MANAGEMENT CONCEPTS AND PRACTICES

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Block wise syllabus
Financial Management

Block No	Block	Unit No	Unit
Block 1	Introduction to Financial management & financial budgeting	Unit 1	Meaning, nature and scope of finance, financial goal-profit vs. wealth maximization
		Unit 2	Finance functions Investment, financing and dividend decisions.
		Unit 3	Innovative finance functions.
		Unit 4	Financial Budgeting Nature of investment decisions
Block 2	Investment Evaluation, Cost of Capital, Concept of retained earnings, Concept of Leverage	Unit 5	Investment evaluation criteria-net present value, internal rate of return, payback period, accounting rate of return, capital rationing, risk analysis in capital budgeting.
		Unit 6	Cost of Capital: Meaning and significance of cost of capital, Calculation of cost of debit, preference capital, and equity capital
		Unit 7	Retained earnings, combined cost of capital (weighted).
		Unit 8	Operating and Financial Leverage: Measurement of leverages, effects of Operating and financial leverage on profit
Block 3	Modern Financial plan, combined leverage, concept of dividends, MM hypothesis	Unit 9	Analyzing alternate financial plans
		Unit 10	Combined financial and operating leverage.
		Unit 11	Capital Structure Theories: Traditional and M.M. hypotheses determining capital structure in practice
		Unit 12	Dividend Policies: Issues in dividend decisions, Walter's model, Gordon's model, M-hypothesis, dividend and uncertainty, relevance of dividend, dividend policy in practice
Block 4	Dividend policy, working capital concept, estimation & management of working capital	Unit 13	Forms of dividends, stability in dividend policy, corporate dividend behavior.
		Unit 14	Requirement of Working Capital & Financing: Meaning, Significance and types of working capital, calculating operating cycle period
		Unit 15	Estimation of working capital requirements, financing of working capital, finance of working capital, spontaneous source and negotiated source.
		Unit 16	Management of Working Capital: Dimensions of working capital management

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1.1.INTRODUCTION

Management is a universal process in all organized, social and economic activities. Wherever there is human activity there is management.

Management is a vital aspect of the economic life of man, which is an organized group activity. A central directing and controlling agency is indispensable for a business concern. The productive resources –material, labour, capital etc. are entrusted to the organizing skill, administrative ability and enterprising initiative of the management. Thus, management provides leadership to a business enterprise. Without able managers and effective managerial leadership, the resources of production remain merely resources and never become production. Management occupies such an important place in the modern world that the welfare of the people and the destiny of the country are very much influenced by it.

1.2 MEANING OF MANAGEMENT

Management is a technique of extracting work from others in an integrated and coordinated manner for realizing the specific objectives through productive use of material resources. Mobilising the physical, human and financial resources and planning their utilization for business operations in such a manner as to reach the defined goals can be benefited to as management.

1.3 DEFINITION OF MANAGEMENT

Management may be defined in many different ways. Many eminent authors on the subject have defined the term "management". Some of these definitions are reproduced below:

In the words of George *R* Terry - "Management is a distinct process consisting of planning, organising, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources".

According to James L Lundy - "Management is principally the task of planning, coordinating, motivating and controlling the efforts of others towards a specific objective",

In the words of Henry Fayol - "To manage is to forecast and to plan, to organise, to command, to co-ordinate and to control".

According to Peter F Drucker - "Management is a multipurpose organ that manages a business and manages managers and manages worker and work".

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

In the words of Koontz and O'Donnel - "Management is defined as the creation and maintenance of an internal environment in an enterprise where individuals working together in groups can perform efficiently and effectively towards the attainment of group goals".

According to Ordway Tead - "Management is the process and agency which directs and guides the operations of an organisation in realising of established aims".

According to Stanley Vance - "Management is simply the process of decision-making and control over the actions of human beings for the express purpose of attaining predetermined goals".

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

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

In the words of S. George - "Management consists of getting things done through others. Manager is one who accomplishes the objectives by directing the efforts of others".

In the words of Keith and Gubellini - "Management is the force that integrates men and physical plant into an effective operating unit".

According to Newman, Summer and Warren - "The job of management is to make cooperative endeavour to function properly. A manager is one who gets things done by working with people and other resources".

According to John F M - "Management may be defined as the art of securing maximum results with a minimum of effort so as to secure maximum results with a minimum of effort so as to secure maximum prosperity and happiness for both employer and employee and give the public the best possible service".

In the words of Kimball and Kimball - "Management embraces all duties and functions that pertain to the initiation of an enterprise, its financing, the establishment of all major policies, the provision of all necessary equipment, the outlining of the general form of organisation under which the enterprise is to operate and the selection of the principal officers. The group of officials in primary control of an enterprise is referred to as management".

According to E. Peterson and E.G Plowman - Management is "a technique by means of which the purpose and objectives of a particular human group are determined, classified and effectuated".

According to Mary gushing Niles - "Good management or scientific management achieves a social objective with the best use of human and material energy and time and with satisfaction for the participants and the public".

If the views of the various authorities are combined, management could be defined as "a distinct ongoing process of allocating inputs of an organisation (human and economic resources) by typical managerial functions (planning, organising, directing and controlling) for the purpose of achieving stated objectives namely - output of goods and services desired by its customers (environment). In the process, work is performed with and through personnel of the organisation in an ever-changing business environment".

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

1.4 NATURE OR CHARACTERISTICS OF MANAGEMENT

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

1. ***Management is a Factor of Production:*** Manager's primary task is to secure the productive performance through planning, direction and control. It is expected of the management to bring into being the desired results. Rational utilisation of available resources to maximise the profit is the economic function of a manager. Professional manager can prove his administrative talent only by economising the resources and enhancing profit. According to Kimball -"management is the art of applying the economic principles that underlie the control of men and materials in the enterprise under consideration".

2. ***Management also implies skill and experience in getting things done through people:*** Management involves doing the job through people. The economic function of earning profitable return cannot be performed without enlisting co-operation and securing positive response from "people". Getting the suitable type of people to execute the operations is the significant aspect of management.

3. ***Management is a process:*** Management is a process, function or activity. This process continues till the objectives set by administration are actually achieved. "Management is a social process involving co-ordination of human and material resources through the functions of planning, organising, staffing, leading and controlling in order to accomplish stated objectives".

3. ***Management is a universal activity:*** Management is not applicable to business undertakings only. It is applicable to political, social, religious and educational institutions also. Management is necessary when group effort is required.

4. ***Management is a Science as well as an Art:*** Management is an art because there are definite principles of management. It is also a science because by the application of these principles predetermined objectives can be achieved.

5. ***'Management is a Profession:*** Management is gradually becoming a profession because there are established principles of management which are being applied in practice, and it involves specialised training and is governed by ethical code arising out of its social obligations.

6. ***Management is an endeavour to achieve pre-determined objectives:***Management is concerned with directing and controlling of the various activities of the organisation to attain the pre-determined objectives. Every managerial activity has certain objectives. In fact, management deals particularly with the actual directing of human efforts.

8. ***Management is a group activity:*** Management comes into existence only when there is an group activity towards a common objective. Management is always concerned with group efforts and not individual efforts. To achieve the goals of an organisation management plans, organises, co-ordinates, directs and controls the group effort.

9. ***Management is a system of authority:*** Authority means power to make others act in a predetermined manner. Management formalises a standard set of rules and procedure, to be followed by the subordinates and ensures their compliance with the rules and regulations. Since management is a process of directing men to perform a task, authority to extract the work from others is implied in the very concept of management.

10. ***Management involves decision-making:*** Management implies making decisions regarding the organisation and operation of business in its different dimensions. The success or failure of an organisation can be judged by the quality of decisions taken by the managers. Therefore, decisions are the key to the performance of a manager.

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

12. ***Management is dynamic and not static:*** The principles of management are dynamic and not static. It has to adopt itself according to social changes.

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

14. ***Management is Goal Oriented:*** Management is a purposeful activity. It is concerned with the achievement of pre-determined objectives of an organisation.

15. ***Management is Intangible:*** It cannot be seen with the eyes. It is evidenced only by the quality of the organization and the results i.e. profits, increased productivity etc.

1.5 SCOPE OF MANAGEMENT

It is very difficult to precisely state the scope of management. However, management includes the following aspects:-

- **Subject-matter of Management**

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

- **Functional Areas of Management**

Management covers the following functional areas:-

- ***Financial Management:*** Financial management includes forecasting, cost control, management accounting, budgetary control, statistical control, financial planning etc.
- ***Human Resource Management:*** Personnel/Human Resource management covers the various aspects relating to the employees of the organisation such as recruitment, training, transfers, promotions, retirement, terminations, remuneration, labour welfare and social security, industrial relations etc.
- ***Marketing Management:*** Marketing management deals with marketing of goods, sales promotion, advertisement and publicity, channels of distribution, market research etc.
- ***Production Management:*** Production management includes production planning, quality control and inspection, production techniques etc.

- ***Material Management:*** Material management includes purchase of materials, issue of materials, storage of materials, maintenance of records, materials control etc,
- ***Purchasing Management:*** Purchasing management includes inviting tenders for raw materials, placing orders, entering into contracts etc.
- ***Maintenance Management:*** Maintenance management relates to the proper care and maintenance of the buildings, plant and machinery etc.
- ***Office Management:*** Office management is concerned with office layout, office staffing and equipment of the office.

- **Management is an Inter-Disciplinary Approach**

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

- **Principles of Management**

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

- **Management is an Agent of Change**

The techniques of management can be improved by proper research and development.

- **Essentials of Management**

The essentials of management include scientific method, human relations and quantitative techniques.

1.6 Is MANAGEMENT A SCIENCE OR AN ART?

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

What is "Science"?

Science may be described- "as a, systematic body of knowledge pertaining to an area of study and contains some -general truths explaining past events or phenomena".

The above definition contains three important characteristics of science. They are:

1. It is a systematized body of knowledge and uses scientific methods for observation

2. Its principles are evolved on the basis of continued observation and experiment and
3. Its principles are exact and have universal applicability without any limitation.

Judging from the above characteristics of science, it may be observed that-

1. Management is a systematized body of knowledge arid its principles have evolved on the basis of observation.
2. The kind of experimentation (as in natural sciences) cannot be accompanied in the area of management since management deals with the human element.
3. In management, it is not possible to define, analyse and measure phenomena by repeating the same conditions over and over again to obtain a proof.

The above observation puts a limitation on management as a science. Management like other social sciences can be called as "inexact science".

What is "Art"?

'Art' refers to "the way of doing specific things; it indicates how an objective is to be achieved." Management like any other operational activity has to be an art. Most of the managerial acts have to be cultivated as arts of attaining mastery to secure action and results.

The above definition contains three important characteristics of art. They are-

1. Art is the application of science. It is putting principle into practice,
2. After knowing a particular art, practice is needed to reach the level of perfection.
3. It is undertaken for accomplishing an end through deliberate efforts.

Judging from the above characteristics of art, it may be observed that-

1. Management while performing the activities of getting things done by others is required to apply the knowledge of certain underlying principles which are necessary for every art.
2. Management gets perfection in the art of managing only through continuous practice.
3. Management implies capacity to apply accurately the knowledge to solve the problems, to face the situation and to realise the objectives fully and timely.

The above observation makes management an art and that to a fine art.

Management is both a Science as well as an Art

Management is both a science as well as an art. The science of management provides certain general principles which can guide the managers in their professional effort. The art of management consists in tackling every situation in an effective manner. As a matter of fact, neither science should be over emphasized nor art should be discounted; the science and the art of management go together and are both mutually interdependent and complimentary.

Management is thus a science as well as an art. It can be said that-"the art of management is as old as human history, but the science of. management is an event of the recent past."

1.7 PROFESSIONALISATION OF MANAGEMENT

There has been a growing trend towards professionalisation of management. Professionalisation imparts a certain social responsibility and dignity to management. A professional cannot be controlled or directed by the client. He has professional knowledge and judgment which he uses to make his decision. Thus, professionalisation makes business more efficient, dynamic and socially responsible. The growth of management education in India has contributed to professionalisation in the business field.

The company form of business organization which has split ownership from management and the gaining popularity of the company form of business organization have increased the need for professional managers.

According to Peter Drucker, "Professional management is a function, a discipline, a task to be done; and managers are the professionals who practice this discipline, carry out the functions and discharge these tasks. It is no longer relevant whether the manager is also an owner; if he is it is incidental to his main function, which is to be a manager."

The World Council of Management has recommended the following criteria for professionalisation. They are:

1. Members of a profession subordinate self-interest to the client interest and the official interest.
2. A profession is based on a systematic body of knowledge that is held to common and lends to application.
3. Membership of a profession should depend on the observance of certain rules of conduct or behaviour.

A critical evaluation of the above definitions show that professionalisation of business management shows that:

1. There exists a systematic body of knowledge on management. A professional should have formally acquired the specialized knowledge and skill for management. Management is taught as a discipline in various educational institutes, throughout the world.
2. Membership of a profession should depend on the observance of certain rules of conduct and behaviour. The decisions and actions of a professional are guided by certain ethical considerations.
3. A profession is based on a systematic body of knowledge that is held in common and lends itself to application. Thus, a profession should have no ideological bias in the discharge of his functions.

A close scrutiny of management shows that management unlike law or medicine is not a full-fledged profession. The reasons are -

1. It is not obligatory to possess specific qualifications for being appointed as a manager.
2. There is no single association to regulate the educational and training standards of managers.
3. Uniform professional standards have not been set up for the practicing managers.

1.8 FUNCTIONS OF MANAGEMENT

Functions of management

A manager is called upon to perform the following managerial functions:

1. Planning
2. Organising
3. Staffing
4. Directing
5. Leadership
6. Communication
7. Motivation
8. Supervision
9. Co-ordination
10. Controlling

1. Planning: Planning is a basic managerial function. Planning helps in determining the course of action to be followed for achieving various organisational objectives: It is a decision in advance, what to do, when to do how to do and who will do a particular task. Planning is a process which involves 'thinking before doing'. Planning is concerned with the mental state of a manager. He thinks before undertaking a work. Other functions of management such as organising, staffing, directing, co-ordinating and controlling are also undertaken after planning.

Hart defines planning as "the determination in advance of a line of action by which certain results arc to be achieved." According to Terry, "'Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualisation and formulations of proposed activities believed necessary to achieve desired results."

Planning is a process of looking ahead. The primary object of planning is to achieve better results. It involves the selection of organisational objectives and developing policies, procedure, programmes, budgets and strategies. Planning is a continuous process that takes place at all levels of management. A detailed planning is done in the beginning but the actual performance is reviewed and suitable changes are made in plans when actual execution is done. Plans may be of many kinds, such as short range plans, medium range plans, long range plans, standing plans, single use plans, strategic plans, administrative plans and operational plans.

The process of Planning involves a number of steps : (i) gathering information ; (ii) laying down objectives; (iii) developing planning premises; (iv) examining alternative courses of action; (v) evaluation of action patterns ; (vi) reviewing limitations (vii) implementation of plans.

2. Organising. Every business enterprise needs the services of a number of persons to look after its different aspects. The management sets up the objectives or goals to be achieved by its personnel. The energy of every individual is channelised to achieve the enterprise objectives. The function of organising is to arrange, guide, co-ordinate, direct and control the activities of other factors of production, *viz.*, men, material, money and machines so as to accomplish the objectives of the enterprise. In the words of Koontz and O'Donnel, "Organising that part of managing that involve establishing and intentional structure of roles for people in an enterprise to fill." Organisation provides the necessary framework within which people associate for the attainment of business objectives.

Louis A. Allen describes organisation as, "the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." The process of organisation involves the following steps:

(i) to identify the work to be performed;
(ii) to classify or group the work ;
(iii) to assign these groups of activities or work to individuals;
(iv) to delegate authority and fix responsibility and
(v) to co-ordinate these authority-responsibility relationships of various activities.

The character and type of organisation depends upon the size and nature of the enterprise. Though there are many types of organisations but generally three types of organisations are in vogue :

(i) Line organisation
(ii) Functional organisation; and
(iii) Line and staff organisation

In line organisation authority flows vertically from the top of the hierarchy to the bottom. Under functional organisation, the work is divided into different departments. Each department deals in one type of work and it specialises in one work only. A workman has to work under many superiors who specialise in different functions. Line and staff organisation provides for specialists with line executives. It is a combination of line and functional form of organisation.

A sound organisation contributes greatly to the continuity and success of the enterprise. However, an organisation is not an end in itself. The organisation structure should be flexible.

3. Staffing. The function involves manning the positions created by organisation process. It is concerned with human resources of an organisation. In the words of Koontz and O'Donnel, "staffing is filling, and keeping filled, positions in the organisation structure through defining work-force requirements, appraising, selecting, compensating and training. Thus, staffing consists of the following:

(i) Manpower planning i.e., assessing manpower requirements in terms of quantity and quality.
(ii) recruitment, selection and training:
(iii) Placement of man power;
(iv) development, promotion, transfer and appraisal
(v) determination of employee remuneration.

Every manager in an organisation has to perform the staffing function in one form or the other, in order to get things done through others. But, it is decidedly a difficult managerial function as it concerns human beings whose behaviour and actions cannot be predicted, and that is why it has become a distinct and specialised branch of management.

4. Directing. Directing is concerned with carrying out the desired plans. It initiates organised and planned action and ensures effective performance by subordinates towards the accomplishment of group activities. Direction is called management in action. In the words of George R. Terry, "Direction is moving to action and supplying stimulative power to the group." After planning, organising and staffing, the manager has to guide and supervise his subordinates. According to Massie, "Directing concerns the total manner in which a manager influences the actions of subordinates. It is the final action of a manager in getting others to act after all preparations have been completed."

5. Leadership. A manager has to issue orders and instructions and guide and counsel his subordinates in their work with a view to improve their performance and achieve enterprise objectives. Leadership is the process by which an executive or manager imaginatively directs/guides and influences the work of others in choosing and attaining specified goals by mediating between the individual and organisation in such a manner that both will get maximum satisfaction.

Leadership is the ability to build up confidence and zeal among people and to create an urge in them, to be led. To be a successful leader, a manager must possess the qualities of foresight, drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership, *viz.*, autocratic leadership, democratic leadership and free rein leadership.

6. Communication. Communication constitutes a very important function of management. u is said to be the number one problem of management today. It is an established fact that managers spend 75 to 90 per cent of their working time in communicating with others. Communication is the means by which the behaviour of the subordinate is modified and change is effected in their actions.

The word 'communication' has been derived from the Latin word 'communis' which means 'common'. Thus, communication means sharing of ideas in common. The essence of communication is getting the receiver and the sender tuned together for a particular message. It refers to the exchange of ideas, feelings, emotions and knowledge and informations between two or more persons. Nothing happens in management till communication takes place.

Communication is a two-way process as it involves both information and understanding. It may be written, oral, gestural. Communication is said to be formal when it follows the formal channels provided in the organisation structure. It is informal communication, when it does not follow the formal channels. Communication flows downward from a superior to subordinates and upward from subordinates to a superior. It also flows between two or more persons operating at the same level of authority.

Communication is essential at all levels of management for decision- making and planning. It increases managerial capacity and facilitates control. It has been rightly said that good managers are good communicators and poor managers are poor communicators.

7. Motivation. The term motivation is derived from the word 'motive' which means a need, or an emotion that prompts an individual into action. Motivation is the psychological process of creating urge among the subordinates to do certain things or behave in the desired manner. It is a very important function of management. The importance of motivation can be realised from the fact that performance of a worker depends upon his ability and the motivation.

There are many strategics adopted by managers for increasing the motivation of subordinates. According to Michel Jucius, Motivation means the act of stimulating some one or oneself to get a desired course of action to push the right button to get a desired reaction, a compliment, dollar raise, a smile, a promise of a rise, a new typewriter, a preferred location or a new desk." Thus, a manager has to provide some personal incentive to the subordinates to motivate, persuade and inspire them for contributing their best towards the achievement of enterprise objectives. The incentives to be proved may be financial such as increase in wages, or non-financial, like better working conditions, job security, recognition, etc. A sound motivational system must be productive, competitive, comprehensive and flexible, and it must consider the psychological, social, safety, ego and economic needs of the workers.

8. Supervision. Supervision is another important element of directing function of management. After issuing instructions, the manager or the supervisor has to see that the given instructions are carried out. This is the aim of supervision. Supervision refers to the job of overseeing subordinates at work to ensure maximum utilisation of resources to get the required and directed work done and to correct the subordinates whenever they go wrong. Though supervision is performed at all levels of management, the major responsibility for supervision lies with the first line of management. Sound organisational set up, effective delegation, human approach, effective communication and management by exception make supervision effective.

9. Co-ordination. Co-ordination is one of the most important functions of management. It is essential to channelise the activities of various individuals in the organisation for the achievement of common goals. Every department or section is given a target to be achieved and they should concentrate only on their work and should not bother about the work of other organs. It is left to the management to see that the work of different segments is going according to predetermined targets and corrective measures have to be taken if there is any deviation. Co-ordination creates a team spirit and helps in achieving goals through collective efforts. It is the orderly arrangement of group effort to provide unity of action in the persuit of common objectives.

Dalton McFarland defines co-ordination as the "process whereby an executive develops an orderly pattern of group effort among his subordinates and secures unity of action in the pursuit of common purposes."

Co-ordination can be classified under two categories: (i) vertical and horizontal co-ordination, and (ii) internal and external co-ordination. Whereas vertical co-ordination is the co-ordination between different levels of management, the term horizontal co-ordination is used when co-ordination has to be achieved between departments of the same level of authority. Co-ordination is internal when it is between different sections of the same concern and external when it is required with persons outside the organisation.

10. Controlling. Controlling can be defined as "determining what is being accomplished, that is evaluating the performance, if necessary, applying corrective measures so that the performance takes place according to plans.

Control is essential for achieving objectives of an enterprise. The planning of various activities does not ensure automatic implementation of policies. Control is the process which enables management to get its policies implemented and take corrective actions if performance is not according to the predetermined standards. If planning is the beginning of the management process, controlling may be said to be the final stage. If planning is looking ahead, controlling is looking back. Control is not possible without planning and planning is meaningless without control.

Control is a line function and executives at various levels of management continuously assess the performance of their subordinates. The main purpose of control is to see that the activity is achieving the desired results. A control system, to be effective, must conform to the nature of activity, report deviations promptly, reflect organisation structure, assure corrective action and be economical.

The process of controlling involves the following steps :

(i) establishing standards of performance ;
(ii) measuring actual performance ;
(iii) comparing the actual performance with the standard.;
(iv) finding variances or deviations, if any ; and
(v) taking corrective action or measures.

1.9 SKILLS OF A MANAGER

A. Technical Skills

Robert Katz has put various management skills into three broad categories; technical skills, human skills, conceptual skills. It refer to knowledge and proficiency in processes, procedures, methods and techniques which are used in doing a work. These skills are hard skills and are easily visible in a person. Technical skills are developed by accountants, engineers, managers, and other persons through the actual practice by doing things.

B. Human Skills

Human skills, also known as human relations skills or administrative skills, are the ability of a person to work with others on a person-to-person basis and to build cooperative group relations to achieve group objectives and, consequently, organizational objectives.

C. Conceptual Skills

Conceptual skills, also known as general management skills, are related to concepts and mental perception conceptual framework intended to develop new ideas, products, etc. Conceptual skills refer to the ability to see the whole picture to recognize significant elements in a situation and to understand the relationship among these elements.
In short, technical skills deal with things, human skins deal with people, and conceptual skills deal with ideas. Managers require these skills. However, what "will be proportion of these skills in managers depends on the management levels at which they work. Managers at lower level require technical skills more; managers at middle level require human skills more, and managers at top level require conceptual skills more.

Besides these three skills, various writers and researchers have provided other skill sets for various levels of management.

Top Management Skills: As per need of the world, much attention has been focused on the skills and their development in top management because this level is the major driving force in an organization. In a survey of 90 global chief executives, conducted by Anderson Consulting, a US-based consultancy firm shows that the chief executives require fourteen skills. Accordingly, a chief executive thinks globally, anticipates opportunities, creates a shared vision, develops and empowers people, appreciates cultural diversity, builds teamwork and partnership, embraces changes, shows technological savvy, encourages constructive challenge, ensures customer satisfaction, achieves a competitive advantage, demonstrates personal mastery, shares leadership, and lives the values.[7] In Indian context, one such study of 125 chief executives has identified various relevant personal skills as analytical skills, creativity, sense of high achievement, risk-taking aptitudes, business aptitudes, leadership; job-related skills such as corporate perspective, knowledge of external environment, outside contacts, planning processes, and accuracy in work.

