depicts all divisions as being part of the same whole.

Disadvantages

From a practical perspective, the circular structure can be confusing, especially for new employees. Unlike with a more traditional, top-down structure, a circular structure can make it difficult for employees to figure out who they report to and how they're meant to fit into the organization.

8. Flat Structure

While a more traditional organizational structure might look more like a pyramid -- with multiple tiers of supervisors, managers and directors between staff and leadership, the flat structure limits the levels of management so all staff are only a few steps away from leadership. It also might not always take the form or a pyramid, or any shape for that matter. As we mentioned earlier, It's also a form of the "Organic Structure" we noted above.

This structure is probably one of the most detailed, It's also thought that employees can be more productive in an environment where there's less hierarchy-related pressures. This structure might also make staff feel like the managers they do have are more like equals or team members rather than intimidating superiors.

Disadvantages

If there's a time when teams in a flat organization disagree on something, such as a project, it can be hard to get aligned and back on track without executive decisions from a leader or manager. Because of how complicated the structure's design is, it can be tricky to determine which manager an employee should go to if they need approval or an executive decision for something. So if you do choose to have a flat organization, you should have a clearly marked tier of management or path that employers can refer to when they run into these scenarios.

9. Network Structure

A network structure is often created when one company works with another to share resources -- or if your company has multiple locations with different functions and leadership. You might also use this structure to explain your company workflows if much of your staffing or services is outsourced to freelancers or multiple other businesses.

Disadvantages

The shape of the chart can vary based on how many companies or locations you're working with. If it's not kept simple and clear, there may be a lot of confusion if multiple offices or freelancers do similar things. If you do outsource or have multiple office locations, make sure your org chart clearly states where each specific role and job function lies so someone can easily understand your basic company processes.

DEFINITION OF FORMAL ORGANIZATION

By the term formal organisation, we mean a structure that comes into existence when two or more people come together for a common purpose, and there is a legal & formal relationship between them. The formation of such an organisation is deliberate by the top level management. The organisation has its own set of rules, regulations, and policies expressed in writing.

The basic objective of the establishment of an organisation is the attainment of the organisation's goal. For this purpose, work is assigned, and authorities are delegated to each member and the concept of division of labour and specialisation of workers are applied and so the work is assigned on the basis of their capabilities. The job of each is fixed, and roles, responsibilities, authority and accountability associated with the job is clearly defined.

In addition to this, there exists a hierarchical structure, which determines a logical authority relationship and follows a chain of command. The communication between two members is only through planned channels.

Types of formal organization structure

- Line Organization
- Line and Staff Organization
- Functional Organization
- Project Management Organization
- Matrix Organization

DEFINITION OF INFORMAL ORGANIZATION

An informal organisation is formed within the formal organisation; that is a system of interpersonal relationships between individuals working in an enterprise, that forms as a result of people meet, interact and associate with one another. The organisation is created by the members spontaneously, i.e. created out of socio-psychological needs and urge of people to talk. The organisation is featured by mutual aid, cooperation, and companionship among members.

In an informal organisation, there are no defined channels of communication, and so members can interact with other members freely. They work together in their individual capacities and not professional.

There is no defined set of rules and regulations that govern the relationship between members. Instead, it is a set of social norms, connections, and interaction. The organisation is personal i.e. no rules and regulations are imposed on them, their opinions, feelings, and views are given respect. However, it is temporary in nature, and it does not last long.

Difference Between Formal and Informal Organization

An organization is a collection of people who work together to attain specified objectives. There are two types of organization structure, that can be formal organization and informal organization. An organisation is said to be **formal organisation** when the two or more than two persons come together to accomplish a common objective, and they follow a formal relationship, rules, and policies are established for compliance, and there exists a system of authority.

On the other end, there is an **informal organisation** which is formed under the formal organisation as a system of social relationship, which comes into existence when people in an organisation, meet, interact and associate with each other. In this article excerpt, we are going to discuss the major differences between formal and informal organisation.

Formal Organization Vs Informal Organization

BASIS FOR COMPARISON	FORMAL ORGANIZATION	INFORMAL ORGANIZATION
Meaning	An organization type in which the job of each member is clearly defined, whose authority, responsibility and accountability are fixed is formal organization.	An organization formed within the formal organization as a network of interpersonal relationship, when people interact with each other, is known as informal communication.

Creation	Deliberately by top management.	Spontaneously by members.
Purpose	To fulfill, the ultimate objective of the organization.	To satisfy their social and psychological needs.
Nature	Stable, it continues for a long time.	Not stable
Communication	Official communication	Grapevine
Control mechanism	Rules and Regulations	Norms, values and beliefs
Focus on	Work performance	Interpersonal relationship
Authority	Members are bound by hierarchical structure.	All members are equal.
Size	Large	Small

SPAN OF CONTROL

What is the Span of Control?

Span of Control can be defined as the total number of direct subordinates that a manager can control or manage. The number of subordinates managed by a manager varies depending on the complexity of the work.

For example, a manager can manage 4-6 subordinates when the nature of work is complex, whereas, the number can go up to 15-20 subordinates for repetitive or fixed work.
Meaning and Explanation

The term "Span of Control" is popularly used in business management and human resource management. Because this term is related to the management and controlling of employees, the meaning of the word is the total number of subordinates that a manager or supervisor can manage.

In the past, one manager was capable of managing 1-4 subordinates. Because of that, there were many levels of management in one organization. In 1980, with the introduction of information technology in business, many organizations flattened their management by reducing the number of managers in an organization. After that, the span of one manager increased from 1-4 to 1-10 subordinates.

This was possible because of inexpensive information technology. Technology helped in easing out several middle managers' tasks such as collection and manipulation of operation information. Because of this, a manager became capable of managing more subordinates at one time.

Several factors affect the span of control of a manager, such as the nature of work, capabilities of the manager, capabilities of employees to be managed, and the responsibilities of a manager. It can be of two types, such as a narrow and a wide span of control. It is considered to be narrow when a manager manages 2 to 4 subordinates.

Advantages of a narrow span of control.

1. The manager can supervisor each of his subordinates intimately.
2. The nature of work is usually complicated.
3. Effective communication between the subordinates and their manager.
4. More layers in the hierarchy of management.

Despite many advantages, the narrow span of control is not free from disadvantages.

Disadvantages of a narrow span of control

1. Too much control over employees might hamper their original talent and creativity.
2. Extended hierarchy of control results in a long time in decision-making.
3. Narrow span of controlling prevents cross-functional problem-solving.

On the other hand, a span of control is wide when a manager manages or controls up to 20 subordinates.

Advantages of a wide span of control.

1. In a wide span of control, subordinates are more independent.
2. Fewer layers in the hierarchy of management.

3. The nature of work is repetitive.
4. Less direct communication between subordinates and managers.

Disadvantages of a wide span of control.

1. Ineffective management.
2. Increased workload on managers.
3. The roles of team members are not clearly defined.
4. Less communication between managers and subordinates reduces the control of the manager.

FACTORS WHICH AFFECT THE SPAN OF CONTROL.

The span of control means the total number of employees that a manager or superior can manage. Several factors are taken into consideration before allocating subordinates to a supervisor.

1. Type of work to be managed

The most crucial factor that affects the span of control and management skills of a manager is the type of work. If all the subordinates are doing the same job at the same time, then it is easy for a manager or superior to manage all employees at the same time.

For example, it is easy for a supervisor to manage 50 call executives at the same time because they are doing similar work at the same time. On the other hand, a professor can take two or a maximum of four students pursuing a doctorate.

2. Geographical distribution

If the branches of business are located at far geographic locations, then it becomes difficult for a manager to manage all the executives working at all the branches. Therefore, areas will be divided into clusters, and different managers are hired to manage each cluster.

In this way, each manager can effectively manage all employees working in small areas. For example, if a company has its branches all over the world, then all branches can be divided country wise and country managers can be hired to manage all people working in that area.

3. Administrative tasks performed by a manager

The span of control of a manager reduces if he is required to complete several administrative tasks daily. For example, an HR manager is required to conduct Face-to-face meetings with employees, prepare appraisal development plans, prepare job descriptions, conduct interviews of employees to be hired, preparing employment contracts, design policies, explaining changes in policies, discussing remuneration benefits.

All of these tasks require efforts at a manager’s end. Therefore, an HR manager can manage employees working in one office. Because of this reason, different HR managers are required in various branches of a company.

4. The capability of the Manager

An experienced manager with a good understanding of the work and having good relationships with employees can manage a higher number of employees. Whereas, an inexperienced manager with limited skills can handle a few employees.

5. Capabilities of employees

The span of control of a manager not only depends on the capabilities of a manager but also depends on the capabilities of employees to be managed. A manager, no matter how much experienced he is, can handle only a few inexperienced or new employees at one time.

Since employees are required to be trained to do their work efficiently, the manager is expected to spend a lot of time with each employee. As a result, it becomes difficult for a manager to manage many subordinates at one time.

On the other hand, a manager can manage fully-trained and experienced employees at the same time because he is not required to teach every small task to them.

6. Responsibility for other tasks

The span of control of a manager will reduce if he has duties of different jobs on his shoulders. That means he will be able to dedicate a limited time to manage his subordinates.

For example, a professor is not only required to handle and help his doctorate students, but it is also necessary for him to dedicate time to his research work and to take theory classes of other students.

7. Manager’s value addition

A manager who is also providing training and skill development classes will need a small span of control as compared to the manager who is exclusively managing his subordinates.

8. Type of business

The span of control of a manager also depends on the kind of business. Different types of business processes can reduce the span of control of a manager.

Examples

Let us understand the concept of span of control with the help of an example. A retail company hired Will as an inventory manager. He found that the employees are not designated in the organization, due to which it became difficult for him to do his job correctly.

Employees who were responsible for performing inventory control work were also responsible for doing the work of other departments. Because of this, it became difficult for him to do his work correctly and on time. Therefore, he took this matter to the upper management and suggested them to define the job role of each employee clearly and asked for a dedicated team for himself.

As a result of which he got a team of 3 employees who exclusively took orders for him and do the work related to the inventory control. By having explicit knowledge, he could do work in a better way and also on time. In this way, the performance of the whole inventory control department improved.

DEPARTMENTATION

Meaning of Departmentation:

Departmentation is the foundation of organisation structure, that is, organisation structure depends upon departmentation. Departmentation means division of work into smaller units and their re-grouping into bigger units (departments) on the basis of similarity of features.

As the organisation grows in size, the work is divided into units and sub-units. Departments are created and activities of similar nature are grouped in one unit. Each department is headed by a person known as departmental manager.

Departmentation, thus, helps in expanding an organisation and also promotes efficiency by dividing the work on the basis of specialisation of activities and appointing people in various departments on the basis of their specialised knowledge.

Departmentation as is defined follows:

Louis A. Allen:

"Divisionalisation is a means of dividing the large and monolithic functional organisation into smaller, flexible administrative units".

Pearce and Robinson:

"Departmentalisation is the grouping of jobs, processes and resources into logical units to perform some organisational task."

Terry and Franklin:

"Departmentalisation is the clustering of individuals into units and of units into departments and larger units in order to facilitate achieving organisational goals."

IMPORTANCE OF DEPARTMENTATION:

1. Organisation structure:

Division of work into units and sub-units creates departments. Supervisors and managers are appointed to manage these departments. People are placed in different departments according to their specialised skills. The departmental heads ensure efficient functioning of their departments within the broad principles of organisation (scalar chain, unity of command, unity of direction etc.).

Thus, organisation structure is facilitated through departmentation. If there are no departments, it will be difficult to keep track of who is doing what and who is accountable to whom.

Departmentation creates departments, assigns tasks to people, fixes their responsibility and accountability to their departmental heads, creates a span of management so that work can be easily supervised. This network of authority- responsibility relationships is the basis of designing a sound organisation structure.

2. Flexibility:

In large organisations, one person cannot look after all the managerial functions (planning, organising etc.) for all the departments. He cannot adapt the organisation to its internal and external environment. Such an organisation would become an inflexible organisation. Creating departments and departmental heads makes an organisation flexible and adaptive to environment. Environmental changes can be incorporated which strengthen the organisation's competitiveness in the market.

3. Specialisation:

Division of work into departments leads to specialisation as people of one department perform activities related to that department only. They focus on a narrow set of activities and repeatedly performing the same task increases their ability to perform more speedily and efficiently. Specialisation promotes efficiency, lowers the cost of production and makes the products competitive.

4. Sharing of resources:

If there are no departments, organisational resources; physical, financial and human, will be commonly shared by different work units. Departmentation helps in sharing resources according to departmental needs. Priorities are set and resources are allocated according to the need, importance and urgency regarding their use by different departments.

5. Co-ordination:

"The organisation is a system of integrated parts, and to give undue emphasis to any functional part at the expense of the entire organisation creates organisational islands, thus, resulting in inefficiency and significant behavioural problems". Creating departments focuses on departmental activities and facilitates co-ordination.

6. Control:

Managers cannot control organisational activities if they have to be collectively supervised. Departmentation facilitates control by departmental manager over the activities of his department only. Activities are divided into smaller segments, standards of performance can be framed, factors affecting performance can be identified and control can be more objective in nature.

7. Efficiency:

Flow of work from one level to another and for every department, i.e., vertical and horizontal flow of work in the organisation increases organisational efficiency.