Middle Management Skills: In middle management group, there may be managers at different levels placed between the top management and supervisors. Usually, they are concerned with a particular functional area of the organization. There is a tendency of faster movement of this group of managers. Therefore, they require a variety of skills which must be relevant for their entire career. While at the lower end of middle management, more of technical and human skills are required; at the higher end of middle management, more creative and integrative skills are required. Thus, the managers in the middle management require human relations skill, leadership skill, motivating skill and integrative skill.

Supervisory Management Skills: Supervisors may also be classified into front-line, intermediate, and senior. Since they are directly concerned with operatives where the actual operations of the organization take place, supervisors should possess skills which help them to get things done by operatives. Every supervisor in the organization should have sound technical knowledge of his field to provide proper instructions and guidance to operatives, interpersonal skill to develop cohesive operative-management relations, accuracy in work, motivational skill for creating proper work environment, and communication skill for interacting with higher management.

1.10 CHARACTERISTICS OF QUALITY MANAGERS

Quality managers (or good managers) are those managers who continuously strive for success and ultimately achieve it. Though success of managers depends on their own characteristics as well as on the contextual variables which affect their working as discussed earlier, managers having characteristics of quality managers tend to be successful even in unfavourable situations as they have qualities to convert unfavourable situations into favourable situations. Various academicians and practitioners have made attempts to describe characteristics of quality/ effective/successful managers. As a result, there is lot of literature on this issue. In a comparatively recent publication, Rao has identified dimensions of managers who make a difference: versatility, efficacy, internality, values, creativity, interpersonal engagement, team building, time and talent management, communication and motivation, and leadership styles. Based on this and other literature, it may be concluded that the characteristics of quality managers are as follows:

1. Professional Competence. Professional competence refers to having thorough knowledge of the field concerned. In the case of management, professional competence involves being well-versed in management principles and how these principles can be applied in the given situations.

2. Belief in High Achievement. Quality managers have belief in high achievement. They have internal locus of control implying that they feel that they can control situations and the situations cannot control them. They have a feeling that if others can do something exceptional, they can also do the same way. This belief instills confidence in them for doing better and better.

3. Creativity. Creativity involves conceiving of original and unique alternatives to the solution of a problem. Creativity is required because nature of problems goes on changing requiring innovative solutions.

4. Analytical Skills. Managers have to work in complex situations which contain both significant and insignificant factors. With analytical skills, quality managers may be able to identify those factors which are more relevant for their work.

5. Decisive. Quality managers are quite decisive. They make decisions after careful analysis of the contextual variables well in time. They do not waver between 'what to do' or 'what not to do' in a given situation.

6. Excellent Communication Skills. Communication involves sharing of ideas and understanding with others. In order to understand others and making himself understood by others, excellent communication skills are required. Further, persuasive communication may influence others favourably.

7. Leading from the Front. Quality managers lead from the front. They do not speak about themselves but their work speaks on their behalf. This feature leads the followers to follow the leaders enthusiastically.

8. Openness. Quality managers have quality of openness. They are change-prone and not change-resistant. Being open, they appreciate any idea which is fruitful and accept it from whatever source it comes.

9. High Integrity. Quality managers have high integrity and adopt ethical practices in all types of decisions and dealings. Similarly, they expect the same pattern to be followed by others.

10. Team-based Approach. Quality managers adopt team-based approach. For work performance,-they adopt 'give and take' approach. They believe in developing themselves as well as others.

1.11 Universality of Management

There is a controversy about the universality of management. The question whether management is universally applicable or not has attracted attention of management scholars and practitioners alike. Settlement of this controversy is necessary to determine the extent to which management knowledge developed in on country can be transmitted to other countries. If it is universal, there is no problem in transferability of management knowledge. In its absence, there is serious question on the universal use of management knowledge developed in a country. However, opinions about the universal applicability of management are not uniform. There are two divergent types of arguments; one suggests that management is universally applicable and another suggests that it ft not universally applicable. Therefore, it is essential to overcome this problem so that Indian managers can take adequate precautions while applying management concepts developed in other countries, mostly in developed countries.

1.12 Summery

Management plays very important role in the modern world and the welfare of the people and the destiny of the country are very much influenced by it. Management is necessary for a business firm, government enterprises, education and health services, military organizations, trade associations and so on. The origin of management can be traced back to the days when man started living in groups. Henry Fayol is considered the father of modern theory of general and industrial management. F.W. Taylor well known as the founder of scientific management was the first to recognize and emphasis the need for adopting a scientific approach to task of managing as enterprise. The process of management involves the determination of objectives and putting them into action.

How throne studies proved social factors were responsible for deciding the level of output, motivation influences both money and bonus, leadership is important for directing group behavior, communication plays an important role etc.

1.13 Conclusion

Management is an invisible force that reflects people's collaborative efforts. Individual interests are aligned with the organization's overall aims and objectives through an efficient and successful management procedure. The success of companies like Reliance, Tata, and Birla is not a product of luck or accident, but rather of following a systematic management approach.

Individuals with a burning ambition to excel in management can enrol in a variety of management courses in areas such as finance, human resources, product management, marketing, information technology, and more.

1.14 SELF ASSESSMENT QUESTIONS

2 Define management.
3 Discuss management as a process.
4 Management is what a manager does? Explain.
5 Is management an Art?
6 Is management s social science?
7 Briefly describe the professionalization of management in India.
8 Distinguish between administration and management.
9 Explain the skills required by a manager.
10 What is the interpersonal role of a manager?
11 Bring out a case for universality of management?
12 Define management. Describe its main characteristics.
13 What is management? Is there a difference between management and administration?
14 "Management is the art of getting things done through people". Explain.
15 "Mangers are born, not made". Do you agree with this statement?
16 Is management an art or science?
17 Is management a profession? Give reasons for your answer. What is the position of management as profession in India?

UNIT – 02: PROCESS OF MANAGEMENT AND ITS STEPS

LEARNING OBJECTIVES:

After studying this lesson you will be able to:

- **(i)** **Understand the importance of Management Process.**
- **(ii)** **Describe features of a Management Process**
- **(iii)** **Understand nature of the Management Process.**
- **(iv)** **Understand elements of Management Process.**
- (v) **Describe classification of Management Functions**.

STRUCTURE:

1.12 Introduction:

The management process is a series of steps that are used to perform business operations. The process of management consists of planning, organizing, staffing, directing, controlling and evaluating. In this article, you will learn what is a management process, the nature and significance of the management process with an example.

Management is a process of planning and controlling the activities of a business or other organization. One key aspect of the management process is project management, which involves the application of knowledge, skills, tools, and techniques to a specific project in order to meet its requirements and objectives. The meaning of project in this context refers to a temporary and unique endeavor that is undertaken to create a specific product, service, or result. Product management processes include:

1. Planning

This involves determining what needs to be done when it should be done, who will do it and how much it should cost. Planning also includes developing strategies for achieving goals that meet the needs of stakeholders (e.g., customers).

2. Organizing

Organizing requires grouping people into teams according to their skills or knowledge so they can work together effectively. Organizing ensures that employees have the right resources available when they need them. For example, if one employee needs access to another employee's computer files while they are on vacation, then both employees should be part of the same team so they can share those files easily via email or cloud storage services like Dropbox or Google Drive.

1.13 The Importance of Management Process

The product management process is very crucial for an organization. It is a set of activities that must be performed to achieve organizational goals.

An organization can not achieve its desired goals unless all five management functions are not integrated correctly. These five functions are the key to achieving organizations.

The following are the four main importance of the management process to business from its uncountable importance.

Goal Achievement

The management process helps businesses in setting clear goals and objectives and provides a systematic approach to achieving them. It ensures that efforts and resources are directed toward the desired outcomes, increasing the likelihood of success.

Efficiency and Productivity

Effective management processes optimize resource allocation, streamline workflows, and enhance operational efficiency. By eliminating inefficiencies, reducing wastage, and improving productivity, businesses can achieve higher levels of output and profitability.

Effective Decision-Making

The management process provides a framework for making informed decisions based on data, analysis, and strategic thinking. It enables managers to assess various alternatives, evaluate risks, and select the most suitable course of action, leading to better outcomes and minimizing potential pitfalls.

Adaptability and Innovation

With a well-defined management process, businesses can respond effectively to changing market dynamics, emerging trends, and competitive challenges. It promotes a culture of adaptability and encourages innovation, allowing businesses to stay ahead in a dynamic and evolving business environment.

The following are some facts about the management process:

1. What is the management process definition?

   Management process refers to a series of activities performed by managers to achieve organizational goals. These management process steps aim to identify, analyze and solve problems related to performance or efficiency within an organization. When these tasks are done successfully, organizations succeed in achieving their goals. This can be accomplished through different tools like SWOT analysis, PESTEL etc.
2. What are the features of the management process?

   There are several features associated with this tool which include: identifying problems within an organization, analyzing them accordingly, and resolving them by implementing solutions through various methods, such as training employees on new technologies while also evaluating time constraints before finalizing any decision made by top-level management members.
3. What are the types of the management process?

   There are two management processes: Management by Objectives (MBO) and Management by Results (MBR). Both these tools have their advantages and disadvantages.

Management by Objectives (MBO) is a style that focuses on achieving organizational goals through different methods, such as training employees on new technologies and evaluating time constraints before finalizing any decision by top-level management members. This tool allows organizations to identify their strengths, weaknesses and improvement opportunities to succeed in the long run.

1.14 Salient Features of a Management Process

The following features characterise a management process:

1. Management is Highly Aspirational

   The accomplishment of predetermined goals is an important part of the management process. It's a tool for achieving predetermined goals and objectives. There is no reason to have a management process in place if it has no purpose. Every action done by an organization's management should be directed toward achieving a certain goal. The completion of predetermined objectives is a measure of a company's leadership performance.

2. Management is Omnipresent

   Management is prevalent in today's environment. All organisations, whether they be clubs, governments, militaries, or businesses, require an effective management system. The fundamental management principles apply to all aspects of an organisation. Every day, managers at all levels do the same critical functions. The management process is a global notion because of this constant necessity.

3. Managing is a Continuous Process

   Management is not a one-time event; it is a continual process. Management is a continuous activity because of the continuing desire to attain various organisational goals.

4. Management is an abstract concept

   Management isn't visible, and it can't be felt in the same way. Only the accomplishments of management can be evaluated, and a well-managed organisation can be compared to one that has been poorly managed.

5. Management is Social in Nature

   Because it requires human relationships, management is a social activity. As a result of opposing social values and cultures, the human element is the most important ingredient in the management process. It is a function that changes society, preserves the community, and promotes the community's long-term goals.

6. Management is Versatile

   Human reactions in ambitious conditions are the subject of management. Management requires knowledge and skills from a variety of disciplines, including sociology, psychology, engineering, economics, anthropology, mathematics, and others. This feature contributes to managing a complex experience.

7. Management is Conditional

   There are various options available. The best appropriate manner of accomplishing any work is determined by the current situation. Due to the situation, it's probable that management isn't doing things correctly. Accountability is essential for successful managers.

8. Management is a Team Effort

   Individual efforts are synchronised with those of the team. The management function cannot be managed by a single person. All managerial actions, such as goal formulation, plan and policy development, implementation, and follow-up, are the result of a concerted effort by a group of individuals who envisage the future of an organisation.

9. Management is a type of administration.

Management is concerned with the administration and management of people’s activities in order to achieve set goals. Management is often referred to as the process of setting, defining, and achieving the goals of a human group.

1.15 Nature of the Management Process

The process of management is a system that combines all of an organization's activities to achieve its goals. It involves planning, organizing, leading, and controlling. The term ‘management’ refers to managing an organization through its functions and activities using certain principles and methods.

The product management process flow can be explained below:

1. Planning

This step is where you create a detailed action plan for your business goals with expected results in mind (e.g., increased sales).

2. Organizing

This step involves arranging people, materials, machines, equipment and money to achieve set objectives (e.g., organize human resources by team structure).

3. Leading

This step is about motivating people/workers to perform better at their tasks (e.g., encouraging workers through incentives such as bonus schemes).

4. Controlling

This step deals with measuring performance against corporate standards or targets set at earlier stages.

1.16 Features of Management Process

Management process requirements are planning, organizing, directing, and controlling an organization to achieve its goals. The management process consists of various steps such as planning, organizing, staffing, leading, and controlling. These steps are carried out continuously throughout the life cycle of an organization.

This article aims to provide a basic understanding of how these processes work together, offering insights into how they influence your day-to-day job function and your organization's overall success or failure.

You may have heard the term “process” used about your job, but what does it mean? Simply put, a process is any activity with a beginning and an end. It may be a single task or something more complex. A process can be thought of as a series of steps that are repeated over time. The best option to understand the management process in depth is to undertake Product Management Training, which helps you learn practically with dummy projects.

For example, suppose you work in customer service at an organization. In that case, your job probably includes multiple processes such as answering phone calls from customers and resolving their issues, entering data into computer systems so other employees and so on can process them.

If you work in an office environment, you probably have a process for managing your time, meeting with coworkers and other tasks that need to be done. For example, if you're new to the company, one of your first tasks will be learning about the various processes used by employees and how they fit together.

1.17 Elements of Management Process

The management process is a set of activities that are performed to achieve organizational goals. It comprises three major components:

- Planning
- Organizing
- Controlling

Planning is the process of defining the objectives of an organization, determining how those objectives can be achieved, and specifying the resources needed to achieve them. Organizing is the process of grouping people and resources together to work effectively toward accomplishing a common goal. Controlling is the process of ensuring that plans are carried out as intended so that an organization achieves its goals.

The three components of the management system are interrelated and work together to achieve organizational goals. Planning sets a direction for an organization that can be accomplished through organizing and controlling.

The planning process is a continuous cycle, not a one-time event. The organization must plan throughout its existence.

Planning is a continuous cycle of activities that help organizations identify their goals, develop strategies for achieving them, allocate resources to achieve them, monitor progress toward meeting objectives and change course if necessary.

1.18 Management Process Functions

Planning is one of the most important management process functions. It involves making short-term and long-term plans, followed by subsequent action to achieve goals. The process involves creating strategies and anticipating potential problems that may arise while implementing these goals. You can undertake Project Management Courses to help you get started as a project manager and learn skills essential to project management.

The second step of the management process involves organizing, which means breaking down an entire project into smaller chunks that you can manage more easily. This helps ensure smooth execution across all aspects of the project.

Leading means motivating people towards achieving their individual goals and aligning them with company goals through motivation techniques like recognition management process programs or bonuses based on performance targets achieved by each employee.

Controlling refers to monitoring whether your employees are meeting both planned and actual deadlines for the completion of tasks assigned to them under their respective roles within your organization.

Managing projects effectively is important because it helps keep your organization running smoothly and efficiently. It also helps to achieve the business goals on time, within budget and with high quality.

1.19 Classification of Management Functions

The management functions are classified into four categories:

1. Planning and Organizing

It deals with preparing plans for the future, establishing organizational structure, assigning responsibilities to various departments and setting up procedures for their smooth functioning.

2. Controlling

This involves monitoring progress toward achieving goals and checking whether there is any deviation from these goals or not. This also includes getting feedback from customers on how satisfied they are with products/services provided by an organization so as to improve on them if required. In addition, this function ensures that all activities are carried out in accordance with plans made earlier to achieve maximum results at minimum cost while maintaining quality standards at all times.

3. Staffing

Organizations have developed recruitment policies that ensure that the right people are recruited at the right places based on their qualifications, skills, etc. so that productivity can be maximized along with customer satisfaction levels being maintained at high levels throughout business cycles.

Staffing includes both recruitment activities and development programs like training programs offered by top universities around the globe like Harvard University, where students get a chance to learn things related to business strategies before starting careers in the Management Studies field or other fields like Marketing Studies or Banking Studies etc. related to business strategies before starting careers in Management Studies field or other fields related fields like Marketing Studies or Banking Studies etc.

1. Management Process

Management process refers to the steps and activities required to manage organizational and management process resources. The key elements of management include planning, organizing, leading and controlling. Management processes are also referred to as managerial functions or activities, which include decision-making, planning, organizing and managing human resources, financial management, marketing management, production management, management process resource allocation, quality control and customer service/sales/marketing strategies.

2. Management Functions

The most common types of management functions include:

Planning

The management process involves defining goals and objectives for an organization's future performance based on external factors such as market demand or technological advances. This function also includes creating strategies for achieving those goals in terms of staffing requirements (or headcount) needed for implementation along with other resource allocations such as capital investments needed for implementation, e.g., buildings and machinery etc.

Organizing

This function involves allocating resources to specific tasks and activities based on their priority according to the company's strategic plan and organizational structure. For example, an organization with a sales force of 100 people will need a manager to manage these employees (or staff).

The manager will assign sales representatives to specific geographical territories, set their performance quotas, and assess the management process capacity. This function also includes managing staff training and development, team building activities, recruitment processes etc.

1.20 Management Process Example

A product management process flow is a series of steps that are followed to perform a management function. The steps in the management process can be divided into two parts: planning and implementation. The planning part concerns developing the plan and preparing for its implementation, while the second part concerns the actual implementation.

The following example will help you understand how a management process works. We will use an example project: "Planning an Outing."

A manager wants to take his team out on a day trip. He has several options in front of him and wants to decide the best one. The first step is to identify all possible options for the outing. This can be done by brainstorming with other managers or reviewing past experiences with outings. Once he has identified all possible options, he will select one option based on its feasibility and cost-effectiveness.

The third step is to create a plan for the selected option. The manager will then present his plan to his team and explain why they should choose this option over all others. Once everyone agrees with the plan, it is implemented and followed through with.

The above example provides insight into "what is a management process." It's crucial to remember that there are multiple approaches to a single problem, with none being universally superior. Selecting an approach that aligns with you and your team is pivotal.

1.21 CONCLUSION

Management is an invisible force that reflects people’s collaborative efforts. Individual interests are aligned with the organization’s overall aims and objectives through an efficient and successful management procedure. The success of companies like Reliance, Tata, and Birla is not a product of luck or accident, but rather of following a systematic management approach.

Individuals with a burning ambition to excel in management can enrol in a variety of management courses in areas such as finance, human resources, product management, marketing, information technology, and more.

1.22 SUMMERY

Although these functions have been introduced in a particular order, it should be apparent that the different activities happen at the same time in any one organization. The control function ensures that new plans must be created. Leaders often step up as needed when a crisis or unexpected bump demands immediate action. All managers perform all of these functions at different times, although a manager’s position or level in the organization will affect how much of his or her time is spent planning as opposed to leading or to controlling. The principles of management can be distilled down to four critical functions. These functions are planning, organizing, leading, and controlling. This P-O-L-C framework provides useful guidance into what the ideal job of a manager should look like.

1.23 SELF ASSESSMENT QUESTIONS

1. What are the characteristics and traits that you possess that are common to all successful managers?
2. Why should management be considered an occupation rather than a profession?
3. How do managers learn how to perform the job?
4. Distinguish between administration and management.
5. Explain the skills required by a manager.
6. What is the interpersonal role of a manager?
7. Bring out a case for universality of management?
8. Define management. Describe its main characteristics.
9. What is management? Is there a difference between management and administration?
10. “Management is the art of getting things done through people”. Explain.
11. “Mangers are born, not made”. Do you agree with this statement?

Unit-3: Development of Management

LEARNING OBJECTIVES

After studying this lesson you will be able to:

(i) Understand the Pre-scientific Management Period.

(ii) Understand the importance, advantages and disadvantages of Classical Theory.

(iii) Understand the importance, advantages and disadvantages of Neo-Classical Theory.

(iv) Explore the nature of types of Modern Theory.

(v) Know about models and issues of decision making.

STRUCTURE

1.25.1 INTRODUCTION: Management development is the process of developing the skills and competencies needed to perform in management positions, either in existing managers or those new to management. It may also be referred to as leadership development or executive education.

To look at it from another perspective, management development is a continuous, systematic process that helps employees reach their full potential by building on strengths, managing weaknesses, and exploring career development opportunities.

All of the following qualify as forms of management development:

1. Formal management development program offered by universities, colleges, or private training providers to train managers from scratch
2. In-house management development program developed by organisations
3. Informal learning experiences that occur on the job, such as through mentoring relationships with more experienced managers

The practice of management development originated in the early 20th century, when industrial organisations recognised a need to invest in human capital in order to compete effectively in an increasingly complex marketplace. HBR locates the origin of the term 'management' in a business context in the 1900s, when businesses grew large enough to require trusted individuals to mediate between owners and their many employees.

1.25.2 BENEFITS:

Management development programs can be highly beneficial as part of a broader human resource management strategy aimed at making sure employees are prepared for future responsibilities and challenges. Here are a few of the benefits.

Grow your own management talent

The most obvious benefit of management development is that it provides competent managers for your business – home-grown ones who are well-integrated with your business and culture, rather than having to be hired in from outside. But there's much more to management development than that.

Upskilling employees

Whether or not it leads to career development, management development aims to help employees gain new skills and knowledge that will enable better performance and higher levels of engagement. This in turn will help increase organisational effectiveness as each employee grows in confidence, self-knowledge and ability.

Retain talent and reduce employee churn

Having a management development program in place provides the additional benefit of helping you retain talent. When employees can see development opportunities and a career path clearly laid out within the company, they may be less likely to look elsewhere for their next career step.

Build human capital

Management development contributes to your organisation's human capital. Human capital is the knowledge, skill, experience and competency within your organisation, and a management development program is a valuable way of enhancing it.

Stand out from the competitition

Although management development is certainly nothing new, it's by no means a given in every organisation, meaning that those companies who invest in management development programs may be placing themselves a step ahead of the competition. Research by CIPD found that only 40% of organisations had programs in place to improve managers' people skills, for example, suggesting that most companies have serious work to do. As many as 25% of managers had never had management training, according to People Management.

1.25.2.1 **IMPORTANCE OF MANAGEMENT DEVELOPMENT**

Management development is important because it helps those who are new to management positions understand what the job entails and gain the necessary soft skills and interpersonal knowledge. It's also important for experienced managers because it can teach them new ideas in workplace management and remind them of other techniques to use. Here are some additional benefits of management development:

More effective communication: Management development can help new and existing managers learn better ways to connect with their coworkers and report to their supervisors.

Motivated team members: This process can make managers more effective at empathizing with their team members and providing the motivation and incentive that teams need to succeed.

Cost-efficient leadership: When an organization promotes managers from within the company, it can save itself the cost of hiring and training new managers.

Wide knowledge of company policies: Providing management development for existing managers can keep everyone updated on company expectations, the workplace culture and any new policies.

Long-term management availability: A company with a robust management development program can better ensure that it has knowledgeable and effective managers in the long term.

1.25.2.2 **PRINCIPLES OF MANAGEMENT DEVELOPMENT**

Key principles of management development:

Knowledge

skills

abilities development

Many management development programs share the idea that the main aspects of a team member's value are their abilities, skills and knowledge. They consider abilities to be innate, meaning individuals are responsible for improving their own capabilities, which can vary based on the person. Development programs instead focus on building skills and knowledge.

Personal process

Management development depends on individuals being willing to develop their management skills. For this type of program to be effective, participants need to track and be accountable for their own progress. An effective management development program must also recognize and adapt to each participant's individual skills and abilities.

Time investment

A successful management development program works to improve skills and knowledge over the long term, rather than the short term. Some programs may implement this principle with regular class education sessions over a longer period of time, while other programs may involve less or no classwork but have longer projects or check-ins with mentors. A program with a longer timeline allows participants to implement the ideas they learn and potentially remember the concepts better.

Organized process

An important principle of management development programs, particularly programs in larger companies, is an organized approach. This type of program provides specific objectives, paths and accomplishments for each participant, rather than encouraging managers to learn individually. Having a set plan allows participants to know exactly what to expect from the program.

1.25.3 MANAGEMENT DEVELOPMENT TRAINING:

Management development programs can be highly beneficial as part of a broader human resource management strategy aimed at making sure employees are prepared for future responsibilities and challenges. Here are a few of the benefits.

Grow your own management talent

The most obvious benefit of management development is that it provides competent managers for your business – home-grown ones who are well-integrated with your business and culture, rather than having to be hired in from outside. But there's much more to management development than that.

Upskilling employees

Whether or not it leads to career development, management development aims to help employees gain new skills and knowledge that will enable better performance and higher levels of engagement. This in turn will help increase organisational effectiveness as each employee grows in confidence, self-knowledge and ability.

Retain talent and reduce employee churn

Having a management development program in place provides the additional benefit of helping you retain talent. When employees can see development opportunities and a career path clearly laid out within the company, they may be less likely to look elsewhere for their next career step.

Build human capital

Management development contributes to your organisation's human capital. Human capital is the knowledge, skill, experience and competency within your organisation, and a management development program is a valuable way of enhancing it.

Stand out from the competitition

Although management development is certainly nothing new, it's by no means a given in every organisation, meaning that those companies who invest in management development programs may be placing themselves a step ahead of the competition. Research by CIPD found that only 40% of organisations had programs in place to improve managers' people skills, for example, suggesting that most companies have serious work to do. As many as 25% of managers had never had management training, according to People Management.

Decision-making

Skillful decision-making involves critical thinking, gathering information, analysing that information objectively, considering possible outcomes, weighing risks against benefits, then making an informed decision based on their analysis. On top of all this, an effective manager needs to be able to come to a decision under pressure and at speed.

1.25.4 TYPES OF MANAGEMENT DEVELOPMENT PROGRAMS

Management development programs vary according to their focus, content, length of time, location and delivery method (for example online, in person, or a mix). An effective management development program doesn't always need to be long or labor-intensive, provided it works for your organisation's needs. Some common types of management development program include:

- **General management training**
  Training designed for mid-level managers who may be new to an organisation or who will be managing different types of employees and want to enhance their existing skills. It's also suitable for employees taking on their first management role.
- **Development planning**
  This type of development focuses on helping existing managers develop their own career plans, often by reflecting on their managerial style and preferred aspects of the job.
- **Technical training**
  Technical management training provides specific skills for tech industry managers, who are required to have not only the traditional 'soft skills' of management but also hands-on technical skills, conceptual and theoretical knowledge to support their teams.
- **Organisational culture training**

  This type of management development focuses on culture, mission and values. It may involve helping managers learn about CSR, ethics, inclusion and diversity.

1.25.4 MANAGEMENT DEVELOPMENT METHODS

Management development programs typically involve training courses and instruction, either from a specialist provider or from more senior members of the organization. They may also include seminars, conferences and workshops that enhance management techniques and knowledge. On-the-job learning, mentoring, secondment and shadowing are all forms of management development that can be done as an alternative to, or as well as, a formal framework.

It makes sense to have multiple management training techniques in your management development toolkit, rather than relying on a one-size-fits-all solution. Here are some of the management training methods you could employ.

Academic training for managers

There's no shortage of management development courses offered by universities and colleges, and many larger companies either wholly fund or partially support their employees in further education, resulting in academically qualified professionals on their payrolls.

Management skills may be taught as part of an MBA program or organised by professional associations such as the American Management Association (AMA). These management development courses provide participants with information about business trends, leadership styles, organisational behaviour and other areas related to management during the educational process, as well as developing the soft skills and personal qualities of effective managers.

Mentoring

Many organisations offer informal mentoring programs for new managers or those who are interested in management development. Mentors are often older managers who have been successful in their careers and want to share their knowledge with younger people who are on a similar path. In mentoring relationships, the mentor typically focuses on helping the protégée (sometimes called a mentee) in acquiring knowledge or skills, while helping them apply those skills effectively in their current roles. The mentor helps the protégée identify personal goals and challenges as well as building their confidence. Mentoring relationships can last from a few months to several years depending on the development needs of the participants involved, and the time the mentor can offer.

Shadowing

Shadowing is an effective method for organisations who already have effective managers and management knowledge in-house, and want to develop more of their employees to the same level. It works through one-on-one guidance, where the employee who is learning follows the more senior manager during their working day. Shadowing can also be used to develop managers who are at the same professional level. They can take turns observing one another at work, then share knowledge and feedback with one another as a kind of peer-to-peer management development.

Secondment

A secondment involves an employee working in a different company or department for a set period of time before returning to their usual role. Management development secondments can be a useful way of getting managers out of their comfort zones and helping them develop new skills, gain experience and broaden their horizons. Secondments are often used in conjunction with other management development activities such as coaching or mentoring. They can be particularly useful for employees who have reached a plateau in their careers and need some extra support to progress further.

1.25.5 **CONCLUSION:**

Management development is vitally important for any organisation looking to grow and thrive in today's business environment. By outlining your needs from a personal and organisational view, developing a strong curriculum, and consistently evaluating and adapting your programme you can create a managerial flywheel that will ultimately propel your organisation to new heights.

Investing in management development allows you to retain your top employees, attract better talent, and drive business growth through enhanced organisational performance — all while also enhancing the general employee experience.

1.25.6 **SUMMERY:**

Development management has become an essential tool for facilitating better development. The scope of development in development studies is immense. The use of the development management cycle in development management would help in effective implementation of developmental projects and programmes. In this unit, you read about the meaning, aims, and scope of development management. Besides, this unit also covers the development management cycle and prerequisites of good development.

1.25.7 **SELF-ASSESSMENT QUESTIONS**:

1. What do you mean by Development Management?

2. Narrate two important role of development management.

3. Briefly write about the scope of development management?

4. What are the three key elements of development management?

5. Write about one of the important pre-requisites of good development management?

Unit-4: SCIENTIFIC MANAGEMENT- TAYLOR, MODERN APPROACH FAYOL, HUMAN RELATIONS APPROACH – MAYO

LEARNING OBJECTIVES

After studying this lesson you will be able to:

(vi) Understand the Pre-scientific Management Period.

(vii) Understand the importance, advantages and disadvantages of Classical Theory.

(viii) Understand the importance, advantages and disadvantages of Neo-Classical Theory.

(ix) Explore the nature of types of Modern Theory.

(x) Know about models and issues of decision making.

STRUCTURE

1.26.1 Development of Management Thought
1.26.2 Pre-scientific Management Period
1.26.3 Classical Theory
1.26.4 Neo-Classical Theory
1.26.5 Modern Theory

1.26.1 DEVELOPMENT OF MANAGEMENT THOUGHT

The origin of management can be traced back to the days when man started living in groups. History reveals that strong men organized the masses into groups according to their intelligence, physical and mental capabilities. Evidence of the use of the well-recognized principles of management is to be found in the organization of public life in ancient Greece, the organization of the Roman Catholic Church and the organization of military forces. Thus management in some form or the other has been practiced in the various parts of the world since the dawn of civilization. With the on set of Industrial Revolution, however, the position underwent a radical change. The structure of industry became extremely complex. At this stage, the development of a formal theory of management became absolutely necessary. It was against this background that the pioneers of modern management thought laid the foundations of modem management theory and practice.

Evolution of management thought may be divided into four stages

(1) Pre-scientific management period.

(2) Classical Theory

(a) Scientific Management of Taylor

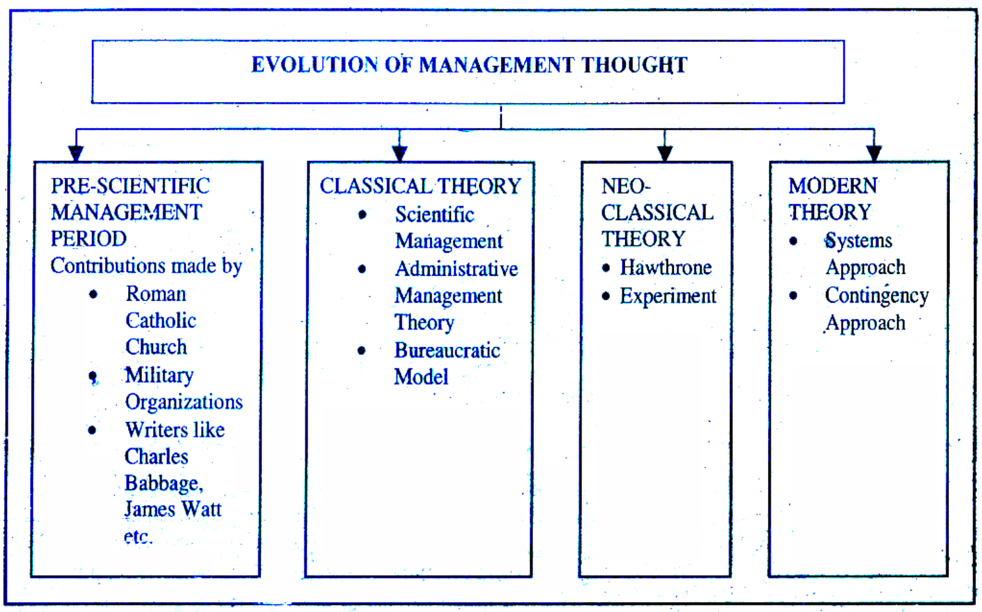
(b) Administrative Management of Fayol

(c) Bureaucratic Model of Max Weber

(3) Neo-classical Theory or Behaviour Approach

(4) Modern Theory or Systems Approach

explains the evolution of management thought.



Evolution of Management Thought

1.26.2 Pre-scientific Management Period

The advent of industrial revolution in the middle of the 18th century had its impact on management. Industrial revolution brought about a complete change in the methods of production, tools and equipments, organization of labour and methods of raising capital. Employees went to their work instead of receiving it, and so, the factory system, as it is known today, become a dominant feature of the economy. Under this system, land and buildings, hired labour, and capital are made available to the entrepreneur, who strives to combine these factors in the efficient achievement of a particular goal. All these changes, in turn, brought about changes in the field of management. Traditional, conventional or customary ideas of management were slowly given up and management came to be based on scientific principles. In the words of L. F. Urwick - "Modern management has thrown open a new branch of human knowledge, a fresh universe of discourse". During the period following the industrial revolution, certain pioneers tried to challenge the traditional character of management by introducing new ideas and character of management by introducing new ideas and approaches. The notable contributors of this period are:

(A) ***Professor Charles Babbage (UK 1729 -1871):*** He was a Professor of

Mathematics at Cambridge University. Prof Babbage found that manufacturers made little use of science and mathematics, and that they (manufacturers) relied upon opinions instead of investigations and accurate knowledge. He felt that the methods of science and mathematics could be applied to the solution of methods in the place of guess work for the solution of business problems. He advocated the use of accurate observations, measurement and precise knowledge for taking business decisions.. He urged the management of an enterprise, on the basis of accurate data obtained through rigid investigation, the desirability of finding out the number of times each operation is repeated each hour, the dividing of work into mental and physical efforts, the determining of the precise cost for every process and the paying of a bonus to the workers in proportion to his own efficiency and the success of enterprise.

(B) ***James Watt Junior (UK 1796-1848 and Mathew Robinson Boulton (1770-1842):*** James Watt Junior and Mathew Robinson Boulton contributed to the development of management thought by following certain management techniques in their engineering factory at Soho in Birmingham. They are:

- Production Planning
- Standardization of Components
- Maintenance
- Planned machine layout
- Provision of welfare for personnel
- Scheme for executive development
- Marketing Research and forecasting
- Elaborate statistical records

(C) ***Robert Owens (UK. 1771 - 1858):*** Robert Owens, the promoter of co-operative and trade union movement in England, emphasized the recognition of human element in industry. He firmly believed that workers' performance in industry was influenced by the working conditions and treatment of workers. He introduced new ideas of human relations - shorter working hours, housing facilities, training of workers in hygiene, education of their children, provision of canteen etc. Robert Owen, managed a group of textile mills in Lanark, Scotland, where he used his ideas of human relations. Though his approach was paternalistic, he carne to be regarded as the father of Personnel Management.

(D) ***Henry Robinson Towne (USA 1844 -1924):*** H.R Towne was the president of the famous lock manufacturing company "Yale and Town". He urged the combination of engineers and economists as industrial managers. This combination of qualities, together with at least some skill as an accountant, is essential to the successful management of industrial workers. He favoured organized exchange of experience among managers and pleaded for an organized effort to pool the great fund of accumulated knowledge in the art of workshop management.

(E) ***Seebohm Rowntree (UK 1871- 1954):*** Rowntree created a public opinion on the need of labour welfare scheme and improvement in industrial relations. The Industrial Welfare Society, The Management Research Groups and the Oxford Lecture Conferences in the U.K owed their origin and progress to the interest and zeal of Rowntree.

1.26.3 Classical Theory

Prof. Charles Babbage, James Watt Junior and Mathew Robinson Boulton, Robert Owen, Henry Robinson Towne and Rowntree were, no doubt, pioneers of management thought. But, the impact of their contributions on the industry as a whole was meagre. The real beginning of the science of management did not occur until the last decade of the 19th century. During this period, stalwarts like F.W. Taylor, H.L. Gantt, Emerson, Frank and Lillian Gilberth etc., laid the foundation of management, which in due course, came to be known as scientific management. This epoch in the history of management will be remembered as an era in which traditional ways of managing were challenged, past management experience were scientifically systematized and principles of management were distilled and propagated. The contributions of the pioneers of this age have had a profound impact in furthering the management know-how and enriching the store of management principles.

F.W. Taylor and Henry Fayol are generally regarded as the founders of scientific management and administrative management and both provided the bases for science and art of management.

Features of Management in the Classical Period:

1. It was closely associated with the industrial revolution and the rise of large-scale enterprise.
2. Classical organization and management theory is based on contributions from a number of sources. They are scientific management, administrative management theory, bureaucratic model, and micro-economics and public administration.
3. Management thought focused on job content division of labour, standardization, simplification and specialization and scientific approach towards organization.

A. ***Taylor's Scientific Management:*** Started as an apprentice machinist in Philadelphia, USA. He rose to be the chief engineer at the Midvale Engineering Works and later on served with the Bethlehem Works where he experimented with his ideas and made the contribution to the management theory for which he is so well known. Frederick Winslow Taylor well-known as the founder of scientific management was the first to recognize and emphasis the need for adopting a scientific approach to the task of managing an enterprise. He tried to diagnose the causes of low efficiency in industry and came to the conclusion that much of waste and inefficiency is due to the lack of order and system in the methods of management. He found that the management was usually ignorant of the amount of work that could be done by a worker in a day as also the best method of doing the job. As a result, it remained largely at the mercy of the workers who deliberately shirked work. He therefore, suggested that those responsible for management should adopt a scientific approach in their work, and make use of "scientific method" for achieving higher efficiency. The scientific method consists essentially of

(a) Observation

(b) Measurement
(c) Experimentation and
(d) Inference.

He advocated a thorough planning of the job by the management and emphasized the necessity of perfect understanding and co-operation between the management and the workers both for the enlargement of profits and the use of scientific investigation and knowledge in industrial work. He summed up his approach in these words:

- Science, 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.

Elements of Scientific Management: The techniques which Taylor regarded as its essential elements or features may be classified as under:

1. Scientific Task and Rate-setting, work improvement, etc.
2. Planning the Task.
3. Vocational Selection and Training
4. Standardization (of working conditions, material equipment etc.)
5. Specialization
6. Mental Revolution:

1. ***Scientific Task and Rate-Setting (work study):*** Work study may be defined as the systematic, objective and critical examination of all the factors governing the operational efficiency of any specified activity in order to effect improvement. Work study includes.

(a) ***Methods Study:*** The management should try to ensure that the plant is laid out in the best manner and is equipped with the best tools and machinery. The possibilities of eliminating or combining certain operations may be studied.

(b) ***Motion Study:*** It is a study of the movement, of an operator (or even of a machine) in performing an operation with the purpose of eliminating useless motions.

(c) ***Time Study (work measurement):*** The basic purpose of time study is to determine the proper time for performing the operation. Such study may be conducted after the motion study.

Both time study and motion study help in determining the best method of doing a job and the standard time allowed for it.

(d) ***Fatigue Study:*** If, a standard task is set without providing for measures to eliminate fatigue, it may either be beyond the workers or the workers may over strain themselves to attain it. It is necessary, therefore, to regulate the working hours and provide for rest pauses at scientifically determined intervals.

(e) ***Rate-setting:*** Taylor recommended the differential piece wage system, under which workers performing the standard task within prescribed time are paid a much higher rate per unit than inefficient workers who are not able to come up to the standard set.

2. ***Planning the Task:*** Having set the task which an average worker must strive to perform to get wages at the higher piece-rate, necessary steps have to be taken to plan the production thoroughly so that there is no bottlenecks and the work goes on systematically.

3. ***Selection and Training:*** Scientific Management requires a radical change in the methods and procedures of selecting workers. It is therefore necessary to entrust the task of selection to a central personnel department. The procedure of selection will also have to be systematised. Proper attention has also to be devoted to the training of the workers in the correct methods of work.

4. ***Standardization:*** Standardization may be introduced in respect of the following.

(a) ***Tools and equipment:*** By standardization it is meant the process of bringing about uniformity. The management must select and store standard tools and implements which will be nearly the best or the best of their kind.

(b) ***Speed:*** There is usually an optimum speed for every machine. If it is exceeded, it is likely to result in damage to machinery.

(c) ***Conditions of Work;*** To attain standard performance, the maintenance of standard conditions of ventilation, heating, cooling, humidity, floor space, safety etc., is very essential.

(d) ***Materials;*** The efficiency of a worker depends on the quality of materials and the method of handling materials.

5. ***Specialization:*** Scientific management will not be complete without the introduction of specialization. Under this plan, the two functions of 'planning' and 'doing' are separated in the organization of the plant. The 'functional foremen' are specialists who join their heads to give thought to the planning of the performance of operations in the workshop. Taylor suggested eight functional foremen under his scheme of functional foremanship.

(a) ***The Route Clerk:*** To lay down the sequence of operations and instruct the workers concerned about it.

(b) ***The Instruction Card Clerk:*** To prepare detailed instructions regarding different aspects of work.

(c) ***The Time and Cost Clerk:*** To send all information relating to their pay to the workers and to secure proper returns of work from them.

(d) ***The Shop Disciplinarian:*** To deal with cases of breach of discipline and absenteeism.

(e) ***The Gang Boss:*** To assemble and set up tools and machines and to teach the workers to make all their personal motions in the quickest and best way.

(f) ***The Speed Boss:*** To ensure that machines are run at their best speeds and proper tools are used by the workers.

(g) ***The Repair Boss:*** To ensure that each worker keeps his machine in good order and maintains cleanliness around him and his machines.

(h) ***The Inspector:*** To show to the worker how to do the work.

6. ***Mental Revolution:*** At present, industry is divided into two groups - management and labour. The major problem between these two groups is the division of surplus. The management wants the maximum possible share of the surplus as profit; the workers want, as large share in the form of wages. Taylor has in mind the enormous gain that arises from higher productivity. Such gains can be shared both by the management and workers in the form of increased profits and increased wages.

Benefits of Scientific Management: Taylor's ideas, research and recommendations brought into focus technological, human and organizational issues in industrial management. Benefits of Taylor's scientific management included wider scope for specialization, accurate planning, timely delivery, standardized methods, better quality, lesser costs, minimum wastage of materials, time and energy and cordial relations between management and workers. According to Gilbreths, the main benefits of scientific management are "conservation and savings, making an adequate use of every one's energy of any type that is expended". The benefits of scientific management are:-

(a) Replacement of traditional rule of thumb method by scientific techniques.

(b) Proper selection and training of workers.

(c) Incentive wages to the workers for higher production.

(d) Elimination of wastes and rationalization of system of control.

(e) Standardization of tools, equipment, materials and work methods.

(f) Detailed instructions and constant guidance of the workers.

(g) Establishment of harmonious relationship between the workers.

(h) Better utilization of various resources.

(i) Satisfaction of the needs of the customers by providing higher quality products at lower prices.

Criticism

1. ***Worker's Criticism:***

(a) ***Speeding up of workers:*** Scientific Management is only a device to speed up the workers without much regard for their health and well-being.

(b) ***Loss of individual worker's initiative:*** Scientific Management reduces workers to automatic machine by taking away from them the function of thinking.

(c) ***Problem of monotony,*** By separating the function of planning and thinking from that of doing, Scientific Management reduces work to mere routine.

(d) ***Reduction of Employment:*** Scientific Management creates unemployment and hits the workers hard.

(e) ***Weakening of Trade Unions:*** Under Scientific Management, the important issues of wages and working conditions are decided by the management through scientific investigation and the trade unions may have little say in the matter.

(f) ***Exploitation of workers:*** Scientific Management improves productivity through the agency of workers and yet they are given a very small share of the benefit of such improvement.

Employer's Criticism:

(a) ***Heavy Investment:*** It requires too heavy an investment. The employer has to meet the extra cost of the planning department though the foreman in this department do not work in the workshop and directly contribute towards higher production.

(b) ***Loss due to re-organization:*** The introduction of Scientific Management requires a virtual reorganization of the whole set-up of the industrial unit. Work may have to be suspended to complete such re-organization.

(c) ***Unsuitable for small scale firms:*** various measures like the establishment of a separate personnel department and the conducting of time and motion studies are too expensive for a small or modest size industrial unit.

Contributions of Scientific Management; Chief among these are:

1. Emphasis on rational thinking on the past of management.
2. Focus on the need for better methods of industrial work through systematic study and research.
3. Emphasis on planning and control of production.
4. Development of Cost Accounting.
5. Development of incentive plans of wage payment based on systematic study of work.
6. Focus on need for a separate Personnel Department.
7. Focus on the problem of fatigue and rest in industrial work.

B. ***Administrative Management Theory:*** Henry Fayol was the most important exponent of this theory. The pyramidal form, scalar principle, unity of command, exception principle, span of control and departmentalisation are some of the important concepts set forth by Fayol and his followers like Mooney and Reiley, Simon, Urwick, Gullick etc.

Henry Fayol (France, *1841* ***-1925):*** Henry Fayol was born in 1941 at Constantinople in France. He graduated as a mining engineer in 1860 from the National School of Mining. After his graduation, he joined a French Coal Mining Company as an Engineer. After a couple of years, he was promoted as manager. He was appointed as General Manager of his company in 1888. At that time, the company suffered heavy losses and was nearly bankrupt. Henry Fayol succeeded in converting his company from near bankruptcy to a strong financial position and a record of profits and dividends over a long period.

Concept of Management: Henry Fayol is considered the father of modern theory of genera] and industrial management. He divided general and industrial management into six groups:

1. Technical activities - Production, manufacture, adaptation.
2. Commercial activities - buying, selling and exchange.
3. Financial activities - search for and optimum use of capital.
4. Security activities - protection of property and persons.
5. Accounting activities - stock-taking, balance sheet, cost, and statistics.

.6. Managerial activities - planning, organization, command, co- ordination and control.

These six functions had to be performed to operate successfully any kind of business. He, however, pointed out that the last function i.e., ability to manage, was the most important for upper levels of managers.

The process of management as an ongoing managerial cycle involving planning, organizing, directing, co-ordination, and controlling, is actually based on the analysis of general management by Fayol. Hence, it is said that Fayol established the pattern of management thought and practice. Even today, management process has general recognition.

Fayol's Principles of Management: The principles of management are given below:

1. ***Division of work:*** Division of work or specialization alone can give maximum productivity and efficiency. Both technical and managerial activities can be performed in the best manner only through division of labour and specialization.
2. ***Authority and Responsibility:*** The right to give order is called authority. The obligation to accomplish is called responsibility. Authority and Responsibility are the two sides of the management coin. They exist together. They are complementary and mutually interdependent.
3. ***Discipline:*** The objectives, rules and regulations, the policies and procedures must be honoured by each member of an organization. There must be clear and fair agreement on the rules and objectives, on the policies and procedures. There must be penalties (punishment) for non-obedience or indiscipline. No organization can work smoothly without discipline - preferably voluntary discipline.
4. ***Unity of Command:*** In order to avoid any possible confusion and conflict, each member of an organization must receive orders and instructions only from one superior (boss).
5. ***Unity of Direction:*** All members of an organization must work together to accomplish common objectives.
6. ***Emphasis on Subordination of Personal Interest to General or Common Interest:*** This is also called principle of co-operation. Each shall work for all and all for each. General or common interest must be supreme in any joint enterprise.
7. ***Remuneration:*** Fair pay with non-financial rewards can act as the best incentive or motivator for good performance. Exploitation of employees in any manner must be eliminated. Sound scheme of remuneration includes adequate financial and non-financial incentives.
8. ***Centralization:*** There must be a good balance between centralization and decentralization of authority and power. Extreme centralization and decentralization must be avoided.
9. ***Scalar Chain:*** The unity of command brings about a chain or hierarchy of command linking all members of the organization from the top to the bottom. Scalar denotes steps.
10. ***Order:*** Fayol suggested that there is a place for everything. Order or system alone can create a sound organization and efficient management.
11. ***Equity:*** An organization consists of a group of people involved in joint effort. Hence, equity (i.e., justice) must be there. Without equity, we cannot have sustained and adequate joint collaboration.
12. ***Stability of Tenure:*** A person needs time to adjust himself with the new work and demonstrate efficiency in due course. Hence, employees and managers must have job security. Security of income and employment is a pre-requisite of sound organization and management.
13. ***Esprit of Co-operation:*** *Esprit de corps* is the foundation of a sound organization. Union is strength. But unity demands co-operation. Pride, loyalty and sense of belonging are responsible for good performance.
14. ***Initiative:*** Creative thinking and capacity to take initiative can give us sound managerial planning and execution of predetermined plans.