8. Scope for growth and diversification:

In the absence of departmentation, managers can supervise a limited number of activities, depending upon their skills and abilities. Departmentation enables them to expand their area of operation into new product lines and geographical divisions. Departmentation provides scope for organisational growth (along the same product lines) and expansion (adding new product lines).

9. Responsibility:

Since similar activities are grouped in one department headed by departmental managers, it becomes easy for top managers to fix responsibility of respective managers for achieving the desired results. If planned performance is not achieved, the department responsible becomes answerable. When responsibility is clear, authority can also be delegated to managers. Clear identification of responsibility and authority increases efficiency of the departmental activities.

10. Development of managers:

Departmentation enables departmental heads to be creative in making decisions with respect to their departmental activities. Training needs can also be identified because manager's task is clear and specific. There are opportunities to improve performance in their area of specialisation.

This develops their potential to be promoted to higher managerial positions in the organisation. It also facilitates recruitment and selection of top managers from within the organisation rather than depending on outside sources.

BASIS OF DEPARTMENTATION:

The form of organisation structure depends upon the basis of departmentation. Creating departments and sub-dividing the work of departments into smaller units creates organisation structure. With growing size of organisations, departments are created for activities of similar nature.

There are two broad forms of departmentation:

a. Functional departmentation, and

b. Divisional departmentation.

a. Functional Departmentation:

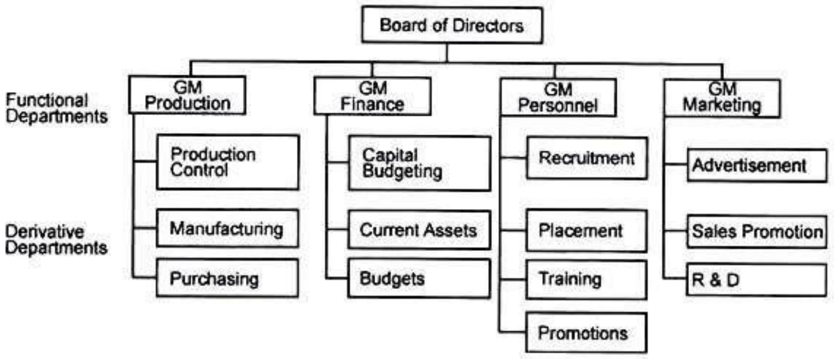
Functional organisation creates departments along activities or functions of the undertaking (functions do not refer to managerial functions of planning, organising , staffing, directing and controlling). It is grouping of activities on the basis of similarities of functions.

The nature of activities performed by different organisations is different. For example, activities carried by a manufacturing organisation are production, finance, personnel and sales. For a trader, the major activities are buying and selling, a bank performs borrowing and lending functions. Functional departmentation is, "the grouping of jobs and resources within the company in such a way that employees who perform the same or similar activities are in the same department".

It is the simplest, logical and most widely accepted form of creating departments. It is suitable for organisations where limited number of products are produced. The major functional departments further have derivative departments. Production department, for example, has sub-departments to manage purchase, production planning and control, manufacturing etc. Finance department creates departments to look into capital budgeting (fixed assets) and current assets, cash management and budgets.

Personnel department has sub-departments to take care of appointments, training, placement and promotion of employees. These sub-departments can be further sub-divided if needed. Advertising department (sub-department of marketing department), for example, can further have sub-departments like advertising in Newspapers, Radio, TV etc.

Organisation Chart Showing Functional Departmentation:



Functional Departmentation

Merits of Functional Departmentation:

It has the following merits:

1. Simple and logical basis of creating departments:

Production, marketing, finance and personnel are widely accepted and recognised functions of a manufacturing organisation and, therefore, it is a simple basis of departmentation.

2. Specialisation:

Since workers in one functional area focus on that area only, they acquire expertise and specialised skills in performing their duties. This offers the benefits of specialisation; efficiency and speed.

3. Co-ordination:

People working in one department are closely knitted and work collectively towards achievement of departmental goals. The departmental manager can co-ordinate various derivative activities.

4. Training and control:

The departmental manager is accountable for functions performed by his department. He ensures that activities are performed strictly according to rules and procedures laid down for the department. He can, thus, exercise control over his departmental activities. If workers are not able to carry out the activities efficiently, managers can train them to do so.

5. Supervision:

It is easy for managers to supervise the departmental activities as they have to supervise a narrow set of functional skills.

6. Suitable for stable organisations:

Organisations which do not frequently change their work units and work force are suitable for creating departments on the basis of functional activities.

7. Suitable for small organisations:

This basis of departmentation is suitable for small sized organisations which produce a limited line of products. Even for large organisations, it is suitable only for top levels. Thereafter, some other basis of departmentation has to be used. Marketing department, for instance, can be further branched out on the basis of territorial or geographical departmentation.

Limitations of Functional Departmentation:

1. Overall organisational goals:

The employees become so focused on departmental goals that they lose sight of the overall organisational goals.

2. Delayed decisions:

Since decisions are made by departmental heads for their respective departments, it may delay decision-making for the organisation as a whole.

3. Co-ordination:

Water-tight compartments are sometimes created amongst departments as people show loyalty towards their departmental managers. Top manager finds it difficult to co-ordinate various functional activities.

4. Accountability:

Top managers find it difficult to hold accountability of any one department for failure of the product in the market. For example, if the product does not earn profits, top managers cannot say with assertion whether the problem lies with production department or sales department.

5. Unsuitable for dynamic organisations:

As this is a suitable form of departmentation for stable organisations, organisations operating in the dynamic environment do not accept functional activities as the basis of departmentation. They use other basis of departmentation also to remain competitive in the market; either customer or product or territorial departmentation depending upon where and how they want to reach, grow and expand their business.

6. Complexity:

As organisations grow complex in terms of size and operations, they add more products to their line of products and expand into new geographical areas for marketing the existing products. Functional departmentation is not suitable in such cases.

b. Divisional Departmentation:

Divisional structures are created on the basis of smaller divisions where each division has its own functional activities (production, finance, personnel and marketing).

Major divisions that determine the organisation structure are as follows:

1. Product Departmentation:

This form of departmentation is suitable for companies that produce multiple products. Product departmentation is grouping of jobs and resources around the products or product lines that a company sells. With increase in operations of a company, it adds more products to its line of products which require various functional activities (production, marketing etc.). Product departmentation is suitable for product diversification where marketing characteristics of each product are different from others.

An organisation selling stationery, for example, also starts selling cosmetics and pharmaceuticals. While marketing strategies for cosmetics need to be intensive, it is not so in case of stationery or pharmaceuticals. Similarly, funds required for each product line are different.

The focus is on the product line and all functional activities associated with the product line. Departments are created on the basis of products and product manager has the authority to carry out functional activities for his department. Each product manager is in charge of his product line though general managers of various functional areas provide them the necessary support. It helps in coordinating the activities of different products.

Organisation Chart Showing Product Departmentation:
Product departmentation, along with various functional areas appear on the organisation chart as follows:

Product Departmentation

There could be further extension of this basis of departmentation. For instance, if product C is a car, the department can be branched out for commercial car, luxury car, special utility vehicle etc.

Merits of Product Departmentation:
Departmentation on the basis of product has the following merits:
(i) Better performance:
One manager may not have skills to carry out all operations for different product lines. By creating departments where each product department looks after one product or product line only, decision-making, fixing responsibilities and assessment of performance can be done efficiently. Sales people for one product will concentrate on sales promotion of that product only. This ensures better performance of employees of each department.

(ii) Flexibility:
Firms operating in the dynamic environment are well suited for this form of departmentation as it helps them respond to environmental changes, analyse competitors' products and change their product line, if necessary. The focus is completely on one product and all functional activities related to that product rather than one functional activity related to all products. This promotes product specialisation which helps in product growth.

(iii) Fast decisions:
Since all decisions related to a product are taken by product manager (under the guidance of

General Managers of different functional areas), decisions are taken quickly.

(iv) Co-ordination:
All the primary and auxiliary activities are managed by one manager. He can co-ordinate the efforts of people working under him.

(v) Control:
Every product manager wants to maximise profits of his product, for which he delegates authority to people of his department and establishes authority-responsibility relationships amongst them. Subordinates are trained to carry out functions related to each product. He, thus, controls activities of his department to ensure that the product contributes to the organisational goals.

(vi) Responsibility:
Product managers are accountable for results of their product departments. This promotes performance and profitability of different product departments.

(vii) Efficiency:
The costs and revenues of all the products can be compared. This helps in eliminating the unprofitable products and promoting the profitable ones thereby increasing organisational efficiency.

Limitations of Product Departmentation:
Some of the limitations of product departmentation are as follows:
(i) Co-ordination:

Coordination becomes difficult when departments focus excessive attention on activities of their departments without linking their performance with other departments.

(ii) Expensive:
This is comparatively a costly basis of departmentation than functional departmentation because every department appoints people to look after specialised activities, like accounting, finance, marketing, personnel etc. It results in duplication or multiplication of efforts because same functional activities are performed for different products.

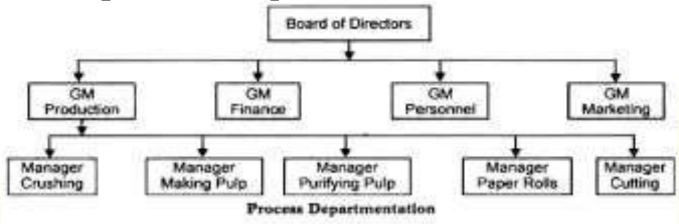
(iii) Control:
If every product division works as an autonomous unit, tries to maximise its goals/profits without linking them with overall organisational needs, it will be difficult for top management to control the overall organisational activities.

2. Process or Equipment Departmentation:
In manufacturing organisations where the product passes through different stages of production, each stage is designated as a process and department is created for each process. It is called process departmentation.

Manufacturing paper, for example, requires processes like crushing the bamboo, making pulp, purifying the pulp, making paper rolls, and cutting it into rims. For each process, departments are created and headed by people skilled and competent to carry that process.

Since finished product goes through different processes, each process is assigned to a different department. This form of departmentation is suitable for medium and large-sized organisations where goods are produced through a series of operations.

Organisation Chart Showing Process Departmentation:



Merits of Process Departmentation:

The merits of process departmentation are as follows:

(i) Specialisation:

As work is divided into different processes, the process manager and his team specialise in that process by constantly carrying out activities related to that process only.

(ii) Economic considerations:

Specialisation results in economy of time, money and managerial skills.

(iii) Technological consideration:

Large organisations, where each process requires different technology, operate most suitably under process departmentation. It also helps in maintenance of the equipment's related to a process because specialised technology requires specialised skills to maintain that process.

(iv) Facilitates training:

Since employees carry out only one operation or process on the work activity, managers can train people to efficiently carry out that process.

Limitations of Process Departmentation:

Process departmentation suffers from the following limitations:

(i) Co-ordination:

Output of one process department is input of the other. If different departments work at different speed, co-ordination amongst different processes becomes difficult. This can also result in conflict amongst process managers.

(ii) Boredom:

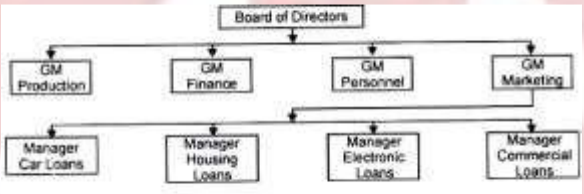
Repeated handling of the same job with a very short cycle (time required to complete that process) leads to boredom. This can affect efficiency of the process. An alternative to this is parallel pattern of process departmentation against the serial pattern (work moves in a series of steps) as described above. In the parallel process of departmentation, the number of steps to accomplish the task is the same.

For example, a job requires three steps for its completion. Step 1, Step 2, and Step 3. Rather than A (a worker) handling step 1, B handling step 2 and C handling step 3, A may carry out all the steps on product X, B carries out the same set of steps for product Y and C for product Z.

Though this reduces boredom on the work process, it requires trained workers who can carry out all the processes. This form of departmentation is suitable for small organisations where limited number of products with limited processes are produced.

3. Customer Departmentation:
When organisations sell to customers with different needs, departments are created on the basis of customers. Customer departmentation is "the organising of jobs and resources in such a way that each department can carefully understand and respond to different needs of specific customer groups".

Organisation Chart Showing Customer Departmentation:
The organisation chart for customer departmentation (for a lending company) appears as follows:



Customer Departmentation

Merits of Customer Departmentation:
Customer departmentation has the following merits:
(i) Competitive advantage:
Contemporary marketing world revolves around customers. 'Consumer is the king.' By catering to varied customer needs, companies have an edge over competitors and, therefore, better chances of survival and growth.

(ii) Customer orientation:
The goal of an organisation is to earn profits by customer satisfaction. An organisation where the basis of departmentation is to sell goods according to customer needs justifies its existence.

(iii) Specialisation:
A department created for satisfying customer requirements becomes specialized in that area resulting in cost efficiency. Sales people understand consumer behaviour and provide them the desired services. They develop understanding with the consumers and build clientele for the organisation.

Limitations of Customer Departmentation:

Customer departmentation has the following limitations:

(i) Co-ordination:

Excessive involvement of employees in their respective departments makes it difficult for top managers to co-ordinate the functions of different departments.