C. ***Bureaucratic Model:*** Max Weber, a German Sociologist developed the bureaucratic model. His model of bureaucracy include

(i) Hierarchy of authority.

(ii) Division of labour based upon functional specialization.

(iii) A system of rules.

(iv) Impersonality of interpersonal relationships.

(v) A system of work procedures.

(vi) Placement of employees based upon technical competence.

(vi) Legal authority and power.

Bureaucracy provides a rigid model of an organization. It does not account for important human elements. The features of Bureaucracy are:-

1 . Rigidity, impersonality and higher cost of controls.

2. Anxiety due to pressure of conformity to rules and procedure.

3. Dependence on superior.

4. Tendency to forget ultimate goals of the organization.

Bureaucratic Model is preferred where change is not anticipated or where rate of change can be predicated. It is followed in government departments and in large business organizations.

1.26.4 Neoclassical Theory

Neo-classical Theory is built on the base of classical theory. It modified, improved and extended the classical theory. Classical theory concentrated on job content and management of physical resources whereas, neoclassical theory gave greater emphasis to individual and group relationship in the workplace. The neo- classical theory pointed out the role of psychology and sociology in the understanding of individual and group behaviour in an organization.

George Elton Mayo (Australia, 1880 - 1949): Elton Mayo was born in Australia. He was educated in Logic and Philosophy at St. Peter's College, Adelaide. He led a team of researchers from Harvard University, which carried out investigation in human problems at the Hawthorne Plant of Western Electrical Company at Chicago. They conducted some experiments (known as Hawthorne Experiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of informal leadership etc. Elton Mayo is generally recognized as the father of Human Relations School. Other prominent contributors to this school include Roethlisberger, Dickson, Dewey, Lewin etc.

Hawthorne Experiment: In 1927, a group of researchers led by Elton Mayo and Fritz Roethlisberger of the Harvard Business School were invited to join in the studies at the Hawthorne Works of Western Electric Company, Chicago. The experiment lasted up to 1932. The Hawthorne Experiments brought out that the productivity of the employees is not the function of only physical conditions of work and money wages paid to them. Productivity of employees depends heavily upon the satisfaction of the employees in their work situation. Mayo's idea was that logical factors were far less important than emotional factors in determining productivity efficiency. Furthermore, of all the human factors influencing employee behaviour, the most powerful were those emanating from the worker's participation in social groups. Thus, Mayo concluded that work arrangements in addition to meeting the objective requirements of production must at the same time satisfy the employee's subjective requirement of social satisfaction at his work place.

The Hawthorne experiment consists of four parts. These parts are briefly described below:-

1. Illumination Experiment.
2. Relay Assembly Test Room Experiment.
3. Interviewing Programme.
4. Bank Wiring Test Room Experiment.

1. ***Illumination Experiment:*** This experiment was conducted to establish relationship between output and illumination. When the intensity of light was increased, the output also increased. The output showed an upward trend even-when the illumination was gradually brought down to the normal level. Therefore, it was concluded that there is no consistent relationship between output of workers and illumination in the factory. There must be some other factor which affected productivity.

2. ***Relay Assembly Test Room Experiment:*** This phase aimed at knowing not only the impact of illumination on production but also other factors like length of the working day, rest hours, and other physical conditions. In this experiment, a small homogeneous work-group of six girls was constituted. These girls were friendly to each other and were asked to work in a very informal atmosphere under the supervision of a researcher. Productivity and morale increased considerably during the period of the experiment. Productivity went on increasing and stabilized at a high level even when all the improvements were taken away and the pre-test conditions were reintroduced. The researchers concluded that socio-psychological factors such as feeling of being important, recognition, attention, participation, cohesive work-group, and non-directive supervision held the key for higher productivity.

3. ***Mass Interview Programme:*** The objective of this programme was to make a systematic study of the employees' attitudes which would reveal the meaning which their "working situation" has for them. The researchers interviewed a large number of workers with regard to their opinions on work, working conditions and supervision. Initially, a direct approach was used whereby interviews is asked questions considered important by managers and researchers. The researchers observed that the replies of the workmen were guarded. Therefore, this approach was replaced by an indirect technique, where the interviewer simply listened to what the workmen had to say. The findings confirmed the importance of social factors at work in the total work environment.

4. ***Bank Wiring Test Room Experiment:*** This experiment was conducted by Roethlisberger and Dickson with a view to develop a new method of observation and obtaining more exact information about social groups within a company and also finding out the causes which restrict output. The experiment was conducted to study a group of workers under conditions which were as close as possible to normal. This group comprised of 14 workers. After the experiment, the production records of this group were compared with their earlier production records. It was observed that the group evolved its own production norms for each individual worker, which was made lower than those set by the management. Because of this, workers would produce only that much, thereby defeating the incentive system. Those

workers who tried to produce more than the group norms were isolated, harassed or punished by the group. The findings of the study are:-

(i) Each individual was restricting output.

(ii) The group had its own "unofficial" standards of performance.

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

(iv) Informal groups play an important role in the working of an organization.

Contributions of the Hawthorne Experiment: Elton Mayo and his associates conducted their studies in the Hawthorne plant of the western electrical company, U.S.A., between 1927 and 1930. According to them, behavioural science methods have many areas of application in management. The important features -of the Hawthorne Experiment are:-

1. A business organization is basically a social system. It is not just a techno-economic system.
2. The employer can be motivated by psychological and social wants because his behaviour is also influenced by feelings, emotions and attitudes. Thus economic incentives are not the only method to motivate people.
3. Management must learn to develop co-operative attitudes and not rely merely on command.
4. Participation becomes an important instrument in human relations movement. In order to achieve participation, effective two-way communication network is essential.
5. Productivity is linked with employee satisfaction in any business organization. Therefore management must take greater interest in employee satisfaction.
6. Group psychology plays an important role in any business organization. We must therefore rely more on informal group effort.
7. The neo-classical theory emphasizes that man is a living machine and he is far more important than the inanimate machine. Hence, the key to higher productivity lies in employee morale. High morale results in higher output.

Elements of Behavioural Theory or Human Relation Approach: There are three elements of behavioural theory.

1. ***The Individual:*** The neoclassical theory emphasized that individual differences must be recognised. An individual has feelings, emotions, perception and attitude. Each person is unique. He brings to the job situation certain attitudes, beliefs and ways of life, as well as skills. He has certain meaning of his job, his supervision, working conditions etc. The inner world of the worker is more important than the external reality in the determination of productivity. Thus human relations at work determine the rise or fall in productivity. Therefore human relationists advocate the adoption of multidimensional model of motivation which is based upon economic, individual and social factors.

2. ***Work Groups:*** Workers are not isolated; they are social beings and should be treated as such by management. The existence of informal organization is natural. The neo-classical theory describes the vital effects of group psychology and behaviour on motivation and productivity.

3. ***Participative Management:*** The emergence of participative management is inevitable when emphasis is laid on individual and work groups. Allowing labour to participate in decision making primarily to increase productivity was a new form of supervision. Management now welcomes worker participation in planning job contents and job operations. Neoclassical theory focuses its attention on workers. Plant layout, machinery, tool etc., must after employee convenience and facilities. Therefore, neoclassical approach is trying to satisfy personal security and social needs of workers.

Limitations of Human Relations Approach:-

1. The human relationists drew conclusions from Hawthorne studies. These conclusions are based on clinical insight rather than on scientific evidence.
2. The study tends to overemphasize the psychological aspects at the cost of the structural and technical aspects.
3. It is assumed that organizational problems are amenable to solutions through human relations. This assumption does not hold good in practice.
4. The human relationists saw only the human variables as critical and ignored other variables.
5. The human reiationists overemphasize the group and group decision-making. But in practice, groups may create problems and collective decision-making may not be possible.

1.26.5. Modern Theory (System Approach)

The systems approach to management indicates the fourth major theory of management thought called modern theory. Modern theory considers an organization as an adaptive system which has to adjust to changes in its environment. An organization is now defined as a structured process in which individuals interact for attaining objectives.

Meaning of "System": The word system is derived from the Greek word meaning to bring together or to combine. A system is a set of interconnected and inter-related elements or component parts to achieve certain goals. A system has three significant parts:

1. Every system is goal-oriented and it must have a purpose or objective to be attained.
2. In designing the system we must establish the necessary arrangement of components.
3. Inputs of information, material and energy are allocated for processing as per plan so -that the outputs can achieve the objective of the system.

Characteristics of Modern Management Thought:

1. ***The Systems Approach:*** An organization as a system has five basic parts -

(1) Input
(2) Process
(3) Output
(4) Feedback and
(5) Environment.

It draws upon the environment for inputs to produce certain desirable outputs. The success of these outputs can be judged by means of feedback. If necessary, we have to modify out mix of inputs to produce as per changing demands.

2. ***Dynamic:*** We have a dynamic process of interaction occurring within the structure of an organization. The equilibrium of an organization and its structure is itself dynamic or changing.

3. ***Multilevel and Multidimensional:*** Systems approach points out complex multilevel and multidimensional character. We have both a micro and macro approach. A company is micro within a business system. It is macro with respect to its own internal units. Within a company as a system we have:-
   (1) Production subsystem
   (2) Finance subsystem
   (3) Marketing subsystem
   (4) Personnel subsystem.

All parts or components are interrelated. Both parts as well as the whole are equally important. At all levels, organizations interact in many ways.

4. ***Multimotivated:*** Classical theory assumed a single objective, for instance, profit. Systems approach recognizes that there may be several motivations behind our actions and behaviour. Management has to compromise these multiple objectives e.g. economic objectives and social objectives.

5. ***Multidisciplinary:*** Systems approach integrates and uses with profit ideas emerging from different schools of thought. Management freely draws concepts and techniques from many fields of study such as psychology, social psychology, sociology, ecology, economics, mathematics, etc.

6. ***Multivariable:*** It is assumed that there is no simple cause-effect phenomenon. An event may be the result of so many factors which themselves are interrelated and interdependent. Some factors are controllable, some uncontrollable. Intelligent planning and control are necessary to face these variable factors.

7. ***Adaptive:*** The survival and growth of an organization in a dynamic environment demands an adaptive system which can continuously adjust to changing conditions. An organization is an open system adapting itself through the process of feedback.

8. ***Probabilistic:*** Management principles point out only probability and never the certainty of performance and the consequent results. We have to face so many variables simultaneously. Our forecasts are mere tendencies. Therefore, intelligent forecasting and planning can reduce the degree of uncertainty to a considerable extent.

1.14 SUMMARY

Management plays very important role in the modern world and the welfare of the people and the destiny of the country are very much influenced by it. Management is necessary for a business firm, government enterprises, education and health services, military organizations, trade associations and so on. The origin of management can be traced back to the days when man started living in groups. Henry Fayol is considered the father of modern theory of general and industrial management. F.W. Taylor well known as the founder of scientific management was the first to recognize and emphasis the need for adopting a scientific approach to task of managing as enterprise. The process of management involves the determination of objectives and putting them into action.

How throne studies proved social factors were responsible for deciding the level of output, motivation influences both money and bonus, leadership is important for directing group behavior, communication plays an important role etc.

1.15 SELF ASSESSMENT QUESTIONS

1. Define management. Describe its main characteristics.
2. What is management? Is there a difference between management and administration?
3. Explain the role of Henry Fayol in the management theories. What is the contribution of F.W.Taylor to Management thought?
4. Discuss the challenges being faced by management in the current globalization trends.
5. Discuss various functional areas of management.
6. What are the tools of scientific management?
7. Describe the major factors that have influenced the evolution of management thought.
8. Identify the five major perspectives of management thought.
9. Describe the central focus of the scientific management, administrative management, and bureaucratic management sub-fields of the classical perspective on management.
10. Describe the major behavioral perspective contributions of Follett, Mayo, McGregor, and Barnard.
11. Discuss the four basic characteristics of the quantitative perspective of management.
12. Describe the various building blocks of a systems perspective and indicate how they interconnect and interact.

BLOCK 02: PLANNING, DECISION MAKING

Unit 05: Concept, Process, Type & Importance of Planning.

Unit 06: Decision Making: Concept & types of Decision

Unit 07: Process of Decision Making

Unit 08: Models & Issues of Decision Making

BLOCK- 02- UNIT -05: CONCEPT, PROCESS, TYPE & IMPORTANCE OF PLANNING

LEARNING OBJECTIVES

After studying this lesson you will be able to:

- **(i)** Understand the nature of planning in an organization.
- **(ii)** Understand the importance, advantages and disadvantages of planning.
- **(iii)** Understand the principles & types of planning.

STRUCTURE

PLANNING

2.1. Introduction and Meaning

2.2 Definition of Planning

2.3 Nature of Planning

2.4 Importance of Planning

2.5 Advantages of Planning

2.6 Disadvantages of Planning

2.7 Process of planning

2.8 Need for planning

2.9 Planning Premises

2.10 Principles of Planning

PLANNING

2.1 INTRODUCTION AND MEANING

When management is reviewed as a process, planning is the first function performed by a manager. The work of a manager begins with the setting of objectives of the organization and goals in each area of the business.

Planning is a tool in the hands of a manager who wants to face problems created by change. Successful managers deal with foreseen problems and unsuccessful managers struggle with unforeseen problems. The difference lies in planning. Every enterprise which strives to survive and grow must place heavy emphasis upon planning. A planner foresees opportunities and devises ways and means to take advantage from them. There may be cases where little bit of planning helps in achieving objectives. This may happen in favourable situations. In a competitive business world a manager cannot wait for favourable circumstances, he has to decide in the face of uncertainties. There is no place for guesswork or chance. The need is for proper planning.

Planning means looking ahead. It is deciding in advance what is to be done. Planning helps in determining the course of action to be followed for achieving various organisational objectives. It is a decision in advance; what to do, when to do, how to do and who will do a particular task. Planning is a process which involves 'thinking before doing. 'It is concerned with a mental state of the manager. He thinks before undertaking a work. Other functions of management like organising, controlling and directing are also undertaken after proper planning.

In the past four decades every type of enterprise has shown a tremendous interest in planning. In the present economic, technological, political and social set up planning is essential for the survival of an enterprise. The change and growth bring new opportunities but they also bring more risks. The task of planning is to minimise risk while taking advantage of opportunities.

2.2 DEFINITIONS

The words ‘planning’ and ‘a plan’ may also be taken as similar but their meanings arc different. A plan is a commitment to particular course of actions whereas planning is an activity consisting of a process. To clear the meaning of planning further, some definitions have been discussed:

Gcogre Terry. "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results." According to Terry planning is based on certain assumptions which arc required to formulate policies of the business. The purpose of planning is to achieve business objectives.

Hart. "The determination in advance of a line of action by which certain results are to be achieved." Planning is the deciding of a course required for reaching organisational goals. The line of action is decided in advance so that actual execution becomes easy later on.

Koontz and O'Donncll. "The selection from among alternatives for future courses of action for the enterprise as a whole and each department with it." Although the exact future can seldom be predicted and factors beyond control may interfere with the best-laid plans, unless there is planning, events are left to chance. It is an intellectually demanding process and requires the selection of a course of action.

Alfred and Beaty, "Planning is the thinking process, the organised forecast, the vision based on fact and experience that is required for intelligent action." Planning is a process in which decisions are taken in advance. The pros and cons of the decisions and their implications in the future arc discussed beforehand. A wrong decision may create difficulties for the management and may result in financial loss too,

Louis A. Allen. "Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets." According to Allen, planning is essentially deciding about future. The ways and means required to achieve organisational goals form the essential part of planning.

George B. Galloway. "Planning is the opposite of improvising. In simple words, it is organised foresight plus corrective hindsight,... Conceived as a process, planning embraces a series of steps: (i) the determination of objectives to be sought ; (ii) research to understand the problem; (iii) the discovery of alternative solutions; (iv) policymaking Choosing between alternatives, including the frequent choice of doing nothing ; (v) the detailed execution of the chosen alternative known in physical planning as layout or design." As per this view, planning starts with setting up of objectives and leads to the execution of various policies. A good planner chooses the best method of doing a thing for achieving the desired results.

2.3 NATURE OF PLANNING

1. ***Planning is goal-oriented:*** Every plan must contribute in some positive way towards the accomplishment of group objectives. Planning has no meaning without being related to goals.
2. ***Primacy of Planning:*** Planning is the first of the managerial functions. It precedes all other management functions.
3. ***Pervasiveness of Planning:*** Planning is found at all levels of management. Top management looks after strategic planning. Middle management is in charge of administrative planning. Lower management has to concentrate on operational planning.
4. ***Efficiency, Economy and Accuracy:*** Efficiency of plan is measured by its contribution to the objectives as economically as possible. Planning also focuses on accurate forecasts.
5. ***Co-ordination:*** Planning co-ordinates the what, who, how, where and why of planning. Without co-ordination of all activities, we cannot have united efforts.
6. ***Limiting Factors:*** A planner must recognise the limiting factors (money, manpower etc) and formulate plans in the light of these critical factors.
7. ***Flexibility:*** The process of planning should be adaptable to changing environmental - conditions.
8. ***Planning is an intellectual process:*** The quality of planning will vary according to the quality of the mind of the manager.

2.4 IMPORTANCE OF PLANNING

As a managerial function planning is important due to the following reasons:-

1. ***To manage by objectives:*** All the activities of an organisation are designed to achieve certain specified objectives. However, planning makes the objectives more concrete by focusing attention on them.

2. ***To offset uncertainty and change:*** Future is always full of uncertainties and changes. Planning foresees the future and makes the necessary provisions for it.

3. ***To secure economy in operation:*** Planning involves, the selection of most profitable course of action that would lead to the best result at the minimum costs.

4. ***To help in co-ordination:*** Co-ordination is, indeed, the essence of management, and planning is the base of it. Without planning it is not possible to co-ordinate the different activities of an organisation.

5. ***To make control effective:*** The controlling function of management relates to the comparison of the planned performance with the actual performance. In the absence of plans, a management will have no standards for controlling other's performance.

6. ***To increase organisational effectiveness:*** Mere efficiency in the organisation is not important; it should also lead to productivity and effectiveness. Planning enables the manager to measure the organisational effectiveness in the context of the stated objectives and take further actions in this direction.

2.5 ADVANTAGES OF PLANNING

- All efforts are directed towards desired objectives or results. Unproductive work and waste of resources can be minimised.
- Planning enables a company to remain competitive with other rivals in the industry.
- Through careful planning, crisis can be anticipated and mistakes or delays avoided.
- Planning can point out the need for future change and the enterprise can manage the change effectively.
- Planning enables the systematic and thorough investigation of alternative methods or alternative solutions to a problem. Thus we can select the best alternative to solve any business problem.
- Planning maximises the utilisation of available resources and ensures optimum productivity and profits.
- Planning provides the ground work for laying down control standards.
- Planning enables management to relate the whole enterprise to its complex environment profitably.

2.6 DISADVANTAGES OF PLANNING

- Environmental factors are uncontrollable and unpredictable to a large extent. Therefore planning cannot give perfect insurance against uncertainty.
- Planning is many times very costly.
- Tendency towards inflexibility to change is another limitation of planning.
- Planning delays action.
- Planning encourages a false sense of security against risk or uncertainty.

2.7 PLANNING PROCESS

The planning process involves the following steps:

1. ***Analysis of External Environment:*** The external environment covers uncontrollable and unpredictable factors such as technology, market, socio-economic climate, political conditions etc., within which our plans will have to operate.
2. ***Analysis of Internal Environment:*** The internal environment covers relatively controllable factors such as personnel resources, finance, facilities etc., at the disposal of the firm. Such an analysis will give an exact idea about the strengths and weakness of the enterprise.
3. ***Determination of Mission:*** The "mission" should describe the fundamental reason for the existence of an organisation. It will give firm direction and make out activities meaningful and interesting.
4. ***Determination of Objectives:*** The organisational objectives must be spelled out in key areas of operations and should be divided according to various departments and sections. The objectives must be clearly specified and measurable as far as possible. Every member of the organisation should be familiar with its objectives.
5. ***Forecasting:*** Forecasting is a systematic attempt to probe into the future by inference from known facts relating to the past and the present. Intelligent forecasting is essential for planning. The management should have no stone unturned in reducing the element of guesswork in preparing forecasts by collecting relevant data using the scientific techniques of analysis and inference.
6. ***Determining Alternative course of Action:*** It is a common experience of all thinkers that an action can be performed in several ways, but there is a particular way which is the most suitable for the organisation. The management should try to find out these alternatives and examine them carefully in the light of planning premises.
7. ***Evaluating Alternative Courses:*** Having sought out alternative courses and examined their strong and weak points, the next step is to evaluate them by weighing the various factors.
8. ***Selecting the Best:*** The next step - selecting the course of action is the point at which the plan is adopted. It is the real point of decision-making.
9. ***Establishing the sequence of activities:*** After the best programme is decided upon, the next task is to work out its details and formulate the steps in full sequences.
10. ***Formulation of Action Programmes:*** There are three important constituents of an action plan:
    - The time-limit of performance.
    - The allocation of tasks to individual employees.
    - The time-table or schedule of work so that the functional objectives are achieved within the predetermined period.
11. ***Reviewing the planning process:*** Through feedback mechanism, an attempt is made to secure that which was originally planned. To do this we have to compare

the actual performance with the plan and then we have to take necessary corrective action to ensure that actual performance is as per the plan.

2.8 NEED FOR PLANNING

The following reasons are the need for planning:

1. **Essential for Modern business:** The growing complexities for modern business, rapid technological changes, meaning of economics to international competition, changes in consumer testes necessitate. Planning not only in the current context but also in the future environment. Planning always takes into account all possible features development.
2. **Related to Performances:** Planning helps in setting goals for each function and for each employee. The concerns having formal planning have performed better as compared to those where planning is not taken up as a regular activity. Studies have provide that planning has been an instrument in improved performance.
3. **Focus on Objectives.** The thrust of formal planning is on setting objectives and providing guidelines for reaching them. Objectives provide a direction and all planning decisions are directed towards achieving them. It ensures maximum utilisation of managerial time and efforts.
4. **Proper Allocation of Resources.** The needs of the organisation are anticipated with the help of planning. The acquisition and allocation of resources can be properly planned thus minimizing wastages and ensuring optimal utility of these resources.
5. **Facilitates Control.** Planning can be used to devise a mechanism of control. There can be quantitative targets and their comparison with actual performance can bring to notice any deviations. A periodical review can also help in pointing out low performance. The deviations in production, sales, profits etc. may come to light during periodic investigations and remedial action can be taken.
6. **Helpful in Decision making.** Planning is helpful in the process of decision-making. Since planning helps in specifying the actions to be taken for achieving organisational objectives, it serves as a basis for decision-making for the future. The objectives, plans, policies, schedules, rules etc. serve as guidelines for routine decision making.
7. **Avoiding Business Failures,** Business failures may be due to wrong and unscientific planning. A bad planning may result into wastage of human and physical resources. The enterprise may not be able to face competition from well planned units. Good planning will help in utilizing available resources in a best possible way thus reducing the chances of failures.

2.9 PLANNING PREMISES

Planning premises are those basic assumptions upon which the process of planning proceeds. Planning involves making a choice of action on the basis of assumptions of what is likely to happen in the future which is totally uncertain. These assumptions or premises are the postulates. A manager tries to make assumptions on the basis of likely happenings in future and bases his present decisions on those. In case the assumptions or premises happen as assumed earlier then decisions will be proper, in case the premises change then plans will have to be modified. Such premises constitute the ground on which plans stand.

Classification of Planning Premises

Planning premises provide the bedrock upon which the plans are based. Planning premises may be classified as follows:

(i) **Internal and External Premises.** Internal premises arc those factors which exist within the firm or which belong to the firm's own climate. These premises are commitments for resources, sources of raw materials and other equipment, sales forecasts, basic policies and programmes, availability and competence of management and other personnel. All these factors are known and fully controllable.

External planning premises pertain to the outside environment of the firm. These relate to general business environment, conditions which influence the demand for business products and resources available to the organisation. Like, the political philosophy of national and state governments, fiscal and monetary policies, trends in population growth, education, national income etc. All these external factors have great impact on the planning of a business unit.