(ii) Identification of consumer groups:

It is not easy to identify various consumer groups. A large industrial buyer for one product, for example, may be a small buyer for another product. The same product may be of industrial use for one buyer and personal use for another. Identifying buyers as industrial and non-industrial is not very easy.

(iii) Change in consumer behaviour:

Consumer department managers cannot easily frame policies for their departments because of changing consumer behaviour. Demand for the same product for same set of consumers differs during different times. Marketing managers have to balance the time and money spent in framing policies so that organisation can adapt to the changing customer environment.

(iv) Specialised staff:

Change in consumer behaviour, their demand for different goods at different times cannot be easily predicted. The departmental managers, therefore, must have specialised skills to determine the consumer needs.

4. Territory or Geographic Departmentation:

In territorial departmentation, organisation creates departments:

(i) Close to its customers because they are geographically dispersed over different areas, or

(ii) Near the sources of deposits.

Each geographic unit has resources to cater to the needs of consumers of that area. The production, purchase, personnel and marketing activities are looked after by departmental managers but finance is vested at the headquarters. General Manager of every department looks after functional activities of his geographical area but overall functional managers provide supporting services to the managers of different areas.

Thus, customers of different regions with different tastes and preferences for the same product are looked after by geographical departments set up in their territories. The product or customer differentiation, both can be the basis of geographic or territorial departmentation. This basis is suitable for large-sized organisations which have activities dispersed over different geographical areas.

Organisation Chart Showing Geographic Departmentation:

Division of organisation on the basis of geographic dispersal of activities appears on the organisation chart as follows:

Geographic Departmentation

Merits of Geographic Departmentation:

It has the following merits:

(i) Training and development:

Employees are trained to sell goods in specific areas according to customer needs.

(ii) Customer orientation:

The emphasis is on selling in different regions according to customer needs. 'Consumer is the king' is duly recognised by departmental managers as they develop their skills to know the customs, styles and preferences of customers of different regions. Managers are able to promote sales as they are aware of the local conditions of the area where they are operating.

(iii) Low cost of production:

If firms establish their areas of operation near the sources of raw material, they will be able to produce at low cost and take advantage of economies of operation.

(iv) Communication:

The sales people belong to local areas of operation. They can directly communicate with the consumers and frame policies to satisfy their needs.

Limitations of Geographic Departmentation:

Territorial departmentation has the following limitations:

(i) Co-ordination and control:

Since departments are widely dispersed, top managers find it difficult to control and co-ordinate their activities. While some of the functional activities are decentralised, others are centralised. Policy framers are at the head quarters and policy executors are at the regional offices. Different local conditions can create problems of understanding.

(ii) Expensive:

Since each department has auxiliary departments like personnel, accounting etc. to offer specialised services to managers, this is a costly method of departmentation. Before adopting this basis of departmentation, therefore, benefits must be weighed against costs. This method is suitable for large-scale organisations who can afford its cost.

(iii) Managerial skills:

Managers should be competent to perform functional activities (production, marketing etc.) related to their departments. They may not specialise in all the functional activities.

5. Departmentation by Time:

This method of departmentation is used in situations where work is done round the clock because:

1. The machine cannot be stopped before finishing the work.

2. The demand is high and the machine has to work overtime.

3. The nature of work entrusted to the organisations is such.

4. The services are essential in nature (health and fire services).

5. Workers work in shifts; morning, afternoon and night, so that work can progress continuously.

These points are illustrated below:

1. The machine cannot be stopped in manufacturing steel and workers, therefore, have to work in shifts.

2. During boom conditions, the demand increases and, therefore, extra load has to be borne by machines. This is possible through shift duties.

3. Airlines, where flights arrive and depart, work throughout the day.

4. Essential services like hospitals and fire stations deal with emergencies and, thus, people work in shifts.

Departments are created for each shift though the objectives and nature of work carried in all the departments is the same.

This method of departmentation results in optimum utilisation of machines as they work continuously which otherwise may remain idle. It is also good for workers who cannot work during day time. They can be gainfully employed during evening or night shifts.

There are problems of co-ordination and supervision of employees who work in shifts. Employees have to explain to the workers joining the next shift about the stage of completion at which they are leaving the work which may not always be possible.

It is also a costly form of departmentation as each shift has separate functional departments.

6. Departmentation by Size:

This method is followed in army where number of workers in the unit is important. The company's performance is judged by the number of people working with it, and therefore, it adopts departmentation by size. Departments are created on the basis of number of people who form the department. Soldiers in army are grouped in numbers to form departments.

7. Departmentation by Task Force:
When organisation has a number of projects, it forms task forces which consist of people from different units having different skills to complete those projects. These groups are formed temporarily till completion of the project. They are similar to project organisations.

FORE CASTING

What is Forecasting?

Forecasting refers to the practice of predicting what will happen in the future by taking into consideration events in the past and present. Basically, it is a decision-making tool that helps businesses cope with the impact of the future's uncertainty by examining historical data and trends. It is a planning tool that enables businesses to chart their next moves and create budgets that will hopefully cover whatever uncertainties may occur.

Definitions
'Forecasting is a systematic attempt to probe the future by inference from known facts.' [L. A. Allen]
'Forecasts are predictions (or estimates) of any change in economic phenomena which may affect business plans.' [Mc Farland]
'Forecasting is a prediction and its purpose is to calculate some future event or condition.' [Webster's New Collegiate Dictionary]

Budgeting vs. Forecasting

One thing that is definitely true is that budgeting and forecasting are both tools that help businesses plan for their future. However, the two are distinctly different in many ways. Let's consider the following points:

- Budgeting involves creating a statement that consists of numerous financial activities of a company for a specific period, such as projected revenue, expenses, cash flow, and investments. It is usually not conducted solely by one department, say, the finance department, because it requires input from other departments in order to come up with a holistic and detailed report. Therefore, the budgeting process takes time to complete. The company uses the budget to guide it in its financial activities.
- While budgets are usually made for an entire year, forecasts are usually updated monthly or quarterly. Through forecasting, a company is able to adjust its budget and allocate more funds to a department, as needed, depending on what is foreseen. In summary, budgets depend on the forecast.

FEATURES OF FORECASTING

i. Concerned with future events – Forecasting is concerned with future events. It is a systematic effort to peep into the future. It is essentially a technique of anticipation.

ii. Necessary for planning process – Forecasting is necessary for the planning process. It is the basis for planning. Decisions cannot be taken without the help of forecasting. Therefore, it is an integral part of the planning process.

iii. Consideration of relevant facts – Forecasting considers all factors which affect organizational functions. It is a technique to find out the economic, social, and financial factors affecting the business.

iv. Inference from known facts – Forecasting is a systematic attempt to probe the future by inference from known facts. It is an analysis of past and present movements so as to arrive at the conclusion about the future pattern.

v. Art of reading the future – Forecasting is not an exact science. It involves looking ahead and projecting the future events. It requires the use of scientific, mathematical, and statistical techniques for reading the future course of events.

vi. Elements of guess-work – Forecasting involves elements of guess-work. Personal observations help in guessing future events to a great extent. Estimates for the future are based on the analysis of past and present circumstances.

FORECASTING METHODS

Businesses choose between two basic methods when they want to predict what can possibly happen in the future, namely, qualitative and quantitative methods.

1. Qualitative method

Otherwise known as the judgmental method, qualitative forecasting offers subjective results, as it is comprised of personal judgments by experts or forecasters. Forecasts are often biased because they are based on the expert's knowledge, intuition, and experience, and rarely on data, making the process non-mathematical.

One example is when a person forecasts the outcome of a finals game in the NBA, which, of course, is based more on personal motivation and interest. The weakness of such a method is that it can be inaccurate.

2. Quantitative method

The quantitative method of forecasting is a mathematical process, making it consistent and objective. It steers away from basing the results on opinion and intuition, instead utilizing large amounts of data and figures that are interpreted.

Features of Forecasting

Here are some of the features of making a forecast:

1. Involves future events

Forecasts are created to predict the future, making them important for planning.

2. Based on past and present events

Forecasts are based on opinions, intuition, guesses, as well as on facts, figures, and other relevant data. All of the factors that go into creating a forecast reflect to some extent what happened with the business in the past and what is considered likely to occur in the future.

3. Uses forecasting techniques

Most businesses use the quantitative method, particularly in planning and budgeting.

The Process of Forecasting

Forecasters need to follow a careful process in order to yield accurate results. Here are some steps in the process:

1. Develop the basis of forecasting

The first step in the process is developing the basis of the investigation of the company's condition and identifying where the business is currently positioned in the market.

2. Estimate the future operations of the business

Based on the investigation conducted during the first step, the second part of forecasting involves estimating the future conditions of the industry where the business operates and projecting and analyzing how the company will fare.

3. Regulate the forecast

This involves looking at different forecasts in the past and comparing them with the actual things that happened with the business. The differences in previous results and current forecasts are analyzed, and the reasons for the deviations are considered.

4. Review the process

Every step is checked, and refinements and modifications are made.

Sources of Data for Forecasting

1. Primary sources

Information from primary sources takes time to gather because it is first-hand information, also considered the most reliable and trustworthy sort of information. The forecaster himself does the collection, and may do so through things such as interviews, questionnaires, and focus groups.

2. Secondary sources

Secondary sources supply information that has been collected and published by other entities. An example of this type of information might be industry reports. As this information has already been compiled and analyzed, it makes the process quicker.

PROCESS OF BUSINESS FORECASTING

Step # 1. Understanding the Problem:

The first step in the forecasting process is the understanding of real problem about which forecasts are to be made. A manager must know clearly the purpose of forecasting. Forecasts may be made in regard to technological conditions, sales, choice of people, availability of finance and so forth. The clear understanding of the scope of forecasting will help the manager to probe the relevant information only.

Step # 2. Developing the Groundwork:

In this stage, the manager will try to understand what changes in the past have occurred. He can use the past data on performance to get a speedometer reading of the current rate (say of sales or production) and how fast this rate in increasing or decreasing. This will help in analysing the causes of changes in the past.

Step # 3. Selecting and Analysing Data:

There is a definite relationship between the choice of statistical facts and figures and the determination of why business fluctuations have occurred. Statistical data cannot be selected intelligently unless there is proper understanding of the business fluctuations. The reasons of business fluctuations will help in choosing the relevant information. After selecting the data, they are analysed in the light of past changes. Statistical tools can be used to analyse the data.

Step # 4. Estimating Future Events:

Future events are estimated on the basis of analysis of past data. Here, the manager must use his past experience and judgement. He must know clearly what he expects in the future in the light of overall organisational objectives. He should make an estimate of future business from a number of probable trends revealed by the systematic analysis of data. The estimated results can be compared with actual results in the future. This will help in refining the process of forecasting.

Implicit vs. Explicit Forecasting:

Forecasting may be either implicit or explicit. When a manager makes forecasts on the basis of his past experience and intuition, he is said to be implicitly forecasting the future events. This approach is generally not successful because it is unsystematic, not very reliable, not very precise and not very accurate. Implicit forecasts cannot be rationally evaluated and so cannot be used as rational basis for planning and control.

Therefore, it is generally more useful to consciously forecast and develop explicit planning premises. Explicit forecasts are systematic and are likely to be more reliable, precise and accurate. They can be used as the basis for rational analytical evaluation and also for control purposes. The various techniques of explicit forecasting have common into existence. They include time series analysis, regression analysis and econometric models.

TECHNIQUES OF FORECASTING

i. Survey Method:

Field surveys can be conducted to collect information regarding the attitude of people. Information collected (both quantitative and qualitative) by this technique is useful for proper forecasting. The survey method is suitable for forecasting the demand of both the existing product and new products.

ii. Index Numbers:

Index numbers are used to measure the state of condition of business between two or more periods. Business trends, seasonal fluctuations, and cyclical movements are studied with the help of index numbers. Index numbers indicate the direction in which the business is going on. Business activity index numbers are used as barometer to forecast the future trend of a business.

iii. Time Series Analysis:

In time series analysis, the forecast is made on the assumption that past activities are good indicators of future activities. In other words, future activities are the extension of the past. A trend can be known from the past data (over a period of time) which is utilized for predicting future trends. This technique can be suitably applied where the future is more or less similar to the past. Here, forecasts are based on the assumption that business conditions remain unchanged in the future.

iv. Regression Analysis:

Regression equations are used for predicting the average value of one variable when the movements of other variables are known. Normally, regression equations are based on two or more inter-related variables. The variables may be cost, production units, profit, sales volume, etc.

Forecast is made on one variable when specific values of other variables are known. A change in the value of one variable has an effect on the other inter-related variables. Forecast can be made from direct linear regression equations.

v. Jury of Executive Opinion:

The opinion of experts is sought and the meritorious one is accepted. The opinions may be sought on the areas of sales, purchase, finance, production, etc. Here, the views and opinions of experts are brought together for the purpose of forecast. This method is based on opinion rather than facts. Ideas of the experts are evaluated for their feasibility and profitability. Experts may be requested to comment on the opinions of others in order to arrive at a consensus.

vi. Econometric Model:

Econometric models are more scientific in tackling forecasting problems in the disciplines of economics, statistics, and accounting. The complex relationship of numerous variables is responsible for the future behaviour of one variable. This forecasting technique is applied in projecting Gross National Product. A predictive model is developed through a computer from various variables related to the business activity. The past data is used to know the degree of relationship prevailing among various variables.

vii. Input-Output Analysis:

A relationship between input and output is established on the basis of past data. A forecast of unknown variables can be made when the input-output relationship is known. The input requirements of a production can be forecasted when output is known quantitatively. On the contrary, output can be forecasted on the basis of a given quantity of inputs. Here, the prevailing inter-relationship among the various sectors of the economy can be well-established. This technique yields sector-wise forecasts and is extensively used in forecasting business events.

viii. Delphi Method:

The task of forecasting is done in consultation with persons who are directly related to the problem. A panel of experts is prepared. These experts are requested to give their opinions in writing for a prescribed questionnaire. Their opinions are analysed, summarized, and submitted once again to the same experts for future consideration and evaluation. This process is continued till a consensus opinion is obtained. This technique is most suitable for situations where past data is not available.

UNIT-IV

AUTHORITY

Authority means a special permission which is obtained by a person from his higher officer and on the basis of that a person gets the rights to do the work in the organisation. It is positional and comes with the territory. It is key to managerial functions. No any person can perform his duties with full responsibility, without authority.

Authority is defined as institutionalised and legal power inherent in a job, function, or position that enables the job holder to successfully carry out his/her responsibilities.

It refers to power that is delegated formally and legally. It includes right to command a situation, commit resources, give orders, and expect them to be obeyed. It is accompanied by responsibility for one's action and failures to act. Additionally, true authority also means that the target accepts the authority.

Authority– Definitions

(1) "Authority is the right to give order and the power to exact obedience". -Henri Fayol

(2) "Authority is the power to command, to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental performance". -Koontz and O'Donnell

(3) For Franklin G. Moore-"Authority is the right to decide the power to act, to carry out discussions".

(4)Koontz and O'Donnel consider authority as "a legal or rightful power, a right to command or to act".

In short, authority may be –

(1) A legal right to take a decision which may either be granted or delegated,

(2) A right to command,

(3) A right to see that the decision is rightfully and honestly implemented,

(4) According to Bernard authority involves two aspects—subjective and objective.

CHARACTERISTICS OF AUTHORITY

1. Basis of Getting Things Done:

Authority gives a right to do things in an organisation and affect the behaviour of other workers of the organisation. It leads to the performance of certain activities for the accomplishment of the defined objectives automatically.

2. Legitimacy:

Authority implies a legal right (within the organisation itself) available to superiors. This type of right arises due to the tradition followed in an organisation, custom or accepted standards of authenticity.

The right of a manager to affect the behaviour of his sub-ordinates is given to him on the basis of an organisational hierarchy.

3. Decision-Making:

Decision-making is a pre-requisite of an authority. The manager can command his subordinates to act or not to act. This type of decision is taken by the manager regarding the functioning of an office.

4. Implementation:

Implementation influences the personality factors of the manager, who is empowered to use authority. The subordinates or group of subordinates should follow the instructions of the manager regarding the implementation of decisions. The personality factor of one manager may differ from another manager.

The following features of authority:

(a) It is the legitimate right of an individual.

(b) It allows the position holder to decide things.

(c) It implies the capacity to get compliance.

(d) It is exercised to influence the behavior of subordinates in a certain manners.

(e) It flows from top to bottom in the organisation.

(f) It is supreme coordinating force because it binds together different individuals working in the organisation.

(g) It is used to achieve organisational objectives.

(h) It is differentiated from power. Power is the capacity to influence others' while authority is the right to influence others.

Authority in Management – 5 Elements

Authority includes the following elements:

(i) Use of Power – It is regarded as power. In other word where there is an authority, there is a power on the basis of which the authorized person issues the orders and instruction to other persons under his control.

(ii) Influential Personality – If the power are delegated to a person of influential personality, he will make the effective use of these power, easily because the subordinates accept his orders easily.

(iii) Performance – An important element of authority is that the performance of power of authority is necessary. Such performance may take place in different manners such as, in writing, with the request and issuing orders etc.

(iv) Effective Leadership – The person possessing authority must be an effective leader so that he may direct his subordinates and in turn his subordinates should follow his directions.

(v) To influence the subordinates – For effective performance of authority, it is necessary the person possessing authority must have of the quality influence his subordinates so that they may accept and follow his orders.

Authority in Management – Factors to be Kept in Mind During the Use of Authority

The successful use of authority depends upon the environment of the organisation and the persons working in that organisation.

The following factors must be kept in mind during use of authority for its successful use:

(i) Favorable Atmosphere – The favorable atmosphere is very important criteria for the successful use of authority. Therefore, it is responsibility of management to create favorable atmosphere in the organisation so that harmonious human relations may be established in the organisation.

(ii) Justified Behavior – The second important use for successful implementation of authority is the justified behavior of the officers towards their subordinates. They must feel not to treat all the employees on an equal ground.

(iii) Factual Cooperation – There must be mutual cooperation and trust between officers and employees to the organisation for the successful use of authority.

(iv) Interests to Work – The employees must have an interest in the work to which they are responsible. If they are not interested in their work, it may be very difficult for the higher officers to implement their authority.

(v) Respect to Superiors – The employees pay their best regards to their Bosses. If they do not have a feeling of regard to them, they may riot obey their orders.

These bases are given below:

1. Legitimate Power,

2. Coercive Power,

3. Reward Power,

4. Expert Power, and

5. Referent Power.

1. Legitimate Power:

It normally arises from position and derives from our cultural system of rights obligations, and duties whereby a **"position"** is accepted by people as being **"legitimate".** In a private business authority of position arises primarily from the social institution of private property. In government, this authority arises basically from the institution of representative government.

2. Coercive Power:

This is derived from a person's ability to create fear in another individual and is based on the subordinate's expectation that punishment will be received for not agreeing or complying with the superior's commands or beliefs.

3. Reward Power:

Reward power is the opposite of coercive power. It arises from the ability of some people to grant rewards. Purchasing agents, with little position power, might be able to exercise considerable influence by their ability to expedite or delay a much-needed spare part. Likewise, university professors have considerable reward power, they can grant or withhold high grades. Pick of vacation time.

4. Expert Power:

This is the power of knowledge, skill and expertise in certain areas. Since the superiors possess these knowledge the subordinates desires to fulfill the wishes and their directions. Physicians, lawyers and university professors may have considerable influence on others because they are respected for their special knowledge.

5. Referent Power:

Referent power is based on the identification of an individual faith a leader who is held in high esteem, admired and often imitated by the subordinate.

Types of Authority:

1. Legal Authority.

2. Traditional or Formal or top-down Authority.

3. Acceptance or Bottom-up Authority.

4. Charismatic Authority.

5. Competence or personal Authority.

1. Legal Authority:

The authority is based upon the rank of the person in the organisation and such authority may be given by law or by social norms, rules and regulations protected by law. For example, law has granted a place officer, the authority to arrest anyone who has committed a crime. Similarly, the president of a company has the right to fire an employee because that is how the rules and policies of the company have been established.

This type of authority is similar to power, which is the capacity to secure dominance of one's goals and beliefs. This authority has been called formal authority, which has been legalised through social institutes, which attain and enforce group goals, objectives and welfare through a maze of laws, codes, cultures and ethics.

This type of authority is embedded in the bureaucracy where the authority is bestowed upon contractually hired and appointed officials.

For example, shareholders of an organisation give the authority to Board of Directors, who in turn pass it on to the Chief Executive and so on The shareholders have this authority, to start with, because, they bought the shares in the company and society, through its complex structure, gives them this authority, to start with, because, they bought the shares in the company and society, through its complex structure, gives them this authority.

While bureaucracy is the purest form of legal authority, other forms of such authority may comprise of rotating office holders, elected officials or office holders chosen by lot. They have similar authority since they must follow the same rules and regulations, which govern their positions and define the limits of their authority.

Some examples are the elected officials, such as the president of a country or a member of parliament or a community leader.

2. Traditional Authority:

This authority is based upon the belief in traditions and the legitimacy of the status of people exercising authority through those traditions. Such traditions have evolved from a social order and communal relationships in the form of the ruling **"Lord"** and the obedient **"subjects".**

The obedience results on the promise of traditional **"piety"** and traditional respect and identity of the **"Lord"** or the King or the tribal chief. The traditional chief generally makes rules and decisions at his own pleasure.

Traditional authority has flowed from the top of the organisation to the bottom, from the owners or stockholders to the board of directors to the president to the vice-presidents to middle managers to supervisors to workers. Figure 7.1 illustrates this traditional top-down flow of legitimate authority, with referent, expert, coercive and reward power also influencing the acceptance of formal authority.

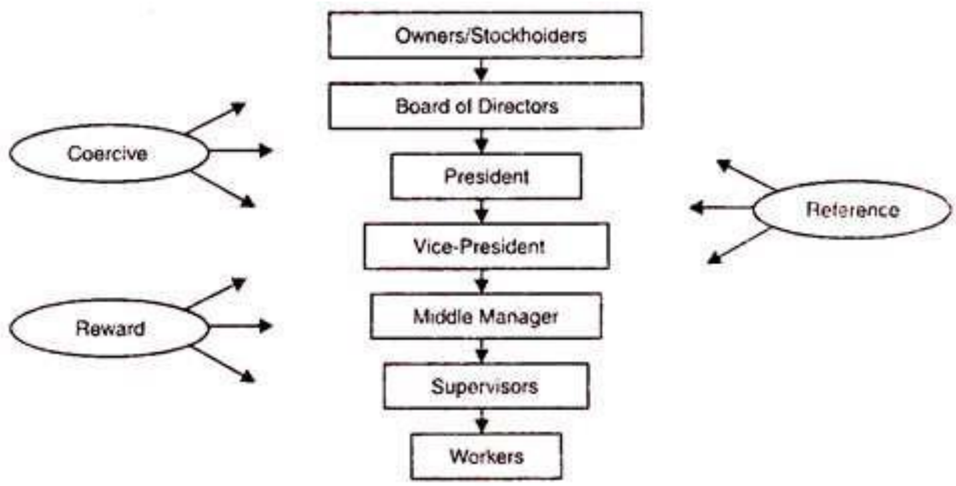


FIGURE 1 : TRADITIONAL VIEW OF AUTHORITY

The bases of power or influence do not constrain the use of authority, but rather affect how the authority is exerted and accepted.

3. Acceptance Theory of Authority:

The acceptance theory of authority presents a contrast to the traditional formal view of authority. According to the acceptance theory, authority in the ultimate analysis depends on the acceptance or consent of the people who are managed (subordinates) rather than legitimacy, or any legal, social or cultural norms.

If the subordinates don't accept the command of their superior, the superior cannot be said to have any authority with reference to them.

Chester Barnad, in 1938, began writing about organisations being 'co-operative systems' and proposed the 'acceptance theory or bottom-up theory of authority". He argued that management has only as much authority or power as subordinates is willing to accept and to the extent they consent to comply with directives.

Barnard suggested that at least four conditions must be met for subordinates to comply with authoritative communication.

a. The communication is fully understood.

b. At the time of decision, the employee believes the directive is consistent with the objectives of the organisation.

c. At the time of decision, the employees believe the command is compatible with personal interests and objectives.

d. The employees believe he or she is physically and mentally capable of complying with the communication.

4. Charismatic Authority:

The Charismatic Authority rests on personal charisma of a leader who commands respect of his followers on the basis of his personality and his personal traits such as intelligence and integrity. This is especially true of religious and political leaders. The followers become highly attached to the leader partly because the leader's goals seem to be consistent with their own needs.

A charismatic leader is a forceful orator and generally has hypnotic effect on his followers who accept his command and authority. For example, President John. F. Kennedy of America was known to have such a Charisma and hold on people that many succeeding presidential candidates tried to imitate his style.

Some organisational leaders are also known to be charismatic and responsible for the success of their organisations.

5. Competency Theory of Authority:

This is also known as **"technical authority"** and is implicit in person's special knowledge or skill. For example, when doctor advises you to rest, you accept his **"order"** because you respect his knowledge and his skills as a doctor. Again, this order will not get results unless you accept and obey and in that sense it rests on acceptance theory of authority.

Responsibility in Management

Meaning:

Responsibility refers to an obligation to do something.

It is the duty of the subordinate to perform organisational tasks, functions or activities assigned to him. Authority and responsibility go side by side. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility.

Definition:

"Responsibility is the obligation of a subordinate to carry out the duties assigned to him."

—Knootz and O'Donnel

"By responsibility we mean the work or duties assigned to a person by virtue of his position in the organisation. It refers to the mental and physical activities which must be performed to carry out a task or duty. That means every person who performs any kind of mental or physical effort as an assigned task has responsibility. —Allen

"Responsibility is the obligation to carry out assigned activities to the best of his abilities." —George Terry

Responsibility is thus the result of superior-subordinate relationship. In other words, a subordinate's obligations in any business unit will arise basically from his relationship with his superior who is given the authority to get something done.

A superior/ manager/executive get the rights of compliance of orders when he assigns duties and debates authority, while accepting a job a subordinate incurs an obligation to perform the job successfully.

"The essence of responsibility is then obligation. Responsibility has no meaning except as applied to a person; a building, a machine or an animal cannot be held responsible." Responsibility is a concomitant of authority. A person who has authority has a corresponding responsibility for the proper exercise of authority given to him. Authority flows from a superior to subordinate while responsibility flows from a subordinate to a superior.

Features of Responsibility:

The following are the characteristics or features of responsibility:

(i) Responsibility comes from superior-subordinate relationship.