(ii) Controllable and Uncontrollable Premises. There are some factors which are within the control of management. These factors include managerial policies, programmes and rules etc.

There are certain factors over which management has no control. Such factors include strikes, wars, natural calamities, new inventions etc. All these factors have a bearing on the planning of an organisation. There are some factors over which management has some control, these are called semi-controllable factors. Such factors may be efficiency of workers, pricing policy, marketing, programmes etc. Management docs not have full control over these factors. All these premises are important for preparing plans. Any change in these premises necessitate modifications of plans.

(iii) Tangible and Intangible Premises. Tangible premises are those which can be expressed in quantity or arc quantifiable. Intangible premises are just assumed and cannot be expressed in quantities, for example, reputation of a concern. All these premises have greater influence on the decision-making process.

All the planning premises discussed above have great impact on planning premises. Though future is always uncertain but still certain assumptions arc made to base the plans. The premises are helpful guidelines for taking planning decisions.

2.10 PRINCIPLES OF PLANNING

A number of fundamental principles have been devised over the years for guiding managers undertaking planning. Some of these principles are discussed as under:

1. Principle of Contribution to Objectives. All types of plans are prepared to achieve the objectives of the organisation, Both major and derivative plans are prepared to contribute to the objectives of the enterprise. Planning is used as a means to reach the goals.

2. Principles of Primacy of Planning. This principle states that planning is the first or primary function of every manager. He has to plan first and then proceed to carry out other functions. Other managerial functions are organised to reach the objectives set in planning.

3. Principle of Planning Premises. In order to make planning effective, some premises or presumptions have to be made on the basis of which planning has to be undertaken. Plans are, generally not properly structured the reason being that planning premises are not properly developed. This principle lays emphasis on properly analysing the situation which is going to occur in future.

4. Principle of Alternatives, Planning process involves developing of many alternatives and then selecting one which will help in achieving desired business goals. In the absence of various alternatives proper, planning will be difficult.

5. Principle of Timing, Plans can contribute effectively to the attainment of business goals if they are properly timed. Planning premises and policies are useless without proper timing.

6. Principle of Flexibility. This principle suggests flexibility in plans if some contingencies arise. The plans should be adjusted to incorporate new situations. The dangers of flexibility should be kept in mind. The changes may upset the earlier commitments. So the cost of changes should be compared to the benefits of flexibility.

7. Principle of Commitment. There should be a time frame for meeting the commitments made. This will ensure the achievement of targets in time.

8. Principle of Competitive Strategics, While formulating own plans a manager should keep in mind the plans of competitors. The plans should be framed by thinking of what the competitors will do in similar situations.

2.11 TYPES of Planning/Scope of Planning

There are three types of planning. These are identified on the following dimensions.

1. On the basis of coverage of activities
   (i) Corporate planning
   (ii) Functional planning
2. On the basis of Importance of Contents.
   (i) Strategic Planning.
   (ii) Operational Planning
3. On the basis of time period involved.
   (i) Long term planning.
   (ii) Short-term Planning

1. Corporate Planning and Functional Planning

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

(i) Corporate Planning

Corporate planning is undertaken at the top level, also known as corporate level, and covers the entire organizational activities. It is of integrative nature and integrates entire planning process of the organization. The basic focus of corporate planning is to determine the long-term objectives of the organization as a whole and to generate plans to achieve these objectives bearing in mind the probable changes in the environment. Corporate planning, generally, has long-term orientation and provides basis for functional planning.

(ii) Functional Planning

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

2. Strategic Planning and Operational Planning

On the basis of importance of contents, planning may be divided into strategic planning and operational planning.

(i) Strategic Planning

Strategic planning involves setting long-term direction of the organization in which it wants to proceed in future. It is the process of deciding long-term objectives of the organization and defining where the organizational resources and efforts should be put to achieve organizational objectives. Strategic planning deals with strategic issues like type of business to be undertaken, diversification of business into new lines, type of products to be offered, and so on. This way, strategic planning encompasses all the functional areas of business and is effected within the existing and long-term framework of environmental factors. Strategic planning also involves rigorous analysis of various environmental factors to relate the organization relates to its environment.

(ii) Operational Planning

Operational planning, also known as tactical planning, is the process of deciding the most effective use of the resources already allocated through strategic planning and to develop a control mechanism to ensure effective implementation of the actions so that organizational objectives are achieved. Usually operational planning covers one year or so. It aims at sustaining the organization in its production/generation and distribution of current products (goods and services) to the existing markets. Operational planning answers the questions about a particular action as follows:

1. Why is the action required?
2. What action is to be taken?
3. What will the action accomplish?
4. What are the likely results of the action?
5. What conditions must be met in putting the action in operation?

Operational planning is undertaken within the framework of the strategic planning. Examples of operational planning are adjustment of production within given capacity, increasing the efficiency of operating activities through analysis of past performance, budgeting future costs, specific details of future short-term operations, and so on.

Difference between Strategic Planning and Operational Planning

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

1. Range of Choice. Strategic planning guides the choice among the broad directions in which the organization seeks to move and allocation of its financial, physical, and human resources over future specified period of time. Operational planning, on the other hand, focuses on the ways and means in which each of the individual functions may be programmed so that progress may be made towards the attainment of organizational objectives.

2. Type of Environment. The type of environment for two types of planning is different. Strategic planning takes into account the external environment and tries to relate the organization with it. The nature of external environment, thus, is of prime concern of strategic planners. Operational planning mostly focuses on internal organizational environment so as to make the effective use of given resources.

3. Focus. Strategic planning focuses on setting long-term trend and direction for managerial actions. Focus of operational planning is on making effective use of organizational resources allocated by strategic planning process.

4. Sequence of Formulation. Strategic planning precedes operational planning and the latter is primarily concerned with the implementation of the former. Therefore, operational planning is based on strategic planning.

5. Level of Formulation. Strategic planning is formulated by top-level management with the support of specified planning staff in the organization. At this level, managers can take an overall view of the organization and have necessary capability to relate the organization with its environment. Operational planning is usually spread over a wide range within the organization and is generally performed by operating managers with the help of the subordinate staff.

3. Long-Term Planning and Short-Term Planning

Planning is concerned with future course of action. This may be of long term or short term. Thus, there are long-term planning and short-term planning.

(i) Long-term Planning

Long-term planning is of strategic nature and involves more than one year period, usually 3-5 years though period of 5 years is more common in Indian context. Long-term planning usually covers all the functional areas of the business and is undertaken within the existing and long-term future environmental scenario. In the long-term planning process, high emphasis is placed on analysis of environmental factors. Sometimes, basic changes in the organization like change in organizational vision and mission, major change in organization structure, change in key personnel of the organization, etc. become the significant factor for long-term planning.

(ii) Short-term Planning

Short-term planning usually covers one year. This aims at making effective use of organizational resources — financial, physical, and human resources. Short-term planning directly and immediately affects functional areas — production, marketing, finance, etc.

Coordination of Short-term Planning and Long-term Planning. In fact, in a successful planning process, short-term plans are made with reference to long-term plans because short-term plans contribute to long-term plans. As such, there is a need for coordination between these two plans. While preparing the short-term plans, the managers should consider that they are contributing to the long-term plans. For this purpose, they should scrutinize the former in the light of the latter. People at comparatively lower levels should also be made aware of this fact. Sometimes, the short-term plans do not contribute to long-term plans, though they may contribute to achieve immediate organizational objectives, for example, cutting cost of research and development to show higher profitability. This type of problem may be overcome by coordination in short-term planning and long-term planning.

2.22 SUMMARY

Planning is deciding in advance what is to be done. A plan is a predetermined course of action to achieve specified goal. It is a blueprint for action. Planning is goal oriented, and efficiency. Importance of planning to manage by objective, offset uncertainty and change and make control effective. Planning maximize the utilization of available resources and ensures optimum productivity and profits. It provides ground work for laying down control standards.

Decision is a kind of choice of a desirable alternatives. A decision represents a judgment, a final resolution of a conflict of needs, means or goals and a commitment to action made in face of uncertainty, complexity and even irrationally. It involves the evaluation of various alternatives available. The selection of best alternative will be made only when pros and cons of all of they are discussed and evaluated. An effective decision is one which should contain three aspects such as action orientation, goal direction and effective implementations.

2.23 SELF ASSESSMENT QUESTIONS

1. Define planning.
2. 'Planning is an intellectual process, explain.
3. Name five principles of planning.
4. What is corporate planning?
5. What is the need for strategic planning?
6. Differentiate between strategic and operational planning.
7. What are the characteristics of a good plan?
8. Explain the mission or purpose of planning.
9. Explain the concept of planning. Discuss the nature of planning.
10. Planning is the thinking process and managers being men of action, should have no use for it, Comment.
11. How far planning is useful to management?
12. Why planning is essential in a business? How can it be made effective?
13. Discuss the concept of corporate planning. How docs strategic planning differs from operational planning?
14. What are the main limitations of planning? How can planning be made effective?
15. Describe the nature of decision-making.
16. What are the characteristics of decision-making?
17. What do you mean by decision-making? Explain various steps involved in it.
18. Explain decision-making process. Discuss various types of decisions.

19. Discuss various steps involved in decision-making.
20. "Decision-making is a solution selected after examining several alternatives." Discuss.
21. Discuss various techniques of decision-making

UNIT- 6 DECISION MAKING: CONCEPT & TYPES OF DECISION

AIMS AND OBJECTIVES

After studying this lesson you will be able to:

(i) Understand the nature of planning in an organization.

(ii) Understand the importance, advantages and disadvantages of planning.

(iii) Understand the principles & types of planning.

(iv) Explore the nature of types of decision making.

(v) Know about models and issues of decision making.

CONTENTS

2.1 PLANNING IN INDIAN ORGANIZATIONS

Since planning is the basis for managerial actions, it has existed in all organizations, either formally or informally. However, it has been emphasized since 1990s with the process of liberalization of Indian economy. With increased competition, more and more organizations are undertaking strategic planning approach. In fact, many companies have established separate corporate planning divisions or cells to provide aid in arriving strategic decisions.

EXHIBIT Planning practice of ACC Limited

Planning process of ACC Limited includes both long-term and short-term. Duration of long-term planning is five years while that of short-term is one year. In long-term planning, policy decisions are made by the Board of Directors in the following areas: *(i)* rehabilitation, *(ii)* expansion, and *(iii)* diversification. All these require careful analysis of the situation because of high investment and long gestation period. Short-term plans are prepared in three areas: *(i)* production, (ii) dispatches, and (iii) costs. Minute details are worked out in each of these areas. Steps involved in each of these areas start with the preparation of targets by various production units located at different places. These targets are submitted to the Head Office located at Mumbai for scrutiny which scrutinizes the targets in the light of those achievable under optimum conditions. Targets fixed under this process may be slightly higher than the targets submitted by each unit. These targets work as motivating factor to the various production units. The targets so envisaged by the Head Office are then discussed by the heads of units. Thereafter, the agreed targets are fixed. These targets are put before the Executive Committee of Directors which analyses the information and makes suitable changes, if necessary, and places it before the Board of Directors which finally lays down the plans. Besides, capital and revenue budgets are prepared by the Head Office in the form of consolidated budgets based on the budgets prepared by various production units.

2.13 BUSINESS FORECASTING

In order to formulate accurate plans, managers have to find out the likely behaviour of relevant factors in future. This is done to some extent by making suitable forecast through business forecasting (simply known as forecasting) which is defined as follows:

Forecasting is the process of estimating the relevant events of future, based on the analysis of their past and present behaviour.

On the basis of the definition, the following features of forecasting can be identified:

1. Forecasting is related to future events.
2. Forecasting defines the probability of happening of future events. Therefore, happening of future events can be precise only to a certain extent.
3. Forecasting is made by analyzing the past and present relevant events, that is, taking those factors which are relevant for the functioning of an organization.
4. The analysis of various factors may require the use of various statistical tools and techniques. However, personal observations can also help in the process.

DECISION MAKING

2.14 MEANING AND DEFINITION

The word decision has been derived from the Latin work “decider” which means “cutting off”. Thus, decision involves cutting off of alternatives between those that are desirable and those that are not desirable. A decision is the selection from among alternatives. It is a solution selected after examining several alternatives and decisive because the decider foresees that the course of action he selects will be more than the others to further his goals and will be accompanied by the fewest possible objectionable consequences. Decision is a kind of choice of a desirable alternative. A few definitions of decision making are given below:

In the words of Ray A Killian, “A decision in its simplest form is a selection of alternatives”.

Dr. T.G. Glover defines decision “as a choice of calculated alternatives based on judgment”.

In the words of George R. Terry, “Decision making is the selection based on some criteria from two or more possible alternatives”.

Felix M. Lopez says that "A decision represents a judgment; a final resolution of a conflict of needs, means or goals; and a commitment to action made in face of uncertainty, complexity and even irrationally".

According to Rustom S. Davar, "Decision-making may be defined as the selection based on some criteria of one behaviour alternative from two or more possible alternatives to decide means to cut off or in practical content to come to a conclusion".

Fremont A. Shull Andrew L Delbecq and Larry L Cummings define decision making as "a conscious human process involving both individual and social phenomenon based upon factual and value premises which concludes with a choice of one behavioural activity from among one or more alternatives with the intention of moving toward some desired state of affairs".

From the above definitions, we can conclude that, Decision Making involves the process of establishing goals, tasks and searching for alternatives for a decision problem.

2.15 CHARACTERISTICS OF DECISION MAKING

Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected results.

1. The decision-maker has freedom to choose an alternative.
2. Decision-making may not be completely rational but may be judgmental and emotional.
3. Decision-making is goal-oriented.
4. Decision-making is a mental or intellectual process because the final decision is made by the decision-maker.
5. A decision may be expressed in words or may be implied from behaviour.
6. Choosing from among the alternative courses of operation implies uncertainty about the final result of each possible course of operation.
7. Decision making is rational. It is taken only after a thorough analysis and reasoning and weighing the consequences of the various alternatives.

2.16 TYPES OF DECISIONS

Programmed and Non-Programmed Decisions: Herbert Simon has grouped organizational decisions into two categories based on the procedure followed. They are:

Programmed decisions: Programmed decisions are routine and repetitive and are made within the framework of organizational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organization. Programmed decisions have short-run impact. They are, generally, taken at the lower level of management.

Non-Programmed Decisions: Non-programmed decisions are decisions taken to meet non-repetitive problems. Non-programmed decisions are relevant for solving unique/ unusual problems in which various alternatives cannot be decided in advance. A common feature of non-programmed decisions is that they are novel and non-recurring and therefore, ready made solutions are not available. Since these decisions are of high importance and have long-term consequences, they are made by top level management.

Strategic and Tactical Decisions: Organizational decisions may also be classified as strategic or tactical.

Strategic Decisions: Basic decisions or strategic decisions are decisions which are of crucial importance. Strategic decisions a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Decisions like plant location, product diversification, entering into new markets, selection of channels of distribution, capital expenditure etc are examples of basic or strategic decisions.

Tactical Decisions: Routine decisions or tactical decisions are decisions which are routine and repetitive. They are derived out of strategic decisions. The various features of a tactical decision are as follows:

- Tactical decision relates to day-to-day operation of the organization and has to be taken very frequently.
- Tactical decision is mostly a programmed one therefore, the decision can be made within the context of these variables.

- The outcome of tactical decision is of short-term nature and affects a narrow part of the organization.
- The authority for making tactical decisions can be delegated to lower level managers because: first, the impact of tactical decision is narrow and of short-term nature and Second, by delegating authority for such decisions to lower-level managers, higher level managers are free to devote more time on strategic decisions.

2.22 SUMMARY

Decision is a kind of choice of a desirable alternatives. A decision represents a judgment, a final resolution of a conflict of needs, means or goals and a commitment to action made in face of uncertainty, complexity and even irrationally. It involves the evaluation of various alternatives available. The selection of best alternative will be made only when pros and cons of all of they are discussed and evaluated. An effective decision is one which should contain three aspects such as action orientation, goal direction and effective implementations.

2.23 SELF ASSESSMENT QUESTIONS

1. Planning is the thinking process and managers being men of action, should have no use for it, Comment.
2. How far planning is useful to management?
3. Why planning is essential in a business? How can it be made effective?
4. Discuss the concept of corporate planning. How docs strategic planning differs from operational planning?
5. What are the main limitations of planning? How can planning be made effective?
6. Describe the nature of decision-making.
7. What are the characteristics of decision-making?

LEARNING OBJECTIVES:

- **(i)** Understand the importance and process of decision making.
- **(ii)** Understand the models of decision making.
- **(iii)** Understand the principles & types of planning.
- **(iv)** Explain the relativity of creativity and decision making.
- **(v)** Know about common errors in decision making.

STRUCTURE

1. Introduction
2. Objectives
3. Significance of Decision making
4. Decision making Process
5. Types of Decisions Making
6. Creativity and Decision making
7. Some Common Errors in Decision making

INTRODUCTION & OBJECTIVES:

Decision making is the process of choosing actions that are directed towards the resolution. It can be defined as "the selection from among alternatives of a course of action: it is at the core of planning". The decision making process can be carried out either by individuals acting alone or by groups. There are several models and theories which are developed to explain decision making and how effectively you can make a decision. Decision making is a process of selection from a set of alternative courses of action which is thought to fulfill the objectives of the decision problem more satisfactorily than others. Decision making is an essential part of every function of management.

In the words of Peter F. Drucker, "Whatever a manager does, he does through decision making." When we talk of teachers it can be seen that a teacher is continuously involved in decision making whether it is regarding school activities or related student centered activities etc. Knowingly or unknowingly a teacher is always at decision making. Decision making involves thinking and deciding before doing and so is inherent in every activity. That is the reason decision making is often called the "essence" of managing. No one can survive without effective decision making.

Some of the decisions may be of a routine type and repetitive in nature and some may be strategic in nature which may require a lot of systematic and scientific analysis. In the educational sector, a teacher is always a decision make Teachers are expected to make decisions that affect the growth and development of the students in their care.

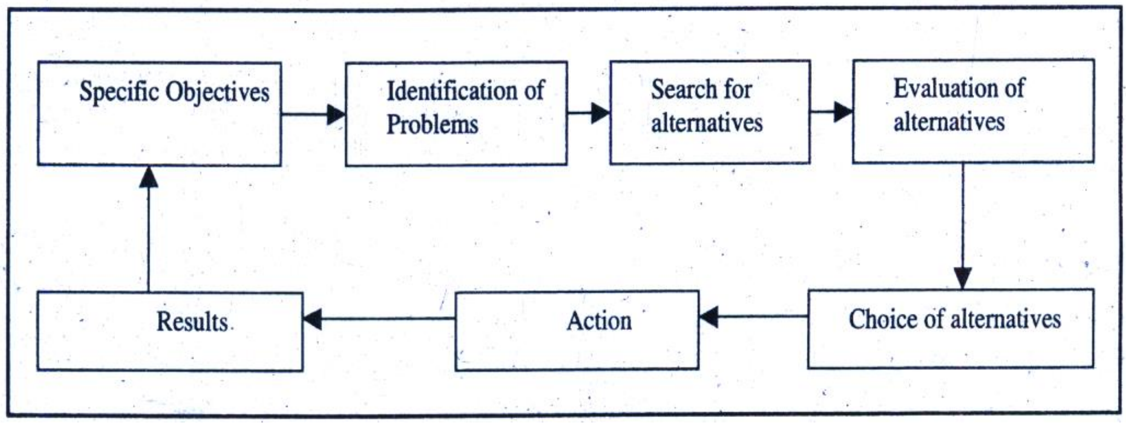
Significance of Decision making:

Decision making is important for organizational effectiveness because of its central role in the overall process of directing and controlling the behaviour of organizational members. Decisions are made that cover the setting of goals, strategic planning, organizational design, personnel actions, and individual and group actions. Besides its organizational effect, however, decision making also has an individual effect. The quality of a decision has a bearing on his or her professional success and sense of satisfaction.

So studying decision making is important from both an organizational and an individual perspective. Another major reason for studying decisions is to enable us to make better quality decisions than we do presently. This point must be emphasized strongly because the quality of our decisions is often much poorer than we realize. Selective perception tends to bias the information we use in making decisions and our attitudes and values influence how we interpret that information. Drives for consistency lead to oversimplified interpretations. Our willingness to attribute positive outcomes to ourselves. (e.g., taking credit for good decisions) and to attribute negative outcomes to forces outside our control makes us remember the results of decisions in a personally favourable light. All these forces degrade our decisions. and at the same time, limit our understanding of the decision making problem, Besides being unaware of our human limitations in the decision making process, we are often unaware of the methods that can be used to increase our decision effectiveness. Very little training that emphasizes the actual decision making process is available either inside or outside organizations. In most cases experience is our guide and while experience can be a good teacher, it can be misleading as well. In many cases we may learn the wrong way to do something or we may obtain information that is actually irrelevant for the quality of the decision. In order to increase our effectiveness in decision making, we must first understand the decision making process. Decision making and planning are deeply interlinked. The determination of objectives, policies, programmes, strategies, etc. involves decision making. The most outstanding quality of a teacher to be successful is his/her ability to make sound decisions. Decision making is a human process. When a teacher decides, he/she chooses a course which he/she thinks is the best.

2.17 DECISION MAKING PROCESS

The decision making process is presented in the figure below:



Decision-making process

Specific Objective: The need for decision making arises in order to achieve certain specific objectives. The starting point in any analysis of decision making involves the determination of whether a decision needs to be made.

Problem Identification: A problem is a felt need, a question which needs a solution. In the words of Joseph L Massie "A good decision is dependent upon the recognition of the right problem". The objective of problem identification is that if the problem is precisely and specifically identified, it will provide a clue in finding a possible solution. A problem can be identified clearly, if managers go through diagnosis and analysis of the problem.

1. ***Diagnosis:*** Diagnosis is the process of identifying a problem from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap and understanding the problem in relation to higher objectives of the organization.

2. ***Analysis:*** Diagnosis gives rise to analysis. Analysis of a problem requires:

   - Who would make decision?
   - What information would be needed?
   - From where the information is available?

Analysis helps managers to gain an insight into the problem.

3. ***Search for Alternatives:*** A problem can be solved in several ways; however, all the ways cannot be equally satisfying. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. A decision maker can use several sources for identifying alternatives:

   - His own past experiences
   - Practices followed by others and
   - Using creative techniques.

   Evaluation of Alternatives: After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria, /the decision maker must check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. Having narrowed down the alternatives which require serious consideration, the decision maker will go for evaluating how each alternative may contribute towards the objective supposed to be achieved by implementing the decision.

Choice of Alternative: The evaluation of various alternatives presents a clear picture as to how each one of them contribute to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen.

Action: Once the alternative is selected, it is put into action. The actual process of decision making ends with the choice of an alternative through which the objectives can be achieved.

Results: When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper.

TYPES OF DECISIONS

Decisions can broadly be grouped into two categories:

Programmed decisions and Non-programmed decisions.

Programmed Decisions : Decision related to structured situations, where the problem is more or less routine and repetitive in nature are known as programmed decisions. The routine problems may not always be simple. There may be complex routine problems. For example, managers order for inventory when it reaches the re-order point. This is a routine which the production department follows. If there is sudden increase in demand for the product, managers can not wait for inventory to reach the re-order point to make fresh orders. Orders are placed before this level is reached. Ordering inventory is, thus, a problem of routine nature but ordering inventory before the re-order point is a routine but complex problem. In either situation, managers depend on pre-established criteria for taking decisions. Various policies, schedules and procedures guide these decisions and, therefore, policies and procedures should be as clear as possible. Since decisions are based on pre-set standards, they do not require much of brain storming and are taken normally by middle-level and lower-level managers. Managers do not think of novel ways to solve the routine problems. Therefore, they can concentrate on important and crucial activities. These decisions also involve some amount of certainty, i.e., outcomes of these decisions are, by and large, known. Various types of programmed decisions are:

(1) organisational decisions,

(2) operational decisions,

(3) reserach decisions,

and (4) opportunity decisions.

Non-Programmed Decisions : These decisions are taken in unstructured situations which reflect novel, ill-defined and complex problems. The problems are non-recurring or exceptional in nature. Since they have not occured before, they require extensive brainstorming. Managers use skills and subjective judgement to solve the problems through scientific analysis and logical reasoning. Subjective judgement is based on assessment of the situation. In objective judgement (in case of programmed decisions), past experience forms the basis for decision-making. These decisions involve fair degree of uncertainty since outcomes of decisions are not always known. For example, increase in advertising expenditure, effective salesmanship, upgraded technology, quality controls, brand image and reasonable prices normally increase sales and profits. If, despite all this, profits are declining, it requires immediate decision-making and such decisions are non-programmed decisions. These decisions are taken by top level managers. As we move up the organisational hierarchy, the need for taking non-programmed decisions increases.

Different types of non-programmed decisions are:

(1) personal decisions,

(2) strategic decisions,

(3) crisis intuitive decisions, and

(4) problem-solving decisions.

There is no clear line of demarcation between programmed and non-programmed decisions. Decisions are neither totally programmed nor non-programmed. They are a combination of both and lie on a decision continuum; between totally programmed decisions at one end of the continuum and totally non-programmed decisions at the other end.

	Programmmed Decisions	Non-programmed Decisions
1 Nature of Problem	Structured/Routine/Well-defined	Unstructured/Novel/Ill defined
2 Recurrence of Problem	Repetitive	Non-repetitive
3 Method of solving	Policies/Standards/Rules	Managerial Initiative
4 Judgement	Objective	Subjective
5 Probability of outcome	Some degree of certainty is involved	Uncertain
6. Level of management	Middle/Lower level	Top-level
7. Types	Organisational/Operational/ Personal/Strategic/Crisis Research/Opportunity	. Intuitive/Problem-solving

A brief description of different types of programmed and non-programmed decisions is given below:

1. **Organisational and personal decisions**: These decisions reflect use of manager's authority. Decisions taken in the interest of the organisation are organisational decisions and decisions taken for personal interests are personal decisions. Organisational decisions can be delegated but personal decisions can not. Managers are officially authorised to make organisational decisions but they do not have authority to make personal decisions. They are based on their personal biases. For example, firing an employee because he does not conform to rules is an organisational decision but firing due to personal enmity is a personal decision.
2. **Operational and strategic decisions**: These decisions reflect scope of manager's decision-making processes. Operational decisions are taken as a matter of routine. They relate to daily operations and aim to achieve short-term objectives of the firm. They are taken by middle and lower-level managers within the framework of policies and procedures and allow limited use of discretion by managers. Their impact is also limited and short-range in nature. Decisions related to important and non-recurring problems are called strategic decisions. Managerial skill and judgement are used to make these decisions. They relate to long-term goals of the company and are risky in nature. They are taken by top level managers. For example, decisions to update the technology or change the policies are strategic decisions.
3. **Research and crisis—intuitive decisions**: These decisions reflect the urgency of decision-making. Decisions which involve regular survey of the market are research decisions and decisions made under situations of crisis or emergency are crisis — intuitive decisions. For example, decision to allocate funds to R & D for product designing is a research decision; decision to increase production of medicines because of earthquake or war is crisis-intuitive decision.
4. **Opportunity and problem-solving decisions**: These decisions reflect managers' foresightedness. Managers forecast opportunities to promote organisational growth. The decision to grow in the potential markets is an opportunity decision. Problem-solving decision solves a specific problem. For example, decision to enter into new markets even when the company is making profits in the existing market is an opportunity decision and decision to drop a product line because it is unprofitable is a problem-solving decision.

2.18 CREATIVITY OF THE DECISIONS MAKING

An effective decision is one which should contain three aspects. These aspects are given below;

1. ***Action Orientation:*** Decisions are action-oriented and are directed towards relevant and controllable aspects of the environment. Decisions should ultimately find their utility in implementation.

2. ***Goal Direction:*** Decision making should be goal-directed to enable the organization to meet its objectives.

3. ***Effective in Implementation:*** Decision making should take into account all the possible factors not only in terms of external context but also in internal context so that a decision can be implemented properly.

UNIT- 08: MODELS & ISSUES OF DECISION MAKING

LEARNING OBJECTIVES:

- **(i)** Understand the models of decision making.
- **(ii)** Understand the principles & types of planning.
- **(iii)** Explain the relativity of creativity and decision making.
- **(iv)** Know about common errors in decision making.

STRUCTURE

2.2.1 Approaches of Decision Making

2.2.2 Decision making Environment.

2.2.3 Technique of Decision Making

2.2.4 Decision making models

2.2.5 Types of Decisions Making

2.2.6 Rationality in decision making

2.2.1 APPROACHES OF DECISION MAKING:

Decisions can be taken different ways. Four main approaches to decision-makingare discussed below:

1. **Centralised and Decentralised Approach:** In centralised approach to decision-making maximum decisions are taken by top-level managers though some responsibility is delegated to middle-level managers. In the decentralised approach,decision-making authority is delegated to lower-level managers. In programmed decisions, decentralised approach is followed. Centralised approach is used for making non-programmed decisions.

2. **Group and Individual Approach:** Managers like decisions with their employees/ subordinates in the group approach to decision-making. In the individual approach,decisions are taken by the manager alone. It is the one manaer decision-making approach. The individual approach is appropriate when (1) there is emergency fortaking decisions, i.e. decision-maker has limited time to take a decision, and (2) resources are limited. Cost of individual decision-making is less than group decision-making.

Group decision-making, in most circumstances, is better than individual decision-making since decisions are based on extensive information. Group decisions are easier toimplement as they involve moral commitment of the members to adhere to the decisions.This approach ensures better quality and greater accuracy of decisions. It also improvesemployees' morale, increased job satisfaction, enhances co-ordination and reduces labourturnover rate. The limitation of group decision-making is that it is "a process whereby, in response to social pressures, individuals go along with a decision even when they do notagree with it and, in order to avoid conflicts, do not even voice their reservations".

Differences between individual and group decision-making: The following tablehighlights the points of difference between individual and group decision-making:

Individual decision-making	Group decision-making
1. Decisions are taken by a single individual	Decisions are taken by a group of persons.
2. They are less costly.	They are costly in terms of time and money.
3. They are based on limited information gathered by managers.	They are based on extensive information collected by managers of the group.
4. They are taken in situations of crisis oremer-gency	They are taken in routine of business.
5. They do not involve moral commitment on the part of members to accept and implement them.	They are easier to implement as groupmem-bers feel committed to them.
6. They do not affect morale or job satisfaction of employees.	They positively affect morale and jobsatis-faction of employees.
7. They introduce one-man control.	They introduce self-control.
8. They do not promote interaction amongstsu-periors ad subordinates	They promote superior-subordinate interaction and healthy relationships amongst them.

Group decision-making has the following advantages :

(a) Decision-makers collect extensive information and decisions are, therefore, more scientific and accurate.

(b) Group members make decisions through group thinking and are, therefore, committed to implement them.

(c) Continuous interaction amongst superiors and subordiantes promotes subor-dinates' morale and job satisfaction. This increases communication andcoordi-nation amongst the activities of group members.

(d) It promotes subordinates' creativity and innovative abilities to make quality de-cisions.

(e) Some decisions that individuals may not take because they are risky are takenby the group as a whole. Group members share information and take risky deci-sions which are profitable.

Group decision-making suffers from the following limitations:

(a) It is costlier and more time consuming than individual decision-making.

(b) Some members accept group decisions even when they do not agree with themin order to avoid conflicts.

(c) Some times, groups do not arrive at any decision. Disagreement and disharmony amongst group members lead to conflicts.

(d) Some group members dominate others to agree to their view point. Social pressures lead to acceptance of alternatives which all group members do notagree to.

(e) If there is conflict between group goals and organisational goals, group decisions promote group goals even if they are against the interest of the organisation.

(f) In case group decisions fail to achieve their purpose, no one takes the responsibility for failure. A group decision is generally no one's decision and insuch a situation, group members do not feel committed to implementation ofdecision.

Though cost of group decision-making is more than individual decision-making, itsbenefits outweigh the costs and, therefore, enable the mangers to make better decisions.

3. **Participatory and Non-Participatory Approach:** In the participatory approach, decisions are made by seeking opinion of those who are affected by the decisions. There is no formal gathering of superiors and subordinates, as in group decision-making; the decision-maker only seeks information and suggestions from employeesand resevers the right of making decisions. There is increased participation of employees in achieving the decision objectives.

   In the non-participatory approach, managers do not seek information from employeesas the decisions do not directly affect them. They collect imformation themselves,make decisions and communicate them to the organisational members.

4. **Democratic and Consensus Approach:** In the democratic approach, decisions are based on voting by majority. In the consensus approach, participants discuss theissue and arrive at a general consensus. It is similar to group decision-making wheremany people are involved in the decision-making process. However, in group decision-making, some people agree to others' opinion because of social or psychological pressures but in consensus decision- making, all the members agree to the decision.Group decision-making reflects the opinion of a few and consensus decision-makingreflects the opinion of all the group members.

2.2.2 DECISION-MAKING ENVIRONMENT :

Environment of decision-making represents the known and unknown environmentalvariables within which decisions are made. Some decisions are taken in the situations of

complete certainty and others in the situation of complete/partial uncertainty. Decision-makingenvironment represents the situations in which decisions are made. This environment represents three situations.

1. **Certainty:** In the environment of certainty, decision-makers have complete and reliable information about future. Information is reliable, correct and not too expensive. Results of each alternative can be predicted and therefore, managerscan choose the best course of action.

   Such a situation does not exist in reality. In fact, managers make decisions onthose aspects of environment about which information is available. They ignorethe rest and call it a situation of certainty.

2. **Risk:** This represents a situation where information about environment is incomplete. It is not even completely reliable. Alternative courses of action canbe developed but outcome of decisions is not known. The expected results arenot deterministic but only probabilistic. Past usually provides the basis for futureoutcomes. Decision to introduce a new product in the market has the risk of competition which managers foresee before introducing the product. However,the exact degree is not known. Most decisions are taken in the situation of risk.

3. **Uncertainty:** It is a situation where no information is available about future. Whatever information is available, it is not reliable. Decision alternatives are totally unpredictable. Outcomes of decisions cannot be predicted. Decisionsare based on managers' intuition and judgement. Some of the uncertain elementsin the environment are economic, political, technological and natural changes.These changes cannot be predicted and accounted for in the decision-making processes.

2.2.3 Techniques of Decision-Making

A wide range of techniques are available to enrich the decision-making process. Thesecan be broadly classified as:

1. Traditional Techniques
2. Modern Techniques

TRADITIONAL TECHNIQUES :

These techniques are divided into two groups:

1. Traditional techniques for making programmed decisions.
2. Traditional techniques for making non-programmed decisions.

1. **Traditional techniques for making programmed decisions:** Three generallyaccepted traditional techniques for making programmed decisions are :

(a) **Habits:** Habits are the ways in which problems are solved according to predefined notions. Managers do not apply scientific techniques to solve problems.By solving the same problem in a defined way over and over again, managersform the habit of solving it in that manner. It does not require much of thinking andinitiative.

(b) **Operating procedures:** Operating procedures are oganisational habits. They guide decision-makers in solving organisational problems in a predefined manner. They are more formal than habits. However, they are flexible and can be changed. Cases of absence without leave are not decided by managerial discretion. Standard procedures guide action against such cases.

(c) **Organisation structure:** It is a well defined structure of authority-responsibilityrelationships. Each person knows his position in the organisation, his authority to make decisions, the extent to which it can be delegated to subordinates, the communication channel, the persons to whom he has to report etc. which helpsin solving programmed problems.

MODERN TECHNIQUES :

Modern techniques use mathematical models to solve business problems. They applyscientific and rational decision-making process to arrive at the optimum solution. They use quantifiable variables and establish relationships through mathematical equations and operations research techniques. They make use of computers for data processing and storageto solve complex management problems. These techniques can be classified as follows:

1. **Modern techniques for making programmed decisions:** These can be classifiedas follows:

   (a) Break-even technique: It helps managers determine that level of output at which total costs (variable costs and fixed costs) and total revenue are the same. Total profit at this volume called the break-even point is zero. It helps managers analyse the economic feasibility of a proposal. For any level of output., the amount ofprofit can be ascertained which serves as acceptance/rejection criterion of the proposal. It is only a rough estimate a assessing a project since it assumes aconstant selling price and fixed cost which is not always so.

   (b) Inventory models: Firms carry enough inventory with them so that they do not run out of stock. Though this ensures regular supply of goods to customers, theyincur costs to carry the inventory like handling costs, storage costs, insurancecosts, opportunity cost of money tied in the inventory etc. These are known ascarrying costs. In order to reduce these costs, firms keep minimum inventory instore and order fresh inventory when they need. This will reduce the carrying costof inventory but the ordering cost will go up. These are the costs of placing anorder and include cost of preparing an order and cost of receiving and inspecting the goods. Both the carrying and ordering costs operate in reverse direction.Increase in one means decrease in the other. Sophisticated inventory modelsare available for management of inventory. They place order for goods at thepoint where total of ordering costs and carrying costs is the least.

   (c) Linear programming: It is a technique of resource allocation that maximizes output or minimizes costs through optimum allocation of resources. It is applied when resources are scarce and have to be optimally utilised so that output canbe maximised out of limited resources. Linear programming is "a quantitativetool for planning how to allocate limited or scarce resources so that a single criterion or goal (often profits) is optimised." It aims to maximise profits or minimise costs by combining two variables which involves best use of resources.The (two) variables, the dependent and independent must be linearly related,i.e., increase or decrease in the independent variable should result in a corresponding increase or decrease in the dependent variable. The linear relationship is explained like this: If cost of one unit is Rs. 10, selling price is Rs.20, profit per unit is Rs. 10. If X sells 5 units of output, cost will be Rs. 50,selling price Rs. 100 and profit will be Rs. 50. Linear programming is, thus, amanagerial tool that helps in optimum use of resources. Its use is facilitatedthrough mathematical equations.

   (d) Simulation: This technique is used to create artificial models of real life situations to study the impact of different variables on that decision. A model is prepared on the basis of empirical data and put to all kinds of influences, positive and negative which may affect the project, and final results are the predictions of actual results if the project in question is put to use. For example, if a transportation company wants to make a road or rail system, it will prepare a simulation modelto analyse the effect of all the factors (e.g., traffic signals, fly overs, otherheavey and light traffic commuting on the road) and if this model appears to befeasible, acutal construction of the rail/road system shall commence.

(e) Probability theory: Probability is the number of times an outcome shall appear when an experiment is repeated. What is the probability that sales will increaseif expenditure on advertisement is increased is answered through probabilitythe-ory. These decisions are based on past experience and some amount of quan-tifiable data.

(f) Decision-tree: It is a diagrammatic representation of future events that will occur when decisions are made under different option plans. It reflects outcomes and risks associated with each outcome. Each outcome or future event is evaluatedin terms of desired results and the outcome which gives the maximum value isse-lected out of alternative courses of action. "Decision-trees depict, in the formof a 'tree', the decision points, chance events, and probabilities involved in various courses that might be undertaken.

(g) Queuing theory: This technique describes the features of queuing situations where service is provided to people or units waiting in a queue. When people or materials wait in queue (because of insufficeint facilities), it involves cost in termsof loss of time and unutilised labour. Queuing theory aims at smooth flow of menand material so that waiting time is reduced. This involves additional cost also.Thus, a balance is maintained between the cost of queues and cost incurred toprevent the queues. Queuing models in software packages has made their appplication feasible. This theory is usually followed in banks and ticket counters.It helps in deter-mining the number of counters so that customers have to wait forminimum time.

(h) Gaming theory: This theory was developed by Von Neumann and Morgenstern.It helps business organisations face their competitors. If company X changes itsplans; say reduces its price to increase its sales, it is likely that the competitorswill do the same. How well is company X prepared to face this challenge and stillcontinue with its changed plans is provided in the games theory. It is a techniquewhere two deci-sion-makers maximise their welfare in the competitive environment. The deci-sion maker puts himself in this competitors' shoes. If hewere to compete against his own firm, what would he do. Based on this thinking,he plans a counter strategy.

(i) Network theory: The network techniques plan and control the time taken to accomplish a project. They involve breaking up the project into smaller activities and finding the time taken to accomplish each activity. If actual time to complete the project is more than the time determined, it calls for corrective action. PERT (Project Evaluation Review Technique) and CPM (Critical Path Method) are theim-portant network techniques which help in planning and controlling the projects,in terms of time and cost.

2. **Modern techniques for making non-programmed decisions:** The following techniques help in solving novel, non-routine and unstructured problems:

(a) **Creative techniques:** These techniques use creativity of managers to think of new ways of solving business problems. An important creativity technique is brainstorming where members of the group give maximum suggestions to generate alternative solutions to the problem. Together, these ideas help in formulating the most practical solution to the problem.

(b) **Participative techniques:** Employees and managers jointly arrive at the optimum decision. If those who make decisions and those who implement them jointly participate in the decision-making process, the quality of decisions will be better, there will be commitment to the implementation process and high employee motivation and morale.

(c) **Heuristic techniques:** These techniques are based on trial and error approach to decision-making. Decision maker accepts that making strategic decisionsin complex situations is not easy. There are role conflicts, information gaps, environmental uncertainties etc. which make decision-making difficult. Heuristictechniques help decision-makers proceed in a step wise manner to arrive at arational decision.

These are computer aided techniques and fall into two categories:

(i) Decision support systems: In this system, decision-making is supported by computers. Managers access information from the data processing system, retrieve data relevant to the decision, test it for alternative solutions and acceptthe most appropriate solution. They change the variables in the form of inputsand analyse their impact on the desired output.

(ii) Expert systems: While in decision support systems, managers have direct accessto data and they rely on their judgement to make decisions; in the expert system,managers seek knowledge of experts to solve problems in specified areas. Thisis a "Computer-based system that applies the substantial knowledge of an expertto help solve problems in a specific area."

2.2.4 MODELS OF DECISION-MAKING

Models represent the behaviour and perception of decision-makers in the decisionmaking environment. There are two models that guide decision-making behaviour of managers. These are:

1. Rational/Normative Model: Economic Man
2. Non-Rational/Administrative Model

1. Rational/Normative Model

This model assumes that decision-maker is an economic man as defined in theclassical theory of management. He is guided by economic motives and self interest. Heaims to maximise profits and ignores behavioural or social aspects in making decisions.

The model presumes that decision makers are perfect information assimilators andhandler. They can gather complete and reliable information about the problem area, generateall possible alternatives, know the outcome of each alternative, rank them in the best order ofpriority and choose the best alternative. They follow a rational decision-making process andtherefore, make optimum decisions. This model is based on the following assumptions:

1. Managers have clearly defined goals. They know exactly what they want to achieve. They have clear ends and know the means to reach those ends.
2. They can collect complete and reliable information from the environment to achieve the objectives.
3. They are creative, systematic and reasoned in their thinking. They can identify allalternatives and their outcomes related to the problem.
4. They can analyse all the alternatives and rank them in the order of priority.
5. They are not constrained by time, cost and information in making decisions.
6. They can choose the best alternative that will give them maximum returns at minimum cost.

Limitations of the model: Actual decision-making is not what is prescribed by therational models. These models are normative and prescriptive. They only describe what isbest, what decision-makers should do to make the best decisions and describe the normsthey should follow in making decisions. They do not describe how the decision-makers actuallybehave in different decision-making situations (This is explained in the non-rational models).They only describe what is the best. The best is, however, not achieved in real life situations.This is because of the following constraints that managers face while making decisions:

1. They face multiple, conflicting goals and not a well-defined goal that they want to achieve.
2. They are constrained by their ability to collect complete information about environmental variables. Information is future-oriented and future being uncertain, complete information cannot be collected. They cannot have information about all the alternatives. Even for a single alternative, they cannot collect complete information.
3. They are constrained by time and cost factors to assimilate the information. Theyare limited in their search for alternatives that affect the decision-making situations.Their decisions are based on whatever information they can gather and not complete information. Most of the non-programmed decisions are made underthe conditions of incomplete information.
4. They are constrained by their ability to analyse every factor that affects the decision-process. They have limited knowledge to assess all the alternatives. They cannotanticipate the outcomes of various alternatives as they will be known only in future.
5. They may base decisions on subjective and personal biases. They consider only

those facts which they think are relevant for decision-making.

6. Continuous researches, innovations and technical developments can turn the best decisions into sub-optimal ones. Managers are, thus, constrained by technological factors.

7. Changing economic and social factors (economic and political policies, socio-cultural values, ethics, traditions, customs etc). inhibit the ability of managers tomake rational decisions.

8. Every manager has a value system which guides his decision-making behaviour.Personal preferences affect the quality of decisions. Perceptions about variousalternatives affect the choice of alternatives and situations under which they willapply.

9. People view organisational problems from their personal angles. Marketing, human resource and finance manager not view the organisational problem in the same way. They take different view of the same problem and generate differentalternatives.

10. Most of the organisational decisions represent multiple views of managers at different levels. People in the group have conflicting objectives. Choices are made through bargaining where clashes amonst various interest groups are sorted out. The final outcome or decision does not reflect the view point of all the managers and, thus, all alternatives are not considered while making decisions.

Non-rational/Administrative Models :

Non-rational models are descriptive in nature. They do not describe what is best but describe what is most practical in the given circumstances. They believe that managers cannotmake optimum decisions because they are constrained by internal and external organisationalfactors. Managers cannot collect, analyse and process perfect and complete informationand, therefore, cannot make optimum decisions. Absolute rationality is rare. It is seldom achieved. Based on whatever information decision-makers can gather and process, theyarrive at the best decisions in the given circumstances. They are good enough and do not putundue pressure on managers' time and resources. They are easy to understand and implement.. They are made with the constraints of available information and managers' abilityto process the information. These decisions are not optimum decisions. They are satisfyingdecisions. The concept of making decisions within the boundaries or limitations of managersto collect the relevant information for decision-making and their ability to optimally analysethem is known as 'principle of bounded rationality. This principle was introduced by HerberSimon.

This model is realistic in nature as it presents a descriptive and probabilistic ratherthan deterministic approach to decision-making. Rather than searching for all alternatives formaking decisions and analysing their outcomes, decision-makers use value judgement andintuition in analysing whatever information they can gather within the constraints of time, moneyand ability and arrive at the most satisfying decision. This model does not represent optimumsituation for decision-making. Instead, it represents the real situation for decision-making.

The decision maker is not an economic man but an administrative man who combinesrationally with emotions, sentiments and non-economic values held by his team members.He follows a flexible approach to decision-making which changes according to situation.Managers make feasible decisions which are less rational rather than rational decision whichare less feasible.

"Bounded rationality refers to the limitations of thought, time and information that restricta manager's view of problems and situations." —***Pearce and Robinson.***

"Managers try to make the most logical decisions given the limitations of informationand their imperfect ability to assimilate and analyse that information." — ***Herbert Simon***

Differences between Rational and Non-Rational Models: The following tablehighlights the differences between rational and non-rational models:

Rational models	Non-rational models
1. They are normative.	They are descriptive.
2. They are theoretical or unrealistic in nature	They are practical or realistic in nature.
3. They follow deterministic approach to problem-solving.	They follow probabilistic approach to problem solving.
4. They believe there exists the optimumsituation for decision-making. Such a situation is hypothetical in nature.	They believe there exists a real situation for decision-making. Such a situation is realistic in nature.
5. They presume that managers can make optimum decisions.	They presume that managers can make satisfying decisions.
6. They are based on complete information of environment (internal and external) and knowledge of various alternatives that help in arriving at the best alternative.	They are based on incomplete information of of environmental factors and limited knowledge of various alternatives that help in arriving at the best alternative.
7. They believe that outcome of each alternative is known with certainty andperfection.	They believe in incomplete knowledge aboutoutcomes of various alternatives.
8. They have no scope for managerial judgment, intuition and personal biases.	They are based on managerial judgment, intuition and personal biases.
9. They advocate perfect rationality in	They advocate bounded rationality in decision-decision-making making.

2.19 RATIONALITY IN DECISION MAKING

A rational decision is one that is based on logical reasons and facts. Thus, it involves appropriate means for achieving appropriate ends. In establishing means-ends relationship, two concepts may be applied: maximization and optimization. These concepts are contrasting. As a result, two models of decision making have emerged which put different emphasis on rationality in decision making. These are economic man model and administrative man model.

(i) Economic Man Model

The classical approach to decision making in economics uses economic man model and treats the decision maker as an economic man who is completely rational. Decision making based on economic man model has the following features:

1. The decision making is completely rational in the means-ends sense. Economic man always identifies clearly the ends to which he wants to reach and the means which are available for the purpose.
2. Economic man is rational in that he can order his various preferences according to his hierarchy of values and make his choice so as to maximize some desired value. In organizational context, this desired value would be equivalent to achievement of organizational objectives to the maximum extent.
3. There is complete awareness of various alternatives and their outcomes. It assumes that there is no limit on the collection of information and its processing.