(ii) It always flows upward from juniors to seniors.

(iii) It arises from duty assigned.

(iv) It cannot be delegated.

(v) It is the obligation to complete the job as per instructions. Responsibility may be continuing obligation or it may be discharged by accomplishing single task. Responsibility is a personal attribute. No person can shift his responsibility by delegating his authority to others.

Whether an individual exercises the authority himself or gets it exercised through others, he remains responsible to his own superior for proper performance. Thus, responsibility is absolute and can never be delegated or shifted to others.

Key Differences Between Authority and Responsibility

The following points are noteworthy so far as the difference between authority and responsibility is concerned:

1. The power or right, inherent to a particular job or position, to give orders, enforce rules, make decisions and obtain conformity, is called authority. Duty or obligation to undertake and complete a task satisfactorily, assigned by the senior or established by one’s own commitment or circumstances is called responsibility.
2. Authority refers to the legal right of the manager to give orders and expect obedience from subordinates. On the other hand, responsibility is the corollary, i.e. result of the authority.
3. The position of an individual in an organisation determines his/her authority, i.e. the higher the position of a person in the corporate ladder, the more is the authority and vice versa. As against this, the superior-subordinate relationship forms the basis for responsibility.
4. While authority is delegated, by the superior to subordinates, responsibility is assumed, i.e. it is inherent in the task assigned.
5. Authority needs the ability to give orders and instructions, whereas responsibility demands the ability of compliance or obedience, to follow orders.
6. Authority flows downward, i.e. the extent of authority is greatest at the top level and lowest at the low level. On the contrary, the responsibility exacts upward, i.e. from bottom to top, the subordinate will be responsible to superior.
7. The purpose of the authority is to take decisions and execute them. Conversely, responsibility aims at executing duties assigned by the superior.
8. Authority is inherent with the position, and so it continues for a long period. Unlike responsibility, which is attached to the task assigned and hence it is short-lived, it ends as soon as the task accomplishes successfully.

Delegation of Authority - Meaning, Importance and its Principles

A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Elements of Delegation

1. **Authority** - in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn’t misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

   Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn’t imply escaping from accountability. Accountability still rest with the person having the utmost authority.

2. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn’t accomplish tasks assigned as expected, then also he is answerable for that.
3. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if ’A’ is given a task with sufficient authority, and ’A’ delegates this task to B and asks him to ensure that task is done well, responsibility rest with ’B’, but accountability still rest with ’A’. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can’t be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps :

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

Delegation of authority is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager,i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee's role which means his responsibility and accountability is attached with the authority over to here.

Relationship between Authority and Responsibility

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates,in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

Differences between Authority and Responsibility

Authority	**Responsibility**
It is the legal right of a person or a superior to command his subordinates.	It is the obligation of subordinate to perform the work assigned to him.
Authority is attached to the position of a superior in concern.	Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
Authority can be delegated by a superior to a subordinate	Responsibility cannot be shifted and is absolute
It flows from top to bottom.	It flows from bottom to top.

Principles of Delegation:

The following principles that serve as guidelines for effective delegation of authority are given below:

1. Functional Clarity:

The functions to be performed, the methods of operations and the results expected must be clearly defined. The authority delegated must be adequate to ensure that these functions are well performed.

2. Matching Authority with Responsibility:

Generally authority and responsibility are highly interconnected. So, authority should be delegated as to be equal to responsibility, consigned to the worker. Authority should be adequate and should not only match the duties to be performed but also the personal capabilities of the subordinate.

3. Unity of Command:

The **"Unity of Command"** means a subordinate should be commanded by one superior only. In this connection a subordinate should be assigned duties and delegated authority by only one superior and he should be accountable for the performance of the assigned duties and exercise of the delegated authority.

In other words, a subordinate should be responsible to only one superior who is delegating the authority to the subordinate.

4. Principle of Communication:

A misunderstood responsibility can be very dangerous. A general authority can be easily misused. Accordingly, both the responsibility and authority must be clearly specified, openly communication must be continuously kept open for issuing directions as well as for receiving feedback.

5. Responsibility not Delegatable:

Authority can be delegated, but responsibility cannot be delegated. A manager cannot turn a blind eye to how the assigned duties are performed, and how the delegated authority is exercised. The ultimate responsibility for the performance of duties and exercise of delegated authority remains with him.

6. Limits to Authority to be Well Defined:

A manager cannot properly delegate authority unless he fully knows what his own authority is. To avoid confusion in this respect, there should be written manuals and orders to indicate the limits of authority and area of operations of each manager.

7. Principle of Management by Exception:

Management should delegate the authority and responsibility for routing operations and decision making to subordinates, but must retain such tasks for themselves for which they alone are uniquely qualified. On the other hand, the subordinates must make decisions and take actions wherever they can and should only refer matters of such nature to their superiors, which are unique, and outside their domain of authority.

This practice saves valuable time of top management, which can be utilised, for more important policy matters. Also by trying to solve most of the problems by themselves, the subordinates prepare themselves for higher challenges and responsibilities.

Process of Delegation:

The step, which is followed when delegating authority, is the process of delegation. Normally four steps are used in the process of delegation. It can be shown in the form of diagram.

FIGURE 2 : PROCESS OF DELEGATION

1. Assignment of Tasks:

The first step in this process is to determine clearly what the subordinates are supposed to do. Then the capabilities of each subordinate should be considered to match them with the assigned duties. The tasks should be distributed in such a manner that the subordinates are not unnecessarily overburdened and that each one is capable of efficiently completing the assigned task.

The total task can divided into identifiable parts so that the manager can handle some parts himself and other parts can be given to skilled subordinates. This way the coordination and supervision would become easier.

2. Delegation of Decision making Authority:

The second step is to give authority to subordinates to make and implement decisions regarding procurement of resources and supervision of activities that are relevant to the duties assigned to them. This authority must be clearly stated, and if possible in writing, so that there is no ambiguity regarding making necessary decisions.

The authority should also be related to tasks so that if the tasks change, so would the authority. Any matters or decisions that do not fall within the domain of delegated authority must be referred to the superiors.

3. Creation of Obligation:

The third step is the creation of obligation on the part of the subordinates to perform their duties satisfactorily. The person assigned the task is morally responsible to do his best since he has willingly accepted these tasks.

Obligation is a personal concern for the task. Even if the subordinate gets part of the task done through other people, he must accept responsibility for timely completion of the task as well as the quality of the output.

4. Creation of Accountability:

Being answerable to someone for your actions create accountability, an obligation to accept the consequences, good or bad. According to Newman, Summer and Warren, "by accepting an assignment, a subordinate in effect gives his superiors a promise to do his best in carrying out his duties. Having takes a job, he is morally bound to complete it. He can be held accountable for results.

Advantages of Delegation:

1. It Helps for Effective Functioning:

Delegation helps the executive to apportion that part of his work to his subordinates. So that he can devote his time to more important areas of his duties like leadership, organisation planning and coordination.

2. It Results in Quick Decisions:

The process of delegation makes it possible to push decision. Making to the lowest level where information, competence and willingness to make decisions are available. Decisions can be made right away at or near the centre of operations as soon as a deviation occurs or the situation demands.

3. Reduction in Managerial Load:

Delegation relieves the manager of the need to attend to minor or routine types of duties. Thus, he is enabled to devote greater attention and effort towards broader and more important responsibilities.

4. It leads for Specialised Service:

Since the work is assigned to the persons who have specialised knowledge and expertise, it helps for specialised services. For example, sales may be delegated to the sales manager, marketing-to-marketing manager, finance-to-finance manager.

5. Delegation is a Motivational Factors:

Delegation may also be used as a device to motivate the subordinate. Subordinates usually respond to delegated authority with favourable attitude. They become more responsible and more dedicated to their work and they feel proud of being given such authority and responsibility, this in turn boosts their morale.

6. Aid to Employee Developments:

Delegation ensures the employees in the organisation to develop their capabilities to undertake new and more challenging jobs and also it promotes job satisfaction.

7. It can be a Training Ground for Executive Ability:

Subordinates, when given control over the problems they face are able to analyse the situation and make decisions accordingly. This continuous involvement prepares them for problem solving process when they reach a higher executive level. This process will also screen out those from the executive level who have proved to be less successful in handling problems at the lower level.

Disadvantages of Delegation:

1. Central management is far removed from the actual operations where the decisions are made so that it becomes difficult to pinpoint major problems when they occur because decisions are made by many subordinates.

2. The second problem may lie in the area of coordination. If coordination among these many subordinates is not adequate, then confusion may result and it may become difficult to exercise control over procedures and policies.

3. It may be difficult to perfectly match the task with the capability of the subordinate.

Barriers to Delegation:

Even though there are several advantages on delegation of authority, most managers are reluctant to delegate authority and many subordinates are also reluctant to accept authority and responsibility for several reasons.

1. Reluctance of Managers or Executives:

The following reasons for managers are not willing to delegate authority are given below:

i. A manager may believe that he can do his work better than his subordinates.

ii. Sometimes, managers might believe that his subordinates are not capable enough.

iii. Delegation may require a lot of time in explaining the task and responsibility to the subordinates. Here, manager may not have the patience to explain, supervise and correct any mistakes.

iv. A manager may lack confidence and trust in his subordinates, since the managers is responsible for the actions of his subordinates, he may not be willing to take chances with the subordinates, in case the job is not done right.

v. Some managers lack the ability to direct their subordinates.

vi. Some managers feel very insecure in delegating authority especially when the subordinate is capable of doing the job better. The manager, in such a situation, may fear his loss of power and competition from the subordinate.

vii. An executive may be reluctant to delegate if he believes that the control system is not adequate in providing early warning of problems and difficulties that may arise in the delegated duties, thus delaying the corrective decisions and actions.

2. Reluctance of Subordinates:

Subordinates may reluctant to accept delegation of authority for the following reasons:

1. Subordinates may lack confidence in their ability to accept additional responsibility.

2. Subordinates may reluctant to accept authority and make decisions for fear that they would be criticised or dismissed for making wrong decisions.

3. Subordinates may not be motivated to accept additional responsibility and authority willingly in the absence of suitable incentives.

4. In case of adequate information and resources may not be available to the subordinates to carry out their decisions, they may hesitate to accept the delegation of authority.

5. They find it easier to ask their superiors than to try to solve the problem themselves.

overcome the obstacles of delegation:

1. Delegation to be Complete and Clearly Understood:

The subordinate must know precisely what he has to know and do. It should be preferably in writing with specific instructions so that the subordinate does not repeatedly refer problems to the manager for his opinion or decisions.

2. Proper Selection and Training:

The management must make proper assessment of subordinates in terms of their abilities and limitations before delegating the proper authority. Additionally, management must work closely with the subordinates in training them in how to improve their job performance. This constant communication will build up the self-confidence of the subordinates.

3. Motivation of Subordinates:

Adequate incentive in the form of promotion, status, better working conditions or additional bonuses must be provided for additional responsibilities will performed.

4. Establishment of Proper Control:

Shortcoming can be removed by establishing adequate controls. In this regard, adequate checkpoints and controls may be built in the system. For example, weekly reports.

CENTRALIZATION AND DECENTRALIZATION

Meaning of Centralization

Centralization is a form of organizational structure where the decision making capability rests with the top management. A couple of hand-picked members are entitled to create strategies, determine the goals and objectives based on which an organisation will function.

In a centralized organisation, the top management sets rules and procedures which are then communicated to the lower-level employees, who are expected to carry out the same without questioning the authority.

The advantage of such a structure is, it allows employees to have a well-defined framework within which all work needs to carried out.

The disadvantage of such a structure is that it increases the time taken to arrive at a decision. As decision-making authority lies with selected people from top management, it may result in biased decision making.

Meaning of Decentralization

Decentralization is another form of organizational structure that functions by delegating decision-making capabilities to multiple teams across geographies.

In such an organization, most of the planning, strategy and decision to implement them are taken by the people in the middle and lower level of management.

The advantage of decentralization is that the employees are empowered to make their own decisions that will benefit the organization, which results in a high level of employee satisfaction and boosts the productivity of an organization.

Decentralization enables low-level employees to gain leadership skills, which can contribute to the growth of the organization in the long run.

Let us look at the most crucial points of difference between centralization and decentralization in the following table.

Decentralization	**Centralization**
Definition	
Decision-making capabilities delegated across multiple levels	Decision-making capability rests with the top management
Flow of Information	
Open and free	Vertical
Ideal for	
Decentralization is ideal for large-sized organizations	Centralization is ideal for small-sized organizations
Decision-making speed	
Significantly faster	Comparatively slow
People Involved	

In decentralization, a higher number of people from each level are involved in the decision-making process	In centralization, only a few handpicked people are involved in the decision-making process
Employee Motivation	
Highly motivated employee	Demotivated employee
Conflict in Decision	
Most likely to occur	Least likely to occur
Burden	
The burden gets shared among many levels	Only one group is carrying the burden
Stability	
Prone to instability due to multiple conflicting decisions	Relatively stable as decisions are made by a central authority sharing a common ideology

ADVANTAGES OF CENTRALISATION/LIMITATIONS OF DECENTRALISATION:

(i) Consistency/Lack of Consistency in Decision-Making:

Centralisation leads to consistency in decision-making; because decisions are taken by a small group of managers at upper levels of management.

According, there are lesser problems of coordination. In decentralisation, there is a lack of consistency in decision-making; because a large number of managers at lower levels may decide the same issue in diverse manners – despite operating within the organisational policy framework. Accordingly, problems of co-ordination are accentuated.

(ii) Strong/Weak Top Management:

Centralisation of authority strengthens top management; and it is in a position to provide outstanding leadership to the whole enterprise by virtue of its vast authority. Under decentralisation, top management is rather weak; as most of its powers are given away among lower levels of management. It is not in a position to provide outstanding leadership to the organisation, because of its reduced powers.

(iii) Lower/Higher Costs of Administration:

In a centralised set-up of the organisation, the cost of administration is lesser; because the enterprise can operate with a limited number of managers. This is a good advantage of centralisation, in the present-day-times characterised by highly inflationary conditions. In a decentralised set-up, the cost of administration is higher; because to operate the decentralised units, a large number of managers is necessitated.

(iv) Broad/Narrow Approach to Managing:

In centralisation, the top management has a broad outlook to managing; as it takes decisions from the system's perspective – viewing the functioning of the organisation as a whole. In decentralisation, the managers of decentralised units have, usually, a narrow outlook to managing. For them, their own departmental interests are supreme – as against the overall interests of the whole organisation.

(v) Discouraging/Encouraging Inter-Departmental Conflicts:

Centralisation discourages inter-departmental conflicts; because major decisions of departments are taken at upper levels of management with an orientation towards departmental co-operation.

Decentralisation encourages inter-departmental conflicts; because different departmental managers take decisions in their own unique manners and styles, by virtue of, their vast powers and hell care for departmental co-ordination and co-operation.

(vi) Mature/Risky Decision-Making:

In centralisation, upper management, because of its experience, wisdom and broad outlook, is more mature in decision-making. Such decisions carry the chance of being least risky. In decentralisation, lower level managers, because of their less experience, wisdom and narrow outlook are less mature in decision-making.

Sometimes, under decentralisation such risky decisions might be taken as might endanger the very survival of the business enterprise.

(vii) Retention/Loss of Control by Top Management:

In centralisation, top management retains tight control over the whole organisation, because of its vast powers. In decentralisation, top management's control over the organisation is loosened; as its substantial powers are passed on to the lower levels of management.

(viii) Optimum/Less than Optimum Utilisation of Resources:

Under centralisation, there is an optimum utilisation of organisational resources, because of rational allocation of scarce resources among different uses. Under decentralisation, there may be, at times, less than optimum utilisation of resources; because the same set of activities may be duplicated in various decentralised units – leading to wastage of precious organisational resources.

(ix) Efficient/Inefficient Handling of Emergencies:

In centralisation, there is an efficient handling of emergencies by top management; and it can overcome organisational crises in an intelligent and planned manner. In decentralisation, lower level management may be frightened by emergencies and run to seek the shelter and guidance of top management for handling emergency situations.

(x) Suitable/Unsuitable in the Present-Day Environmental Scenario:

Centralisation/re-centralisation is highly suitable for tackling present-day environmental scenario; which is highly volatile and turbulent. Under these circumstances, top management can take sound decisions in consultation with specialists, from various fields.

Present-day environmental scenario makes decentralisation impractical. For taking sound decisions under these circumstances, top management cannot provide specialists to every Tom, Dick or Harry manager at lower levels in the organisation, because of financial implications.

Comparative Account # Limitations of Centralisation/Merits of Decentralization:

(i) Heavy Burden/Light Burden on Top Management:

Under centralisation, there is heavy burden of management work on top management; as it has to do strategic planning, policy formulation and controlling the whole organisation. Under decentralisation, there is light burden on top management; as much of the management work is passed on to lower levels of management.

(ii) Organisational Growth Retarded/Facilitated:

Centralisation retards the growth of organisation. Strategies of diversification, expansional programmes cannot be practical for organisation; as top management, already over-burdened with normal management work, can hardly find time to think in these directions.

Decentralisation facilities organisational growth. Dynamic and talented managers at lower levels coupled with power, can easily conceive of and implement growth strategies, of course, in consultation with top management. In fact, a trend towards decentralisation has gained momentum to cope with requirements of growth.

(iii) Lower/Higher Status of Lower Level Managers:

Centralisation decreases the status of lower level managers. As such, they have less motivation to work, because of the non-fulfillment of their ego needs. Decentralisation adds to the status of lower level managers. In fact, everything which goes to increase the status of lower level managers is a measure of decentralisation. With enhanced status, lower level managers have more motivation to work.

(iv) Autocratic/Democratic Management:

Centralisation may lead to autocratic management, in the organisation. Top management with unrestricted powers may not hesitate to impose its autocratic policies and leadership styles on the whole organisation i.e. it may misuse its powers also.

Decentralisation leads to democratic features in organisational functioning. In fact, under decentralisation, management decision-making power gets divided among a large number of lower rank managers. This phenomenon puts restraints over the dictatorial use of powers by the top management.

(v) Initiative Discouraged/Encouraged:

Centralisation discourages the exercise of initiative on the part of lower level managers. Their creativity and innovative skills have no scope, in the organisation. Decentralisation encourages the exercise of initiative on the part of lower level managers.

They can think out and execute their innovative plans, for the overall betterment of organisational life. Their creativity and innovative skills have full scope in the organisation. That is why; many decentralised enterprises have progressed a lot, in some cases.

(vi) Delayed/Quick Decision-Making:

In centralisation, there is delayed decision-making; because top management is burdened with many organisational issues and cannot pay timely attention to decision-making. In decentralizations, there is quick decision-making.

For one thing, lower level managers have comparatively limited managerial work, as they have to attend to only their own departmental problems. And for another, they need not seek approval of upper management for decision-making on issues, for which authority has been decentralised to them.

(vii) Inferior/Superior Decision-Making:

Under centralisation there is inferior decision-making by top management. This may seem paradoxical; but it is true in the sense that top rank managers are much remote to the situational factors, in the context of which decisions have to be made.

Under decentralisation, decision-making is superior, in the sense that lower level managers are close to the situational factors, in the context of which decisions have to be made. In fact, they practically deal with situational factors and develop a better sense of their appreciation and tackling.

(viii) Managerial Development Retarded/Facilitated:

Centralisation retards managerial training and developmental process. Under this philosophy, lower rank managers have little chance of development; because their roles in organisational life are routinized and they have no or little freedom to exercise initiative and take bold decisions, in an unrestricted manner.

Centralisation, in a way, creates problems of managerial succession when some significant top-level managers retire, due to age factor. Decentralisation, is a systematic way of training and developing managers for higher managerial positions. This philosophy more or less does away with the problem of managerial succession.

(ix) Management by Exception Retarded/Facilitated:

Centralisation retards the policy of management by exception, under which top management must concentrate its attention only on strategic issues. Hence, under centralisation, this policy is not possible; as top management has to attend to all aspects of managing, because of reservation of substantial decision-making authority with itself.

(x) Egoistic/Rational Planning:

Under centralisation, as a matter of great men psychology, top management, sometimes, may indulge in egoistic planning for ambitious purposes without caring for the attainment of enterprise objectives. Under decentralisation, rational planning is done by lower level managers.

They have comparatively little ambition and ego and care more for attainment of their departmental objectives through designing and implementing rational plans

UNIT-V

DIRECTING

Directing is the heart of management function. All other functions of management such as planning, organizing, and staffing have no importance without directing. Leadership, motivation, supervision, communication are various aspects of directing. Let us study the importance and principles of directing. Directing refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals.

1. Initiates Action

A directing function is performed by the managers along with planning, staffing, organizing and controlling in order to discharge their duties in the organization. While other functions prepare a platform for action, directing initiates action.

2. Pervasive Function

Directing takes place at every level of the organization. Wherever there is a superior-subordinate relationship, directing exists as every manager provides guidance and inspiration to his subordinates.

4. Continuous Activity

It is a continuous function as it continues throughout the life of organization irrespective of the changes in the managers or employees.

5. Descending Order of Hierarchy

Directing flows from a top level of management to the bottom level. Every manager exercises this function on his immediate subordinate.

6. Human Factor Since all employees are different and behave differently in different situations, it becomes important for the managers to tackle the situations appropriately. Thus, directing is a significant function that gets the work done by the employees and increases the growth of the organization.*)*

Explore more about Directing

Directing

- Leadership
- Incentives
- Communication
- Elements of Directing

1. Initiates Action

Each and every action in an organization is initiated only through directing. The managers direct the subordinates about what to do, how to do when to do and also see to it that their instructions are properly followed.

2. Ingrates Efforts

Directing integrates the efforts of all the employees and departments through persuasive leadership and effective communication towards the accomplishment of organizational goals.

3. Motivates Employees

A manager identifies the potential and abilities of its subordinates and helps them to give their best. He also motivates them by offering them financial and non-financial incentives to improve their performance.

4. Provides Stability

Stability is significant in the growth of any organization. Effective directing develops co-operation and commitment among the employees and creates a balance among various departments and groups.

5. Coping up with the Changes

Employees have a tendency to resist any kind of change in the organization. But, adapting the environmental changes is necessary for the growth of the organization. A manager through motivation, proper communication and leadership can make the employees understand the nature and contents of change and also the positive aftermaths of the change. This will help in a smooth adaptation of the changes without any friction between the management and employees.

6. Effective Utilization of Resources

It involves defining the duties and responsibilities of every subordinate clearly thereby avoiding wastages, duplication of efforts, etc. and utilizing the resources of men, machine, materials, and money in the maximum possible way. It helps in reducing costs and increasing profits.

NATURE OF DIRECTION:

1. Process of action:

Direction initiates action at top level of the organisation and flows down the hierarchy. It follows that subordinates have to be directed by their superiors only.

2. On-going process:

Directing is not an intermittent function of management. It is a process of continuously guiding the behaviour of others.

3. Not supported by rules:

Since the behaviour of people cannot be predicted through mathematical or statistical tools, the function of directing is based on behavioural sciences. It is not supported by rules or regulations.

4. Directing is situational:

Managers influence the behaviour of employees according to situation. The directions change from situation to situation. Factors like environment, nature of workers, group behaviour, attitude towards work etc. affect directing.

5. Behavioural science:

Since directing deals with human behaviour, managers study different aspects of human psychology to understand how to influence their behaviour.

6. Understand group behaviour:

No person can work alone. While working in the organisation, he becomes part of the informal groups (formed on the basis of common interests of individuals). The behaviour of a person is different as an individual and as member of the group. It is, therefore, essential that managers understand the nature of group behaviour in order to direct effectively.

7. Participative:

Direction initiates action on the part of employees. To ensure greater participation of workers in carrying out the organisational activities, they should take part in the meetings to discuss various direction policies.

8. Pervasive:

Managers at all levels in all functional areas direct their subordinates. Top managers guide middle and lower level managers who further direct supervisors and workers. It is performed at every level of management.

IMPORTANCE OF DIRECTION:

1. Initiates action:

Direction initiates action that motivates people to convert the resources into productive outputs. It gives substance to managerial functions of planning, organising, staffing and controlling. People learn to manage the resources in the most effective way that results in their optimum utilisation.

2. Creates a sound work environment:

If directions are issued in consultation with employees (participative), it creates an environment of understanding where people work to their maximum potential, willingly and enthusiastically to contribute towards organisational goals.

3. Develops managers:

Managers who are personally motivated to work can also direct others to work. Managers develop their skills and competence to direct others to follow. If managers and employees work in harmony, it promotes skills of the employees and develops managers to assume responsibilities of higher levels in the organisation.

Motivation, leadership and communication help in bringing people together. They exploit employees' talent to the fullest and also provide scope for their skill enhancement. This is beneficial for both the employees and organisation. Direction, thus, prepares future managers.

4. Behavioural satisfaction:

Since direction involves human behaviour and psychology, employees feel behaviourally satisfied and personally inspired to achieve organisational goals.

5. Increase in productivity:

Personally satisfied employees contribute towards output and efficiency of the organisation.

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 actions of employees that increases their understanding of mutual interdependence and their collective effort to achieve the organisational goals. It also helps to harmonies individual goals with organisational 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 organisation structure and adapting the organisation structure to external environment. Organisation operates in the society as an open system and has to accept social changes for its survival and growth. People are not easily receptive to changes. Direction helps in changing attitude of people towards change and accepts it as a way of life.

9. Facilitates growth:

Organisation open to change is responsive to growth. Direction harmonizes physical, financial and human resources, balances various parts of the organisation and creates commitment amongst people to raise their standards of performance.

Principles of Directing

1. Maximum Individual Contribution

One of the main principles of directing is the contribution of individuals. Management should adopt such directing policies that motivate the employees to contribute their maximum potential for the attainment of organizational goals.

2. Harmony of Objectives

Sometimes there is a conflict between the organizational objectives and individual objectives. For example, the organization wants profits to increase and to retain its major share, whereas, the employees may perceive that they should get a major share as a bonus as they have worked really hard for it.

Here, directing has an important role to play in establishing harmony and coordination between the objectives of both the parties.

3. Unity of Command

This principle states that a subordinate should receive instructions from only one superior at a time. If he receives instructions from more than one superiors at the same time, it will create confusion, conflict, and disorder in the organization and also he will not be able to prioritize his work.

4. Appropriate Direction Technique

Among the principles of directing, this one states that appropriate direction techniques should be used to supervise, lead, communicate and motivate the employees based on their needs, capabilities, attitudes and other situational variables.