The economic man model is a normative model rather than a descriptive model because it is concerned with what a decision maker should do rather than what he actually does in reaching his decision. In business context, the concept of economic man model cannot be applied because of two reasons. *First,* the complete rationality is not possible because the decision-making condition is assumed to be certain which is seldom available. The complete certain condition does not really exist for making decisions having long-term impact. *Second,* even if rationality is possible, it cannot be applied because it amounts to maximization of profit which is not possible due to so many pressures from the environmental forces. Because of these reasons, economic man model is not suitable for managerial decision making.

(ii) Administrative Man Model

In contrast to economic man model which is a normative model, administrative man model is descriptive. Simon has suggested the concept of administrative man which describes the behaviour of decision maker in the context of what he actually does in making decisions. This model assumes that there is a certain amount of limit on rationality because of the conditions in which decisions are made. These conditions lack of certainty. Administrative man model of decision making is characterized by the following features:

1. In choosing among alternatives, administrative man attempts to satisfy or look for the alternative which is satisfactory or good enough. Examples of satisfying criteria may be adequate market share, adequate profit, fair price, etc.
2. Since administrative man believes in satisfying rather than maximizing, he can make his decisions without determining all possible alternatives.
3. Administrative man is able to make decisions with relatively simple rules of thumb or tricks of trade, or from force of habit. These techniques do not make almost impossible demands upon his capacity for thought.

The basic difference between economic man and administrative man models is that the former goes for searching all the alternatives and tries to maximize out of his decision while the latter continues to search alternatives until he finds one that meets some personally determined minimum acceptable level. Beyond that, he does not search alternatives to find an even better alternative. Thus, instead of maximizing as required by complete rationality, he optimizes as required by partial rationality.

2.20 LIMITS ON RATIONALITY

From the above discussions, we come to know decisions are not always fully rational. Simon has called this situation as *'bounded rationality'*. There are two types of factors which put limits on rationality in decision making: decision-making mechanism and human factors involved in decision making.

1. Decision-making Mechanism. Rational decision making is based on the assumptions that (i) all the alternatives of choices are known; (ii) the consequences of all the alternatives are known; and (iii) the decision maker has a complete utility ordering for all possible consequences. These assumptions are seldom fulfilled in practice. In practice, the decision maker does not have information about all the alternatives. Even for a single alternative, he may not have all the relevant information. In fact, major decisions which are generally non-programmed are made under the condition of partial ignorance implying that all possible alternatives are not known. Further, there is a problem in anticipating the consequences of various available alternatives on the objectives to be achieved by a decision.

2. Human Factors in Decision Making. A major source of limit on rationality is in the form of human factors involved in decision making. The major human factors which affect rationality in decision making are as follow:

(a) ***Personal Value System,*** Value system is a framework of personal philosophy which governs and influences the individual reactions and responses to any situation. Thus, what is good or bad is judged on the basis of personal value system. As a result, value system of the decision maker affects choice of an alternative in terms of what should be best for the organization.

(b) ***Perception.*** Problems and their solutions are quite abstract in nature. Thus, there is a likelihood that individual's perception regarding the problems and their solutions is different and consequently the way of tackling the problems may be different. This is so because people act according to what they perceive. For example, an organizational problem is generally interpreted as marketing problem by marketing people but financial problem by finance people. The perception of people is affected by several factors most of which are related with personal characteristics.

(c) ***Political and Power Behaviour.*** Political and power behaviour in an organization also affects the extent to which a decision would be rational. Since the major choices in an organization are arrived at after a lot of consultation and involvement of various people their interactions play significant part in the choice process. For example, Mintzberg has pointed out that many key organizational decisions are made through bargaining process where various interest groups put pressure according to their own interest. Thus, it is not necessary that the required level of rationality exists in the decisions.

(d) ***Time Constraint.*** Time factor also affects the rationality in decision making. In many cases, even though further information is needed, decisions are made only with available information because of lack of time. When one makes several decisions every day, the efficiency criteria justify making them promptly. Pressures to make decisions often require behaviour that contradicts the assumptions of rational economic man.

2.21 ISSUES

CASE: PARAMOUNT ENTERPRISES LIMITED

Paramount Enterprises Limited was formed in 1985 as a result of amalgamation of Paramount Sales Limited and Sigma Industries Limited. Paramount Sales was promoted by S. Srinivas in 1978 to take up agency business in electrical fans, sewing machines, refrigerators, air conditioners, etc. Srinivas was an MBA with marketing major from a reputed university.

Before forming Paramount Sales, he served as a sales manager in a large company manufacturing and marketing refrigerators and other consumer durables. The agency business of Paramount Sales progressed at a very fast rate and the firm earned substantial profit, In 1995, Srinivas decided to enter manufacturing. However, it was felt that the firm was primarily a marketing organization and therefore, it was thought that undertaking manufacturing project through grass-root level was not advisable. Instead, it was decided to takeover controlling interest in Sigma Industries Limited which was engaged in manufacturing electrical fans of different types. While assessing the acquisition bid criteria used were addition of managerial talent in manufacturing so as to have synergy with the existing marketing functions. Paramount Sales and Sigma Industries Limited were merged and the new entity was named as Paramount Enterprises Limited.

Paramount Enterprises expanded its business in other areas also such as entertainment electronics. This business expansion was through takeover route. In 2003. the company decided to takeover a company of a substantial size to make its presence felt in business field. Srinivas as the chief executive of the company constituted a team of three top-level managers to identify suitable targets for takeover. The only criterion that was laid down was the synergy that would result to Paramount through takeover. Finance was not a limiting factor as the company was having large cash surplus.

The team evaluated several targets for takeover and arrived at a conclusion that Pama Electronics Limited manufacturing television sets and Whitegoods Limited manufacturing washing machines would be good targets. Both the companies were/having good technology but did not do well because of poor marketing infrastructure. The team submitted the report to Srinivas. He thanked the team members for doing a fine job and said that he would like to go into the details of the proposals and make a final decision shortly. He took the report to his home. After reading the report, he discussed the matter with his wife Meenakshi. Meenakshi had done MBBS and was very fond of doing medical practice but Srinivas persuaded her not to do so. On the takeover matter, she suggested to take over a pharmaceutical company as this business was evergreen. Srinivas was slightly perplexed but ultimately agreed for that. The next morning, in the meeting of top management, he put forward his proposal in these words. "Gentlemen, I am proud of your good work of suggesting takeover targets. However, I feel that this proposal should be kept in abeyance. I propose that we should go for taking over a pharmaceutical company. Over the years, we have developed very strong marketing capability which is essential for the success of a pharmaceutical business." On this proposal, the managers looked at each other but did not offer any comment. The meeting was adjourned.

Questions

1. Was Srinivas rational in making the decision to takeover the pharmaceutical business? Explain.
2. In what way, will or will not the marketing capability of Paramount be relevant to the pharmaceutical business?

2.22 SUMMARY

There are explain three types of problems that require decision-making:

1. **Crisis:** It is a situation which requires immediate attention of managers and decisions to sovle the problems. For example, if workers go on strike,management cannot sit back to think and take action. The problem needs to beimmediately resolved.

2. **Non-crisis:** These problems do not require immediate attention but can be resolved over a period of time.

   Most of the decisions that managers make relate to situations/ problems that arenon-crisis in nature. An employee who is regularly late for work represents a non-crisis problem to be solved by managers. "A non-crisis problem is an issue thatrequires resolution but does not simultaneously have the importance and immediacy characteristics of a crisis."

3. **Opportunity:** The situations of crisis and non-crisis reflect difficulties or problems for the organisation that need to be solved while opportunities offer ideas which improve decision-making.

2.23ELF ASSESSMENT QUESTIONS

1. Explain the concept of rational decision-making. Briefly describe the steps involved in the process of rational decision-making.
2. "Managers cannot be rational decision-makers in real life." Discuss.
3. Explain the role of decision-making in management.
4. "Decision-making is problem-solving in different situations." Discuss.
5. What is decision-making? What are the situations which require decision-makingby managers.
6. What are the steps involved in the process of decision-making?
7. "To decide is to adopt a course of action out of the available alternatives." Explainin the light of decision-making process.
8. What do you mean by bounded rationality? What are its causes?
9. What is decision-making? How are programmed decisions different from non-programmed decisions?
10. Explain various approaches to the decision-making?
11. What is the role of creativity in decision-making? Explain the creativity process.
12. What is meant by creativity in decision-making? State the various componentsof creativity?
13. Define creativity. What are the techniques used by business managers for promoting creativity.
14. State the various techniques of decision-making?
15. What are the traditional techniques of decision-making?

16. What are the modern techniques of decision-making?
17. "No manager can arrive at the rational or the best decision for solvling a given problem". What are the various constraints that limit the ability of managers to make the best decisions?
18. Explain the importance of decision-making in managerment.
19. "Decision-making is the primary task of manager." Discuss

BLOCK 03: PRINCIPLES OF ORGANISATION

Unit 09: Structure & Types of Organization.

Unit 10: Departmentation, Decentralisation, Delegation

Unit 11: Span of Management.

Unit 12: Line & Staff Organisation, Matrix Organisation

UNIT -09 : STRUCTURE & TYPES OF ORGANIZATION

LEARNING OBJECTIVES

This lesson is intended to study the various aspects of organising. After studying this lesson you will be able to:

(i) Describe the meaning and process of organising
(ii) Determine the kind of organizational structure
(iii) Know principles of organisation
(iv) Differentiate between formal and informal organisation
(v) Describe the importance of organisational structure
(vi) Understand meaning and features of organizational charts and manuals
(vii) Describe various types of organisaton

CONTENTS

ORGANISATIONS

3.1 INTRODUCTION AND MEANING

Organisation involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies. Organisation is the foundation upon which the whole structure of management is built. It is the backbone of management. After the objectives of an enterprise are determined and the plan is prepared, the next step in the management process is to organize the activities of the enterprise to execute the plan and to attain the objectives of the enterprise. The term organisation is given a variety of interpretations. In any case, there are two broad ways in which the term is used. In the first sense, organisation is understood as a-dynamic process and a managerial activity which is necessary for bringing people together and tying them together in the pursuit of common objectives. When used in the other sense,. organisation refers to the structure of relationships among positions and jobs which is built up for the realisation of common objectives. Without organising managers cannot function as managers. Organisation is concerned with the building, developing and maintaining of a structure of working relationships in order to accomplish the objectives of the enterprise. Organisation means the determination and assignment of duties to people, and also the establishment and the maintenance of authority relationships among these grouped activities. It is the structural framework within which the various efforts are coordinated and related to each other. Sound organisation contributes greatly to the continuity and success of the enterprise. The distinguished industrialist of America, Andrew Carnegie has shown his confidence in organisation by stating that: "Take away our factories, take away our trade, our avenues of transportation, our money, leave nothing but our organisation, and in four years we shall have re-established ourselves." That shows the significance of managerial skills and organisation. However, good organisation structure does not by itself produce good performance. But a poor organisation structure makes good performance impossible, no matter how good the individual may be,

3.2 DEFINITION OF ORGANISATION

The term 'Organisation' connotes different things to different people. Many writers have attempted to state the nature, characteristics and principles of organisation in their own way. It can be used as a group of persons working together or as a structure of relationships or" as a process of management. Now, let us analyse some of the important definition of organising or organisation, and understand the meaning of organisation.

According to Sheldon, "Organisation is the process of so combining the work which individuals or groups have to perform with facilities necessary for its execution, that the duties so performed provide the best channels for efficient, systematic, positive and coordinated application of available effort."

In the words of Chester I Bernard, "Organisation is a system of co-operative activities of two or more persons."

Mc Ferland has defined organisation as, "an identifiable group of people contributing their efforts towards the attainment of goals".

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

According to North Whitehead, "Organisation is the adjustment of diverse elements, so that their mutual relationship may exhibit more pre-determined quality."

In the words of Theo Haimann, "Organising is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them. In performing the organising function, the manager defines, departmentalises and assigns activities so that they can be most effectively executed."

In the words of Mooney and Railey, "Organisation is the form of every human association for the attainment of a common purpose."

According to John M Pfiffner and Frank P Sherwood, "Organisation is the pattern of ways in which large number of people, too many to have intimate face-to-face contact with all others, and engaged in a complexity of tasks, relate themselves to each other in the conscious, systematic establishment and accomplishment of mutually agreed purposes."

In the words of Koontz and O'Donnell, "Organisation involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision of authority, delegation and co-ordination."

According to Noirthcott, C H, "Organisation refers to arrangements by which tasks are assigned to men and women so that their individual efforts contribute effectively to some more or less clearly defined purpose for which they have been brought together."

In the words of G E Milward, "Organisation is a process of dividing work into convenient tasks or duties, of grouping such duties in the form of posts of delegating authority to each

post and of appointing qualified staff to be responsible that the work is carried out as planned."

3.3 ORGANISATION AS A PROCESS

Organisation is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. To organise is to harmonise, coordinate or arrange in a logical and orderly manner. Each member in the organisation is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform his duty. The managerial function of organising consists in making a rational division of work into groups of activities and tying together the positions representing grouping of activities so as to achieve a rational, well coordinated and orderly structure for the accomplishment of work. According to Low A Allen, "Organising involves identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organisational objectives." The various steps involved in this process are:

(i) Determination of Objectives

It is the first step in building up an organisation. Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. Organisation structure is built on the basis of the objectives of the enterprise. That means, the structure of the organisation can be determined by the management only'after knowing the objectives to be accomplished through the organisation. This step helps the management not only in framing the organisation structure but also in achieving the enterprise objectives with minimum cost and efforts. Determination of objectives will consist in deciding as to why the proposed organisation is to be set up and, therefore, what will be the nature of the work to be accomplished through the organisation.

(ii) Enumeration of Objectives

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

(iii) Classification of Activities

The next step will be to classify activities according to similarities and common purposes and functions and taking the human and material resources into account. Then, closely related and similar activities are grouped into divisions and departments and the departmental activities are further divided into sections.

(iv) Assignment of Duties

Here, specific job assignments are made to different subordinates for ensuring a certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him. In the words of Kimball and Kimball - "Organisation embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between department and individuals."

(v) Delegation of Authority

Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationship in the organisation. Authority without responsibility is a dangerous thing and similarly responsibility without authority is an empty vessel. Everybody should clearly know to whom he is accountable; corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

3.4 ORGANISATION STRUCTURE

An organisation structure shows the authority and responsibility relationships between the various positions in the organisation by showing who reports to whom. Organisation involves establishing an appropriate structure for the goal seeking activities. It is an established pattern of relationship among the components of the organisation. March and Simon have stated that-"Organisation structure consists simply of those aspects of pattern of behaviour in the organisation that are relatively stable and change only slowly." The organisation is generally shown on an organisation chart. It shows the authority and responsibility while designing the relationships between various in the organization. Organistion structure, due attention should be given to the principles of organization.

(i) Significance of Organisation Structure

1. Properly designed organisation can help improve teamwork and productivity by providing a framework within which the people can work together most effectively.

2. Organisation structure determines the location of decision-making in the organisation.

3. Sound organisation structure stimulates creative thinking and initiative among organisational members by providing well defined patterns of authority.

4. A sound organisation structure facilitates growth of enterprise by increasing its capacity to handle increased level of authority.

5. Organisation structure provides the pattern of communication and coordination.

6. The organisation structure helps a member to know what his role is and how it relates to other roles.

(ii) Determining the kind of Organisation Structure

According to Peter F Drucker-"Organisation is not an end in itself, but a means to the end of business performance and business results. Organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and may even destroy it. Organisation structure must be designed so as to make possible to attainment of the objectives of the business for five, ten, fifteen years hence". Thus it is essential that a great deal of care should be taken while determining the organisation structure. Peter Drucker has pointed out three specific ways to find out what kind or structure is needed to attain the objectives of a specific business:

(i) ***Activities Analysis:*** The purpose of 'activities analysis' is to discover the primary activity of the proposed organisation, for it is around this that other activities will be built. It may be pointed out that in every organisation; one or two functional areas of business dominate. For example, designing is an important activity of the readymade garments manufacturer. After the activities have been identified and classified into functional areas, they should be listed in the order of importance. It is advisable to divide and sub-divide the whole work into smaller homogeneous units so that the same may be assigned to different individuals. Thus, in devising an organisational structure, it is important to divide the entire work into manageable units. It has rightly been said that the job constitutes the basic building block in building up an organisational structure.

(ii) ***Decision Analysis:*** At this stage, the manager finds out what kinds of decisions will need to be made to carry on the work of the organisation. What is even more important, he has to see where or at what level these decisions will have to be made and how each manager should be involved in them. This type of analysis is particularly important for deciding upon the number of levels or layers in the organisation structure.

As regards decision, analysis, Peter Drucker, has emphasized four basic characteristics. They are:

1. the degree of futurity in the decision
2. the impact that decision has on other functions
3. the character of the decision determined by a number of qualitative factors, such as, 'basic principles of conduct, ethical values, social and political beliefs etc., and
4. whether the decisions are periodically recurrent or rates as recurrent decisions may require a general rule whereas a rate decision is to be treated as a distinctive event.

A decision should always be made at the lowest possible level and so close to the scene of action as possible.

(iii) ***Relations Analysis:*** Relations Analysis will include an examination of the types of relationships that develop within the organisation. These relationships are vertical, lateral and diagonal. Where a superior-subordinate relationship is envisaged, it will be a vertical relationship. In case of an expert or specialist advising a manager at the same level, the relationship will be lateral. Where a specialist exercises authority over a person in subordinate position in another department in the same organisation it will be an instance of diagonal relationship. Peter Drucker emphasises that-"the first thing to consider in defining a manager job is the contribution his activity has to make to the larger unit of which it is a part." Thus, downward, upward and lateral (side-ways) relations must be analysed to determine the organisation structure'.

3.5 PRINCIPLES OF ORGANISATION

1. ***Consideration of unity of objectives:*** The objective of the undertaking influences the organisation structure. There must be unity of objective so that all efforts can be concentrated on the set goals.
2. ***Specialisation:*** Effective organisation must include specialisation, Precise division of work facilitates specialisation.
3. ***Co-ordination:*** Organisation involves division of work among people whose efforts

must be co-ordinated to achieve common goals. Co-ordination is the orderly arrangement of group effort to provide unity of action in the pursuit of common purpose.

4. ***Clear unbroken line of Authority:*** It points out the scalar principle or the chain of command. The line of authority flows from the highest executive to the lowest managerial level and the chain of command should not be broken.
5. ***Responsibility:*** Authority should be equal to responsibility i.e., each manager should have enough authority to accomplish the task
6. ***Efficiency:*** The organisation structure should enable the enterprise to attain objectives with the lowest possible cost.
7. ***Delegation:*** Decisions should be made at the lowest competent level. Authority and responsibility should be delegated as far down in the organisation as possible.
8. ***Unity of Command:*** Each person should be accountable to a single superior. If an individual has to report to only one supervisor there is a sense of personal responsibility to one person for results.
9. ***Span of Management:*** No superior at a higher level should have more than six immediate subordinates. The average human brain can effectively direct three to six brains (i.e., subordinates).
10. ***Communication:*** A good communication sub-system is essential for smooth flow of information and understanding and for effective business performance.
11. ***Flexibility:*** The organisation is expected to provide built in devices to facilitate growth and expansion without dislocation. It should not be rigid or inelastic.

3.6 FORMAL AND INFORMAL ORGANISATION

The formal organisation refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management. This type of organisation is built by the management to realise objectives of an enterprise and is bound by rules, systems and procedures. Everybody is assigned a certain responsibility for the performance of the given task and given the required amount of authority for carrying it out. Informal organisation, which does not appear on the organisation chart, supplements the formal organisation in achieving organisational goals effectively and efficiently. The working of informal groups and leaders is not as simple as it may appear to be. Therefore, it is obligatory for every manager to study thoroughly the working pattern of informal relationships in the organisation and to use them for achieving organisational objectives.

Formal Organisation

Chester I Bernard defines formal organisation as -"a system of consciously coordinated activities or forces of two or more persons. It refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability." The essence of formal organisation is conscious common purpose and comes into being when persons-

(i) Are able to communicate with each other

(ii) Are willing to act and

(iii) Share a purpose.

The formal organisation is built around four key pillars. They are:

- Division of labour
- Scalar and functional processes
- Structure and
- Span of control

Thus, a formal organisation is one resulting from planning where the pattern of structure has already been determined by the top management.

Characteristic Features of formal organisation

1. Formal organisation structure is laid down by the top management to achieve organisational goals.
2. Formal organisation prescribes the relationships amongst the people working in the organisation.
3. The organisation structures is consciously designed to enable the people of the organisation to work together for accomplishing the common objectives of the enterprise
4. Organisation structure concentrates on the jobs to be performed and not the individuals who are to perform jobs.
5. In a formal organisation, individuals are fitted into jobs and positions and work as per the managerial decisions. Thus, the formal relations in the organisation arise from the pattern of responsibilities that are created by the management.
6. A formal organisation is bound by rules, regulations and procedures.
7. In a formal organisation, the position, authority, responsibility and accountability of each level are clearly defined.
8. Organisation structure is based on division of labour and specialisation to achieve efficiency in operations.
9. A formal organisation is deliberately impersonal. The organisation does not take into consideration the sentiments of organisational members.
10. The authority and responsibility relationships created by the organisation structure; are to be honoured by everyone.
11. In a formal organisation, coordination proceeds according to the prescribed pattern.

Advantages of formal organisation

1. The formal organisation structure concentrates on the jobs to be performed. It," therefore, makes everybody responsible for a given task.
2. A formal organisation is bound by rules, regulations and procedures. It thus ensures law and order in the organisation.
3. The organisation structure enables the people of the organisation to work together for accomplishing the common objectives of the enterprise

Disadvantages or criticisms of formal organisation

1. The formal organisation does not take into consideration the sentiments of organisational members.
2. The formal organisation does not consider the goals of the individuals. It is designed to achieve the goals of the organisation only.
3. The formal organisation is bound by rigid rules, regulations and procedures. This

makes the achievement of goals difficult.

(ii) Informal Organisation

Informal organisation refers to the relationship between people in the organisation based on personal attitudes, emotions, prejudices, likes, dislikes etc. an informal organisation is an organisation which is not established by any formal authority, but arises from the personal and social relations of the people.

These relations are not developed according to procedures and regulations laid down in the formal organisation structure; generally large formal groups give rise to small informal or social groups. These groups may be based on same taste, language, culture or some other factor. These groups are not pre-planned, but they develop automatically within the organisation according to its environment.

Characteristics features of informal organisation

1. Informal organisation is not established by any formal authority. It is unplanned and arises spontaneously.
2. Informal organisations reflect human relationships. It arises from the personal and social relations amongst the people working in the organisation.
3. Formation of informal organisations is a natural process. It is not based on rules, regulations and procedures. -
4. The inter-relations amongst the people in an informal organisation cannot be shown in an organisation chart.
5. In the case of informal organisation, the people cut across formal channels of communications and communicate amongst themselves.
6. The membership of informal organisations is voluntary. It arises spontaneously and not by deliberate or conscious efforts.
7. Membership of informal groups can be overlapping as a person may be member of a number of informal groups.
8. Informal organisations are based on common taste, problem, language, religion, culture, etc. it is influenced by the personal attitudes, emotions, whims, likes and dislikes etc. of the people in the organisation.

Benefits of Informal organisation

1. It blends with the formal organisation to make it more effective.
2. Many things which cannot be achieved through formal organisation can be achieved through informal organisation.
3. The presence of informal organisation in an enterprise makes the managers plan "and act more carefully.
4. Informal organisation acts as a means by which the workers achieve a sense of security and belonging. It provides social satisfaction to group members.
5. An informal organisation has a powerful influence on productivity and job satisfaction.
6. The informal leader lightens the burden of the formal manager and tries to fill in the gaps in the manager's ability.

7. Informal organisation helps the group members to attain specific personal objectives.
8. Informal organisation is the best means of employee communication. It is very fast.
9. Informal organisation gives psychological satisfaction to the members. It acts as a safety valve for the emotional problems and frustrations of the workers of the organisation because they get a platform to express their feelings.
10. It serves as an agency for social control of human behaviour.