5. Managerial Communication

According to this principle, it should be seen that the instructions are clearly conveyed to the employees and it should be ensured that they have understood the same meaning as was intended to be communicated.

6. Use of Informal Organization

Within every formal organization, there exists an informal group or organization. The manager should identify those groups and use them to communicate information. There should be a free flow of information among the seniors and the subordinates as an effective exchange of information are really important for the growth of an organization.

7. Leadership

Managers should possess a good leadership quality to influence the subordinates and make them work according to their wish. It is one of the important principles of directing.

8. Follow Through

As per this principle, managers are required to monitor the extent to which the policies, procedures, and instructions are followed by the subordinates. If there is any problem in implementation, then the suitable modifications can be made.

Function of direction:

1. Appropriate selection of employees:

Direction is related to the function of staffing. While selecting employees, managers should ensure that people can adjust to the organisation structure and willingly carry out the directions of their superiors. Chances of demotions and separations should be reduced to as low as possible. It is easy to direct people who are committed to their task and see organisational goals as a means to achieve the individual goals.

2. Participation:

Since direction influences the behaviour of others, managers follow the principle of participation (while preparing the directives). If those who carry out the directions participate in making policies regarded directions (motivational plans, leadership styles, communication pattern), direction function will be able to accomplish its purpose effectively.

3. Communication:

To make direction effective, managers ensure two-way flow of communication between them and the employees. Employees should be allowed to express their feelings to superiors. An effective system of communication ensures passing of orders and instructions by superiors which are smoothly carried by subordinates and expressing problems and grievances by subordinates to superiors which are solved by the superiors. Direction function aims at maximising the interest of not only self but also others in the organisation.

4. Counselling and guidance:

When employees face problems in carrying out their tasks, managers provide them the necessary counselling and guidance. This makes direction effective as employees can approach the superiors for counselling whenever required. It is important that subordinates carry out the instructions the way they are intended by the superiors. There should be complete understanding of communication between the superiors and subordinates. Doubts and queries of subordinates should be cleared by superiors through proper guidance and counselling.

5. Unity of command:

The basic principle that makes direction effective is one boss for one subordinate i.e., all directions, orders and instructions should come from one boss. If subordinate receives instructions from more than one superior, he may not be able to carry out the instructions of any of them. This will create confusion and conflicts to the dissatisfaction of both, the superiors and subordinates.

6. Unity of direction:

One plan or related set of activities should have one head. All activities related to marketing must be headed by the marketing manager and those related to personnel should be headed by the personnel manager. This avoids duplication of actions and instructions and results in optimum use of scarce resources.

7. Synthesis of conflicting objectives:

Every group of people, whether owners, managers, or workers has personal interest as supreme while carrying out the organisational activities. This can lead to conflicting interests which may hamper the organisational growth. Effective directions, motivation, guidance and counselling make people understand that their goals are subordinate to organisational goals. This enables different groups of people move towards the same direction. The conflicting objectives are, thus, synthesized into a single plan, one objective, one direction and one goal, that is, to maximise the organisational goals.

If subordinates view organisational interest as supreme, organisation also takes care to look after the interest of subordinates.

8. Direct supervision:

Direct supervision of employees helps them know deviations in their performance and ways to remove them. This also maintains direct contact between superiors and subordinates and increases interest in their work and confidence and loyalty in their supervisors.

9. Contribution:

Direction aims at getting maximum contribution from employees by exploiting their talent to the best. If employees have the potential to contribute more than their present performance, direction helps in enhancing the contribution towards organisational objectives.

10. Use of informal organization:

Though directions are issued in a formal organisation structure, managers should make use of informal organisation also to speed up the process of direction. Information travels faster amongst informal groups and directions can be effectively carried out because people can freely interact with each other.

11. Follow-up:

Managers should receive constant feedback on their directions to know whether or not employees are working according to their directions. If employees have problems, they should solve their problems and if need arises, even revise the directions.

Principles of directing

(1) harmony of objectives:

There must be harmony or fusion between the objectives of a subordinate and those of enterprise. This emphasizes interpersonal aspects of managing. When both interests are integrated, contribution of subordinates to the company goals will be maximum and the directing process will be effective.

Directing must foster the sense of belonging to the organisation so that they can identify themselves with the company and tune their goals with those of the company. Hence directing is essentially personnel management.

(2) unity of direction or command:

Employees should receive orders and instructions only from one superior, otherwise authority is undermined, discipline is in danger, disorder and confusion will be created and stability may be lost.

(3) direct supervision:

Direct contact with subordinates must be maintained by each superior. Personal touch, face- to-face communication, informal relationship ensure successful direction. Each subordinate feels a sense of participation when he has direct access to his boss. It raises employee morale. It also develops feedback of information

(4) democratic managerial style:

Modern direction must adopt democratic, participative managerial style particularly when workers and subordinates are competent and desire active participation in management of the enterprise.

(5) follow-through:

Successful direction depends on continuous never-ending guidance, supervision, advice, coaching, counselling and helping the subordinates in their activities- directing is not only telling people what to do but also seeing that they do it as per your plan. Effective direction demands achievement of results.

This can be assured only by overseeing subordinates, in addition to issuing orders, instruction and directives to subordinates. Overseeing employees at work is called supervision and it is required at all levels of management.

IMPORTANT PRINCIPLES GOVERNING THE APPLICATION OF THE DIRECTING FUNCTION

A reference to some fundamental principles of directing is likely to highlight better, the true concept and nature of this managerial function.

(i) principle of effective directing:

According to this principle, the more effective the directing is; the more and better would be employees' contribution to the attainment of common objectives. Accordingly, a manager while performing this function must try to use the best of his skills and techniques of directing – to ensure maximum efficiency in the performance of this function.

(ii) principle of orientation:

New employees – must be oriented or introduced to-the job to be performed by them, work environment, superiors, subordinates and colleagues and the rules, policies and objectives of the enterprise; before they are asked to perform their roles. In a way, all the necessary information about their job assignments must be provided to them; so that they can perform their jobs, in the best and desired manner – in the broad context of the organizational setting.

(iii) principle of 'rational' orders:

To initiate the process of actual work performance during directing, management must issue such orders and instruction to employees, as are rational i.e. In the context of and relating to basic enterprise objective; and their best attainment.

(iv) principle of unity of command:

As a principle of directing, unity of command implies that one employee must be issued orders and instructions only by one superior at a time; and the directed exclusively only by that superior (to avoid clash and overlapping of instructions and guidance) during the entire directing stage. The observance of this principle is likely to yield the best results out of the performance by subordinates.

(v) scalar chain principle:

As a principle of directing, scalar chain implies that the employee or the subordinate must be directed only by his most immediate superior, who would be perhaps, in the best position to understand the behavior and competence of the subordinate. The most immediate superior can apply best directing techniques, specially motivation and leadership, in view of the requirements, problems and temperament of his most immediate subordinate; and ensure best performance by the latter.

(vi) principle of friendly supervision:

During the directing stage, a manager must exercise only friendly supervision over subordinates; with a view to motivating and encouraging them and developing good human relations. Autocratic or dictatorial supervision must be rarely adhered to; as it is likely to fail in producing effective results, in the long-run.

(vii) principle of harmony of objectives:

While initiating the directing process, the objectives of the individual and those of the organization must, preferably be, thoroughly harmonized – through adequate motivation and outstanding leadership. In fact, the best performance by subordinates at the directing stage would occur; when subordinates while working for the enterprise feel that their personal objectives are being fulfilled.

(viii) principle of outstanding leadership:

According to this principle, the manager – director must exhibit outstanding leadership; so that the followers i.e. The subordinates are filled with zeal and enthusiasm and get fully dedicated to the common cause of the organization.

(ix) principle of free and open communication:

According to this principle, the manager- director must design and maintain a system of free and open communication within the work-group; to ensure the development of best human relations and facilitating the attainment of common objectives.

(x) principle of follow-through:

The manager – director must not only help people initiate performance; but also follow through the whole performance, pointing out to deficiencies in their performance; and modifying directing techniques – to overcome such deficiencies.

(xi) principle of constructive use of informal groups:

The manager, during the directing stage, must not hesitate to make a constructive – but cautious – use of informal group to expedite the process of directing; by availing of the plus points of such groups.

Techniques of Directing:

1. Consultative Direction:

Under this technique, superior, though vested with powers to take decision independently, does not take decision without consulting with his subordinates. The superior wins the cooperation of all the subordinates by taking their inputs into his decisions. Thus subordinates feel committed and motivated to carry out such decisions made out of their viewpoints.

2. Free-Rein Direction:

, subordinates are empowered to take decisions independently. The superior limits himself to issuing guidelines. The execution of the entire task is left to subordinates. The subordinates are held accountable for the results. This type of direction can be practiced only when subordinates are highly educated, experienced, capable and competent. It is self-direction by subordinates.

3. Autocratic Direction:

Superior commands the subordinates to accomplish a set of goals. He does not take into his decision-making the views, opinions and suggestions of subordinates. The superior gives a clear direction and precise orders to his subordinates.

4. Supervision:

Supervision is the process of overseeing the subordinates at work. Supervisor gives a precise, detailed and clear cut instruction to subordinates. The quality of supervision depends on the strength of the subordinates working under him. The lesser the strength of subordinates, the more effective is supervision arid vice versa.

Supervision is undertaken across the levels of management. Besides, supervisor should possess certain qualities to exercise effective supervision. Similarly, there are certain factors like skill, leadership, position, group cohesiveness, cordiality or relations, etc., that enable the supervisor to exercise effective supervision.

5. Motivation:

Merely issuing orders and instructions may not help to accomplish any task effectively. Motivation is the process of stimulating such forces like desires, wishes and wants that impel human beings to achieve the desired action. Motivation may be monetary and non-monetary. The impact of non-monetary motivation is supposed to last longer than monetary motivation.

Motivation is also classified into positive and negative motivation. While positive motivation is to be reinforced, the negative motivation should be applied as a last resort. The type of motivation varies according to nature of industry. Without motivation, the energy, efficiency and morale of the employees cannot be sustained.

6. Leadership:

Leadership is defined to be the ability of a manager to influence his subordinates to accomplish the goals. A leader is supposed to possess certain qualities to exercise effective leadership. A leader does many functions like formulation of objectives, representing the undertaking, initiating action, influencing followers, etc.

There are different styles of leadership practised by leaders. Of course all the types yield effect. But the type of leadership style to be adopted depends on the nature of subordinates and the context. Besides, leadership should have intelligence, good communication skill, initiative, flexibilities, etc.

7. Communication:

Communication enables a group to think together, see together and act together. It becomes indispensable for passing on decisions to those engaged in executing them. Where communication is not understandable to the receiver, direction becomes ineffectual. Face to face communication and feedback system is essential for smooth operation of business. There are certain principles like clarity, preciseness, concreteness etc., to be followed for effective communication.

The flow of communication is in all directions in any organization. They are vertical, horizontal, lateral and diagonal flow of communication. There may arise certain barriers to the flow of communication. Organizations have to take effort to de-clog the blockage in the communication process so as to ease the flow of communication. Besides channels of communication, verbal, written and gestural communications are used to convey the information to those intended. Without communication, nothing can be achieved in the organization.

8. Delegation:

Delegation is the process of entrusting a part of work to be done by a superior to his subordinate. Without delegation, an organization cannot grow even an inch. In the absence of delegation, superior is overloaded with excessive work. Besides, specialization concept warrants delegation.

It helps the executive to utilize their productive time optimally. The subordinate to whom the authority is delegated is responsible to the delegator. In the same vein, the delegator is ultimately responsible for the work executed by the delegatee.

9. Orders:

Orders are directives issued by superiors to subordinates directing the latter to act in a certain manner.

The order should be:

i. Reasonable and enforceable over subordinates.

ii. Clearly defined and understandable.

iii. Complete in all respects.

iv. Win acceptance and cooperation of subordinates.

v. Preferably in written form.

vi. Appropriately toned.

vii. Time line prescribed.

Orders may be oral, written, generic, specific, procedural or operational.

10. Orientation:

a. Orientation of New Employees:

All new hires should be given orientation about their rights, duties, responsibilities, superior-subordinate, relationship, profile of the organization, organization structure, performance evaluation, career opportunities, fundamental rules put in place in the organization, etc.

b. Continuing Orientation:

Wherever goals are revised, new technique is absorbed; new machinery is put in place, and newer development unfolds in a particular area of specialization; existing employees are to be enlightened thereabout through training, bulletins, news wheels, staff meetings, updates, committee meetings, conferences, etc.

TECHNIQUES OF DIRECTING

1. Consultative Direction:

The supervisor or superior has consultation with his subordinates before issuing a direction. The consultation is made to find out the feasibility, enforceability and nature of problem. It does not mean that the superior is not capable of acting independently. Ultimately, the superior has the right to take any decision and give the directions.

The co-operation of subordinates is necessary for successful implementation of any direction. Better motivation is available to the subordinates under this direction technique. The supervisor could instill high morale into the subordinates.

2. Free-Rein Direction:

The subordinate is encouraged to solve the problem independently under this direction technique. The superior assigns the task generally. The subordinates should take initiative to solve the problem. Only highly educated, efficient and sincere sub-ordinates are required to apply these direction techniques.

3. Autocratic Direction:

This direction is just opposite to free-rein direction technique. Here, the supervisor commands his subordinates and has close supervision. The supervisor gives clear and precise orders to his sub-ordinates and act accordingly. There is no way left to the sub-ordinates to show their initiatives.

TYPES OF DIRECTING IN MANAGEMENT

Directing in management may be either oral or written. Some of the advantage of written directions areas follows:

i. Written directions are more clear, comprehensive and clarity of thought and better quality of direction maintained.
ii. Written orders are comparatively more intelligible and the chances for misunderstanding and duplication of efforts will be minimised.
iii. The subordinates also get an ample opportunity to study the directive carefully.
iv. It also makes it possible to communicate to all interested parties simultaneously.
v. A written order can be consulted readily to maintain accuracy.
vi. It helps in accountability and smooth carrying out of orders.

COORDINATION

Concept

Coordination has become necessary. There must be coordination among the individuals or group of individuals either working in the same department or in various departments of the firm to whom separate segmented jobs were assigned.

Coordination is an important function of management. It is very important that without which other managerial functions cannot be performed effectively. It is the continuous and never ending process in management because it is achieved through the performance of functions. And, the functions are dynamic and change over the period of the period of time and thus, coordination is also dynamic, according to change in functions, the coordination also changes. Coordination is always related to group efforts and not to individual effort. It is the orderly arrangement of group efforts for achieving common goals. Similarly, it is a process of making relation and cooperation through which some common goals could be achieved.

Definitions

Henry Fayol-"coordination is to harmonise all the activities of a common in order to facilitate its working and its success."

E.F.L. Brech-"coordination is balancing and keeping together the team by ensuring a suitale allocation of tasks to the various members and seeing that tasks are performed with due harmony among the members".

George R. Terry-"coordination deals with the task of blending efforts in order to ensure successful attainment of an objectives."

Requisites/Principles/Elements For Excellent Coordination

A good coordination attacks the problems as they arise. It is accepted by all that coordination is crucial to the effectiveness of the organization. In fact, it is ongoing process whereby a manager determines and develops an orderly pattern of group efforts among the subordinates and secures unity of action in the pursuit of common goals. Some of the important elements/principles/elements for excellent coordination are mentioned below:

1.Direct contact: Through direct contact, the activities of different individuals within and between departments can be coordinated. By direct personal contact among the responsible people concerned, coordination can be more easily achieved. Views can be discussed by direct face-to-face or personal contact.

2.Early start: Coordination should start from the very beginning of planning and policy making process. There should be mutual consultation among the officials while preparing the plan. If it is done early, the task of adjustment will be very easier either in preparation or in integration in the process of implementation of the plan.

3.Continuity: Coordination is a continuous function, so, it should be viewed as a continuous or never ending process, it must go on all the time, starting from the stage planning. It cannot be left to chance, but management should make constant efforts to achieve it.

4.Dynamism: Coordination should be modified in the light of changes incurred in the internal and external environment. It envisages that coordination should not be rigid but dynamic.

5.Simplified organization: The organizational structure of the enterprise should be simplified to make the coordination effective. If structure is simplified, then, closely related functions and operations may be put under the charge of one executive and this would facilitate the taking of action necessary for coordination.

6.Clear cut objectives: The objectives should be clearly defined to make coordination effective. The objectives, goals and mission should be laid down clearly. The departmental managers should be told of the objectives of the firm and they should understand the overall goals.

Importance of coordination

Coordination is undoubtedly essential at every level of management and in each management functions for achieving the corporate goals. It has become so important that beyond this, management cannot see with guarantee and assurance that the corporate objectives could be achieved.It means both the smooth and efficient working and achievement of organizational goals are dependent upon sound coordination.

The importance of coordination has been emphasized by Chester Bernard very excellently stating, "The quality of coordination is the crucial factor in the survival of the organization." Thus, based upon above arguments, some of the importance can be described here under:

1. Unity of actions: The complexities in many aspects have increase as the size of the organization has been increased. To achieve goals, specialization and division of labour and work are also applied, and large number of workers are also provisioned. Naturally, their interests and goals may differ. Now, question arises to reconcile the interest and goals of individuals and organization.The action should be unified so as to achieve the goals.

2.Total accomplishment: Group achievement is greater in all respect than that of individual achievement. If the efforts of employees are closely coordination, naturally, their total accomplishment will be for greater than the sum total of individual achievements. It increases total production and helps in preventing duplication.

3.Efficiency and economy: Due to coordination the employees perform the job effectively and efficiently. Thus, it promotes efficiency in work which may result in economy in operations. More to this, coordination helps the organization to avoid delays and control duplication of work, thus both may cause of increasing efficiency and achieve economy.

4.Good personal relations: Through the application of coordination, management creates good and excellent human relations. The conflicts, disagreements, disputes and other similar fighting among different persons, between line and staff can be settled, suppressed, eradicated and resolved by mutual discussions. Better personal relations can be developed which, in turn, will boost the workers morale high.

5.Key to managerial functions: The managerial functions can be performed well only with the help of coordination. Coordination is the key to planning, organizing, leading and controlling due to which the related works are performed effectively.

Controlling

Definition: Control is a primary goal-oriented function of management in an organisation. It is **a process of comparing the actual performance with the set standards of the company** to ensure that activities are performed according to the plans and if not then taking corrective action.

Koontz and O'Donnell:
"The measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and plans devised to attain them are being accomplished." The accomplishment of organizational goals is the main aim of every management. The performance of subordinates should be constantly watched to ensure proper implementation of plans. Co-ordination is the channel through which goals can be achieved and necessary corrective actions may be taken if things are not going as per the objectives.

Henry Fayol:
"In an undertaking control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established." It has to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything things, people, actions, etc.

Characteristics of Control:

1. Managerial Function:
Control is one of the managerial functions. It is not only the function of chief executive but is the duty of every manager. A manager is responsible for whatever work is assigned to him. He will control the performance of his subordinates for ensuring the accomplishment of goals. Control is mainly the function of line organization but manager may ask for data from staff personnel.

2. Forward Looking:
Control is forward looking. Past is already gone thus, cannot be controlled. Measures can be devised to control future activities only. Past provides a base for determining controls for future.

The manager will study the past performance in order to find out the reasons for low results. A corrective action will be taken to ensure that work in future is not adversely affected. Take for example, production for a particular month is low than the standard. Manager will not be able to do anything about the past performance. However, he may study the reasons for low production. He should take appropriate steps so that the same mistakes are not repeated and production will not suffer in future.

3. Continuous Activity:

Control is regularly exercised. It is not an activity in isolation. The manager will have to see that his subordinates perform according to plans at all the time. Once the control is withdrawn it will adversely affect the work. So control will have to be exercised continuously.

4. Control is Related to Planning:

Planning is the first function of management while control is the last. Control cannot be exercised without planning. First the objectives are set and then efforts are made to see whether these are accomplished or not. Whenever there is a laxity in performance or things are not happening as per the plans then corrective measures are taken immediately. So planning provides a base for controlling.

5. Essence of Control is Action:

Whenever performance is not as per the standards the immediate action is needed to correct the things. The purpose of control will be defeated if corrective action is not taken immediately. If the sales are less than the standard set for marketing department then steps will be taken to ensure that performance is not low in future. If no such steps are taken then there will be a lack of control. In practice, immediate action is the essence of control..

Features of Controlling

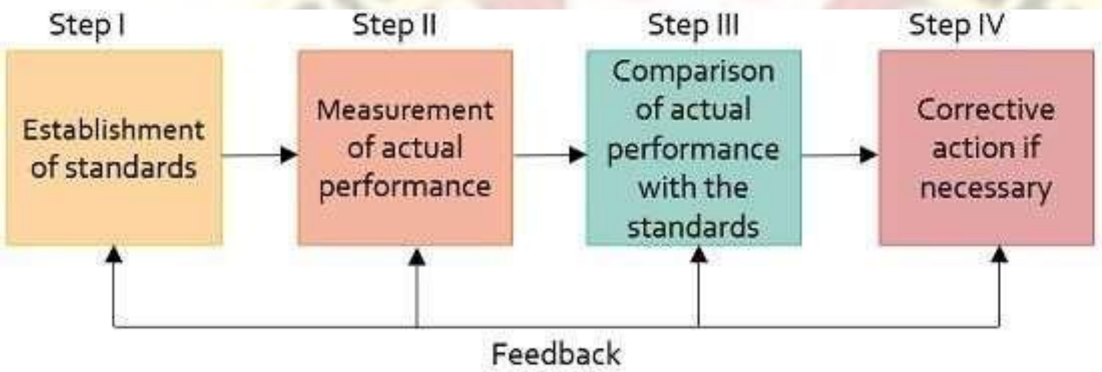
- An effective control system has the following features:
- It helps in achieving organizational goals.
- Facilitates optimum utilization of resources.
- It evaluates the accuracy of the standard.
- It also sets discipline and order.
- Motivates the employees and boosts employee morale.
- Ensures future planning by revising standards.

- Improves overall performance of an organization.
- It also minimises errors.

Controlling and planning are interrelated for controlling gives an important input into the next planning cycle. Controlling is a **backwards-looking function** which brings the management cycle back to the planning function. Planning is a forward-looking process as it deals with the forecasts about the future conditions.

Process of Controlling

Control process involves the following steps as shown in the figure:



- **Establishing standards**: This means setting up of the target which needs to be achieved to meet organisational goals eventually. Standards indicate the criteria of performance.

  Control standards are categorized as quantitative and qualitative standards. **Quantitative standards** are expressed in terms of money. **Qualitative standards**, on the other hand, includes intangible items.

- **Measurement of actual performance**: The actual performance of the employee is measured against the target. With the increasing levels of management, the measurement of performance becomes difficult.
- **Comparison of actual performance with the standard**: This compares the degree of difference between the actual performance and the standard.
- **Taking corrective actions**: It is initiated by the manager who corrects any defects in actual performance.

Controlling process thus regulates companies' activities so that actual performance conforms to the standard plan. An effective control system enables managers to avoid circumstances which cause the company's loss.

Importance of Control:

The control function helps management in various ways. It guides the 'management in achieving pre-determined goals. The efficiency of various functions is also ensured by the control process. The shortcomings in various fields are also reported for taking corrective measures.

1. Basis for Future Action:

Control provides basis for future action. The continuous flow of information about projects keeps the long range planning on the right track. It helps in taking corrective action in future if the performance is not up to the mark. It also enables management to avoid repetition of past mistakes.

2. Facilitates Decision-making:

Whenever there is deviation between standard and actual performance the controls will help in deciding the future course of action. A decision about follow up action is also facilitated.

3. Facilitates Decentralization:

Decentralization of authority is necessary in big enterprise. The management cannot delegate authority without ensuring proper controls. The targets or goals of various departments are used as a control technique. If the work is going on satisfactorily then top management should not worry. The 'management by exception' enables top management to concentrate on policy formulation. Various control techniques like budgeting, cost control, pre action approvals allow decentralization without losing control over activities.

4. Facilitates Co-ordination:

Control helps in coordination of activities through unity of action. Every manager will try to co-ordinate the activities of his subordinates in order to achieve departmental goals. Similarly, chief executive will co-ordinate the functioning of various departments. The controls will act as checks on the performance and proper results will be achieved only when activities are coordinated.

5. Helps in Improving Efficiency:

The control system helps in improving organizational efficiency. Various control devices act as motivators to managers. The performance of every person is regularly monitored and any deficiency is corrected at the earliest.

6. Psychological Pressure:

Controls put psychological pressure on persons in the organization. Everybody knows that his performance is regularly evaluated and he will try to improve upon his previous work. The rewards and punishments are also linked with performance. The employees will always be under pressure to improve upon their work. Since performance measurement is one of the important tools of control it ensures that every person tries to maximize his contribution.

Types of control

There are three types of control viz.,

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.

Advantages of controlling

- Saves time and energy
- Allows managers to concentrate on important tasks. This allows better utilization of the managerial resource.
- Helps in timely corrective action to be taken by the manager.
- Managers can delegate tasks so routinely chores can be completed by subordinates.

On the contrary, controlling suffers from the constraint that the organization has no control over external factors. It can turn out to be a costly affair, especially for small companies.

Limitations of Control:

Though control is essential for better performance and maintenance of good standards, there are certain limitations also.

Some of the limitations are discussed as such:

1. Influence of External Factors:

There may be an effective control system but external factors which are not in the ambit of management may have adverse effect on the working. These factors may be government policy, technological changes, change in fashion, etc. The influence of these factors cannot be checked by the control system in the organization.

2. Expensive:

The control system involves huge expenditure on its exercise. The performance of each and every person in the organization will have to be measured and reported to higher authorities. This requires a number of persons to be employed for this purpose. If the performance cannot be quantitatively measured then it will be observed by the superiors. The exercise of control requires both time and effort.

3. Lack of Satisfactory Standards:

The performance of certain activities involving human behaviour cannot be fixed in terms of quantities. It is difficult to fix standards for activities like public relations, management development, human relations, research, etc. The evaluation of work of persons engaged in these activities will be difficult.

4. Opposition from Subordinates:

The effectiveness of control process will depend upon its acceptability by subordinates. Since control interferes with the individual actions and thinking of subordinates they will oppose it. It may also increase the pressure of work on subordinates because their performance is regularly monitored and evaluated. These factors are responsible for the opposition of controls by subordinates.

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