3.7 MANAGEMENT'S ATTITUDE TOWARDS INFORMAL ORGANISATION

Formal organisation, no doubt is an important part of the organisation but it alone is not capable of accomplishing the organisational objectives. Informal organisation supplements the formal organisation in achieving the organisational objectives. If handled properly, informal organisation will help in performing the activities of the organisation very efficiently and effectively. In the words of Keith Davis-"An informal organisation is a powerful influence upon productivity and job satisfaction. Both formal and informal systems are necessary for group activity just as two blades are essential to make a pair of scissors workable". As both formal and informal organisations are quite essential for the success of any organisation, a manager should not ignore the informal organisation. He should stud^ thoroughly the working pattern of informal relationship in the organisation and use the informal organisation for achieving the organisational objectives.

3.8 DIFFERENCES BETWEEN FORMAL AND INFORMAL ORGANISATION

Formal Organisation	Informal Organisation
1. Formal organisation is established with the explicit aim of achieving well-defined goals.	1. Informal organisation springs on its own. Its goals are ill defined and intangible.
2. Formal organisation is bound together by authority relationships among members. A hierarchical structure is created, constituting to management, middle management and supervisory management.	2. Informal organisation is characterised by a generalised sort of power relationships. Power in informal organisation has bases other than rational legal right.
3. Formal organisation recognised certain tasks and activities which are to be carried out to achieve its goals.	3. Informal organisation docs not have any well-defined tasks
4. The roles and relationships of people in formal organisation are impersonal defined	4. In informal organisation the relationships among people are interpersonal.
5. In formal organisation, much emphasis is placed on efficiency, discipline, conformity, consistency and control.	5. Informal organisation is characterised by relative freedom, spontaneity, homeliness and warmth.
6. In formal organisation, the social and psychological needs and interests of members of the organisation get little attention.	6. In informal organisation the socio-psychological needs, interests and aspirations of members get priority.

7. The communication system in formal organisation follows certain pre-determined patterns and paths.	7. In informal organisation, the communication pattern is haphazard, intricate and natural.
8. Formal organisation is relatively slow to respond and adapt to changing situations and realities.	8. Informal organisation is dynamic and very vigilant. It is sensitive to its surroundings.

3.9 IMPORTANCE OF ORGANISATION

Organisation, in its simplest sense, means a form of human association for the attainment of common objectives. Sound organisation is quite essential for every enterprise, Organised thoughts have always been the basis of organised actions,. Without sound organisation, no management can manage the various operations of the enterprise. Obviously, the better the organisation, the fuller would be the achievement of the common objectives and similarly, loose organisation of an enterprise implies a dangerous state of affairs. The importance of organisation can be clearly understood from the statement of Kenneth C Towe. According to him , "A sound form of organisation is the answer to every business problem, that a poor organisation could run a good product into the ground and that a good organisation with a poor product could run a good product out of the market." Some of the principal advantages of organisation may be outlined as below:

1. Facilitates Administration

A properly designed and balanced organisation facilitates both management and operation of the enterprise. It increases management's efficiency and promptness, avoids delay and duplication of work and motivates the employee to perform their job efficiently. By-proper division of labour, consistent delegation and clear job definition, the organisation structure siphons off the routine duties and makes them the responsibility of lower rated positions.

2. Facilitates Growth and Diversification

The organisation structure is the framework within wiuch the company grows. The organisation structure should provide for expansion and diversification of the enterprise otherwise, the enterprise will find itself in a serious administrative crisis. Thus, the organisation facilitates growth and diversification of the enterprise.

3. Provides for Optimum use of Technological Improvements

A sound organisation structure facilitates the optimum use of technological improvements like computer systems etc. The high cost of installation, operation and maintenance of such equipment calls for proper organisation.

4. Encourages Human use of Human Beings

A sound organisation provides for efficient selection, training and development of staff, job rotation and job enlargement. The organisation structure can profoundly affect the people of the company. Proper organisation facilitates the intensive use of human capital.

5. Stimulates Creativity

Organisation stimulates creativity. By providing well-defined areas of work and ensuring delegation of authority, organisation provides sufficient freedom to the managers and encourages their initiative, independent thinking and creativity.

6. Facilitates stability of the organisation

By ensuring delegation of authority, two-way communication, co-operation, effective leadership, employee morale and flexibility to adjust to changes in the conditions, a sound organisation facilitates stability of the organisation.

7. Reduces Employee Turnover

Organisation increases employee satisfaction, ensures better relations between the management and the workers, and thereby reduces employee turnover.

8. Reduces Duplication of Activities

Organisation avoids delay and duplication of activities and consequent confusion by ensuring well-defined responsibilities and authority.

9 Fosters Coordination

By providing the framework for holding together the various functions in an orderly pattern, organisation fosters co-ordination.

3.10 ORGANISATION CHARTS AND MANUALS

Organisation chart: The pattern of network of relations between the various positions in an organisation as well as between the persons who hold those positions is referred to as "Organisation chart". Organisation data are often shown in the form of graphic chart. Organisation charts are the important tool for providing information on managerial positions and relationships in an organisation.

1. Meaning of Organisation Chart

According to Harold Koontz and Cyril Donnell, "Every organisation can be charted, for a chart is nothing more than an indication of how departments are tied together along their principal lines of authority."

In the words of George R Terry, "A chart is a diagrammatical form which shows important aspects of an organisation including the major functions and their respective relationships, the channels of supervision, and the relative authority of each employee who is in charge of each respective function."

According to Louis A Allen, "The organisation chart is a graphic means of showing organisation data. Organisation charts are snap-shots; they show only the formal organisation and depict it for only a given moment in time."

In the word of J Batty, "An organisation chart is a diagrammatic representation of the framework or structure of an organisation."

According to Henry H Albens, "An organisation chart portrays managerial positions and relationships in a company or department unit."

From the above definitions, it is clear that an organisation chart is a diagrammatical form which shows important aspects of an organisation including the major functions and their respective relationships. It is a graphic portrayed of positions in the enterprise and of the formal lines of communication among them. It enables each executive and employee to understand his position in the organisation and to know to whom he is accountable. The organisation chart has the following characteristics:

- It is a diagrammatical presentation
- It shows principal lines of authority in the organization.
- It shows the interplay of various functions and relationships
- It indicates the channels of communication.

"The organisation chart should not be confused with the organisation structure. An organisation chart is merely a type of record showing the formal organisational relationships which management intends should prevail. It is, therefore, primarily a technique of presentation.

2 Advantages of Organisation Chart

1. Organisation chart gives a clear picture of the organisation structure and the relationships

that exist in an organisation.

2. It shows at a glance the line's of authority and responsibility. From it, the individuals can see who their associates are, to whom they report and from whom they get instructions.

3. By providing a detailed and clear picture of the authority relationships existing in an organisation, they help to avoid misunderstanding of jurisdictional problems and minimise organisational conflicts.

4. It plays a significant part in organisation improvement by pointing out inconsistencies and deficiencies in certain relationships. When management sees how its organisation structure actually looks, it may discover some unintended relationships.

5. With the help of an organisation chart, outsiders can easily know the persons whom they have to approach in connection with their work. This helps the outsiders to save their time and also to form a better opinion of the concern.

6. By providing a clear picture of the lines of authority and responsibilities, they help to avoid overlapping and duplication of authority and secure unity of command.

7. It serves as a valuable guide to the new personnel in understanding the organization and for their training.

8. It provides a framework of personnel classification and evaluation systems. They show to the personnel what promotions they can expect, and what extra training is required for promotion to a higher position.

3 Disadvantages or Limitations of Organisation Chart

1. Organisation chart shows only the formal relationships and fails to show the informal relations within the organisation. Informal relationships are also important in any organisation.

2. Organisation charts, no doubt show the line of authority but they do not show the quantum of authority vested in different managerial positions. Thus, it is not able to answer the questions like how much authority can be exercised by a particular executive, how far he is responsible for his functions and to what extent he is accountable.

3. An organisation chart is incomplete, It is not possible to include all information affecting the organisation.

4. It shows a static state of affairs and does not represent flexibility which usually exists in the structure of a dynamic organisation.

5. When there is an organisation chart, the personnel in the organisation become too conscious of their responsibilities and boundary line. This injects rigidity and inflexibility into the organisation structure. Updating is not possible without disturbing the entire set-up.

6. Organisation chart gives rise to a feeling of superiority and inferiority which causes conflicts in the organisation and affects team-spirit adversely.

7. It does not show the relationships that actually exist in the organisation but shows only the "supposed to be" relationships.

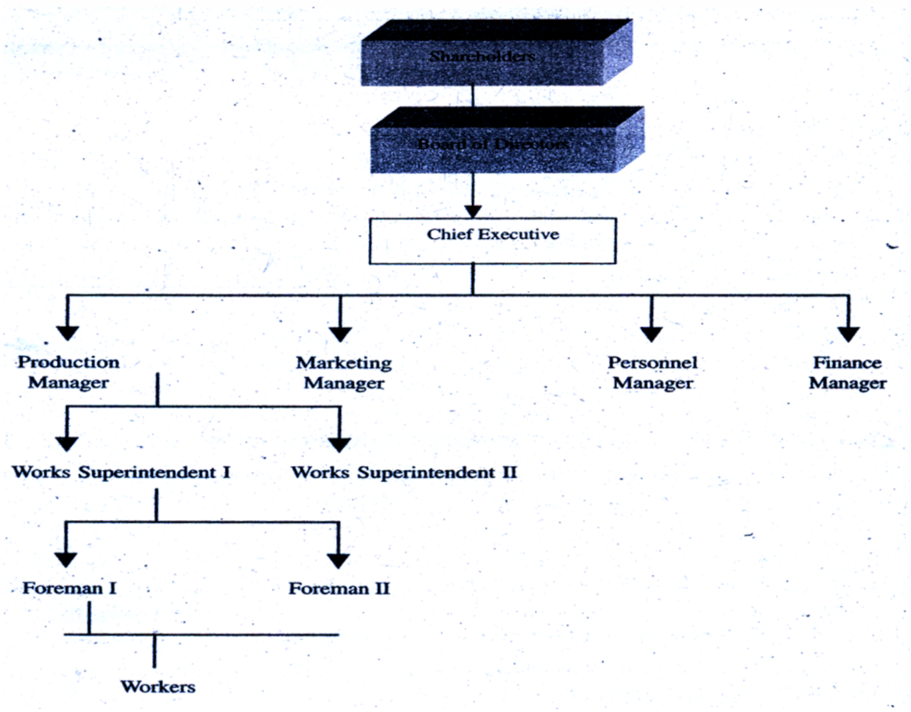
8. The organisation charts just display the organisation structure. They neither guarantee a good organisation structure nor good management.

4 Types of Organisation Chart

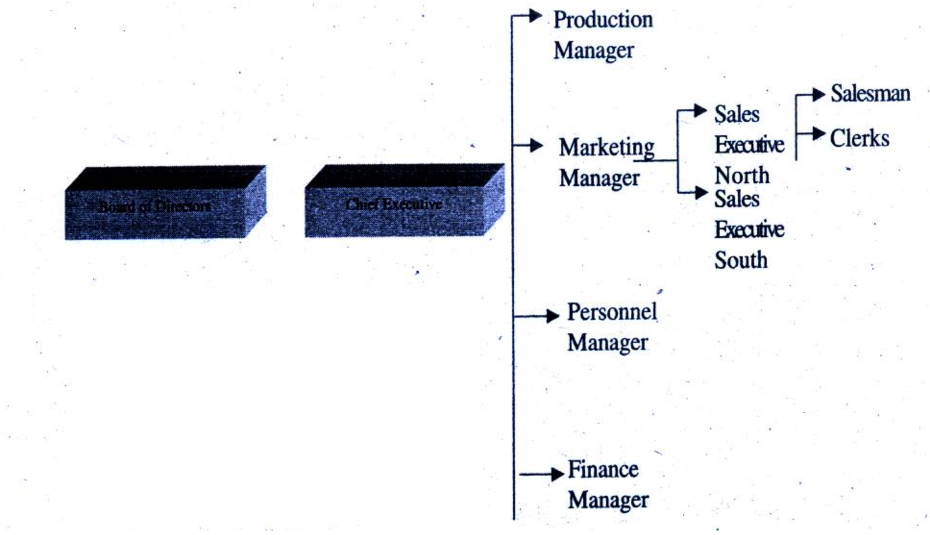
An organisation chart can be drawn in different forms. They are:

- Top-to-down chart or vertical chart
- Left-to-right chart or Horizontal chart
- Circular chart.

Top-to-down chart or vertical chart: Most organisations use this type of chart which[1] presents the different levels of organisation in the form of a pyramid with senior executive' at the top of the chart and successive levels of management depicted vertically below' that. The following diagram illustrates this type of chart.

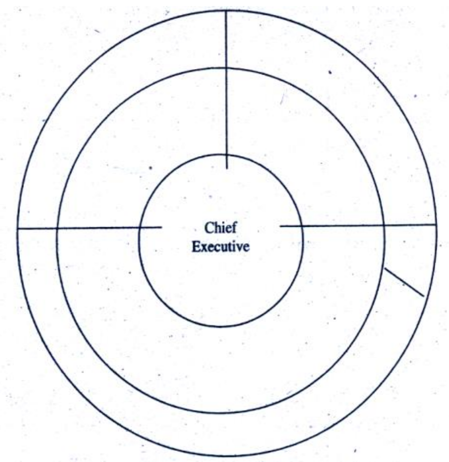


Left-to-right or Horizontal Chart; Horizontal charts which read from left to right are occasionally used. The pyramid lies horizontally instead of standing in the vertical position. The line of command proceeds horizontally from left to right showing top level at the left and each successive level extending to the right. The following diagram illustrates this type of chart:



Horizontal organisation chart

Circular Chart: In this chart, top positions are located in the centre of the concentric circle. Positions of successive echelons extend in all directions outward from the centre. Positions of equal status lie at the same distance from the centre on the same concentric circle. The following diagram illustrates the circular chart.



5. Meaning of Organisation Manual

An organisation chart shows who has the authority over whom but does not state that extent of authority or the duties each person in the organisation is expected to perform. In order to **supplement** the information of this chart, an organisation may prepare a Manual or Management Guide. Manual sets down in the form of a book or booklet all the details of the organisation, its objectives and policies, authorities, functions, duties and responsibilities of each unit and all information relating thereto.

A manual can be a useful instrument of management which more than justifies the amount of work and money involved in its compilation. Where a good manual is in use, each person can determine the responsibilities of his job and its proper relationship with other jobs in the organisation. Jurisdictional conflicts and overlapping can be avoided. A manual provides quick settlement of all misunderstandings. It relieves the manager from the botheration of repeating the same information time and again. It provides uniformity and consistency in the procedures and practises. If, a good organisation manual is in use, each personnel in the organisation can know the responsibilities of his job and its relationship with other jobs in the organisation. Good organisation manual has the following contents.

1. Nature of the enterprise
2. Objectives of the enterprise
3. Policies of the management
4. Job Descriptions
5. Duties and responsibilities of various personnel
6. Instructions relating to the performance of standard as well as non-standard jobs.

6. Types of Manuals

The different types of manuals are:

1. ***Policy Manuals:*** It describes the overall limitations within which activities are to take place and thus reveals the broad courses of managerial action likely to take place under certain conditions.
2. ***Operations Manual:*** It is prepared to inform the employees of established methods, procedures and standards of doing the various kinds of work.
3. ***Organisation Manual:*** It explains the organisation, the duties and responsibilities of various departments, and their respective sub-divisions. Promotional charts may be included in the organisation manual which will show possible promotional lines throughout the entire organisation.
4. ***Departmental Practice Manual:*** **It** deals in detail with the internal policies, organisation and procedures of one department.
5. ***Rules and Regulations Manual:*** It gives information about the operating rules and employment regulations. It is a handbook of employment rules.

7. Advantages of Manuals

1. It contains in writing all-important decisions relating to internal organisation of the enterprise.

2. It avoids conflicts and overlapping of authority.
3. It enables new employees to know the various procedure and practice in the shortest possible time.
4. It enables quick decisions.
5. It contains rules and regulations which employees must follow.

8 **Disadvantages of Manual**

1. The preparation of manual is costly and time consuming and process.
2. Manuals leave little scope of individual's initiative and direction.
3. Manuals bring rigidity to the organisation.
4. Manuals may put on record those relationships which no one would like to see exposed.

3.11 TYPES OF ORGANISATION

Organisation requires the creation of structural relationship among different departments and the individuals working there for the accomplishment of desired goals. Organisation structure is primarily concerned with the allocation of tasks and delegation of authority. The establishment of formal relationships among the individuals working in the organisation is very important to make clear the lines of authority in the organisation and to coordinate the efforts of different individuals in an efficient manner. According to the different practices of distributing authority and responsibility among he members of the enterprise, several types of organisation structure have been evolved. They are:

1. Line organisation
2. Line and Staff organisation
3. Functional organisation
4. Committee organization

1. Line Organisation

This is the simplest and the earliest form of organisation. It is also known as "Military", "traditional", "Scalar" or "Hierarchical" form of organisation. The line organisation represents the structure in a direct vertical relationship through which authority flows. Under this, the line of authority flows vertically downward from top to bottom throughout the organisation. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. All major decisions and orders are made by the executives at the top and handed down to their immediate subordinates who in turn break up the orders into specific instructions for the purpose of their execution by another set of subordinates. A direct relationship of authority and responsibility is thus established between the superior and subordinate. The superior exercises a direct authority over his subordinates who become entirely responsible for their performance to their commanding superior. Thus, in the line organisation, the line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line of authority not only becomes the avenue of command to operating personnel, but also provides the channel of communication, coordination and accountability in the organisation.

Prof. Florence enunciates three principles which are necessary to realise the advantages of this system and the non-observance of which would involve inefficiency.

1. Commands should be given to subordinates through the immediate superior; there should be no skipping of links in the chain of command.
2. There should be only one chain. That is, command should be received from only one immediate superior.
3. The number of subordinates whose work is directly commanded by the superior should be limited.

The following picture depicts the line organisation:

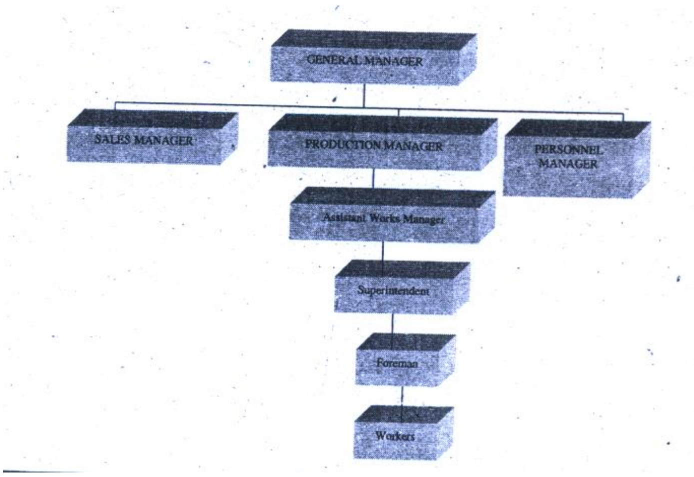


Chart showing a line organisation

Advantages or merits of line organisation

1. It is the easiest to establish and simplest to explain to the employers.
2. It fixes responsibility for the performance of tasks in a definite manner upon certain individuals.
3. There is clear-cut identification of authority and responsibility relationship. Employees are fully aware of the boundaries of their job.
4. It is most economical and effective.

5. It makes for unity of control thus conforming to the scalar principle of organisation.
6. It ensures excellent discipline in the enterprise because every individual knows to whom he is responsible. The subordinates are also aware of the necessity of satisfying their superior in their own interests.
7. It facilitates prompt decision-making because there is definite authority at every level.
8. As all the activities relating to one department or division are managed by one executive, there can be effective coordination of activities.
9. This system is flexible or elastic, in the sense that, as each executive has sole responsibility in his own position and sphere of work, he can easily adjust the organisation to changing conditions.
10. Under this system, responsibility and authority are clearly defined. Every member of the organisation knows his exact position, to whom he is responsible and who are responsible to him. Because of the clear fixation of responsibility, no person can escape from his liability.

Disadvantages or demerits of line organisation

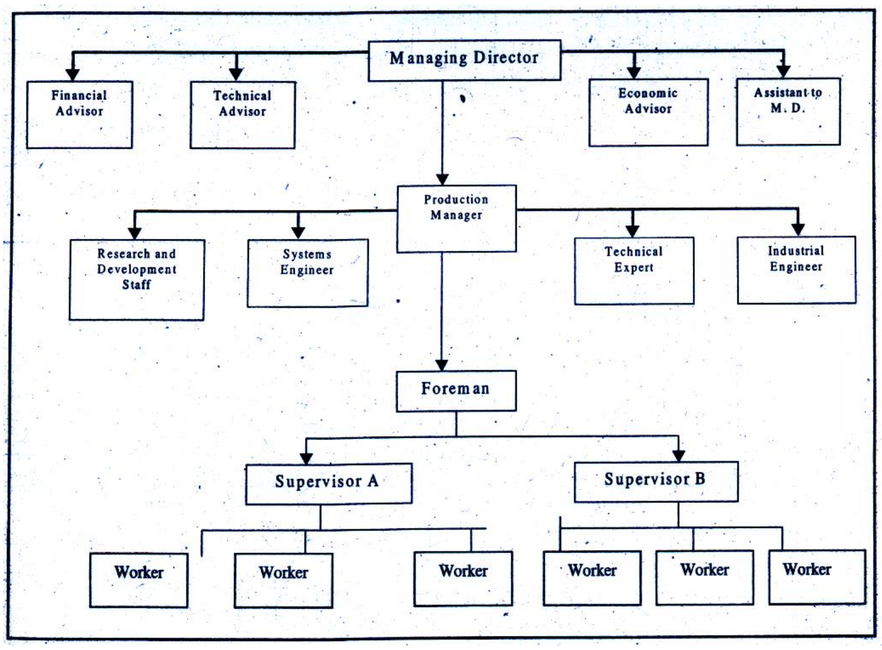
1. With growth, the line organisation makes the superiors too overloaded with work. Since all work is done according to the wishes of one person alone, the efficiency of the whole department will come to depend upon the qualities of management displayed by the head of that department. If therefore, something happens to an Efficient manager, the future of the department and of the concern as a whole would be in jeopardy.
2. Being an autocratic system, it may be operated on an arbitrary, opinionated and dictatorial basis.
3. Under this system, the subordinates should follow the orders of their superior without expression their opinion on the orders. That means there is limited communication.
4. There may be a good deal of nepotism and favouritism. This may result in efficient people being left behind and inefficient people getting the higher and better posts.
5. The line organisation suffers from lack of specialised skill of experts. Modern business is so complex that it is extremely difficult for one person to carry in his head all the necessary details about his work in this department.
6. Line organisation is not suitable to big organisations because it does not provide specialists in the structure. Many jobs require specialised knowledge to perform them.
7. If superiors take a wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.
8. The organisation is rigid and inflexible.
9. There is concentration of authority at the top. If the top executives are not capable, the enterprise will not be successful.

Prof. Florence, sums up the inefficiencies of the line organisation system under three heads- "(i) Failure to get correct information and to act upon it; (ii) red-tape and bureaucracy; (iii)

Lack of specialised skill or experts... while commands go down the line under the hierarchical system information is supposed to be coming up the line." In spite of these drawbacks, the line organisation structure is very popular particularly in small organisations where there are less number of levels of authority and a small number of people.

2. Line and Staff Organisation

In line and staff organisation, the line authority remains the same as it does in the line organisation. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists stand ready with their speciality to serve line mangers as and when their services are called for, to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed to provide expert advice to the line officers. The combination of line organisation with this expert staff constitutes the type of organisation known as line and staff organisation. The 'line' maintains discipline and stability; the 'staff provides expert information. The line gets out the production, the staffs carries on the research, planning, scheduling, establishing of standards and recording of performance. The authority by which the staff performs these functions is delegated by the line and the performance must be acceptable to the line before action is taken. The following figure depicts the line and staff organisation:



Line and staff Organisation

Types of Staff

The staff position established as a measure of support for the line managers may take the following forms:

1. Personal Staff: Here the staff official is attached as a personal assistant or adviser to the line manager. For example - Assistant to managing director.

2. Specialised Staff: Such staff acts as the fountainhead of expertise in specialised areas like R & D, personnel, accounting etc. For example-R & D Staff.

3. General Staff: This category of staff consists of a set of experts in different areas who are meant to advise and assist the top management on matters called for expertise. For example—Financial advisor, technical advisor etc.

Features of line and staff organisation

1. Under this system, there are line officers who have authority and command over the subordinates and are accountable for the tasks entrusted to them. The staff officers are specialists who offer expert advice to the line officers to perform their tasks efficiently.

2. Under this system, the staff officers prepare the plans and give advise to the line officers and the line officers execute the plan with the help of workers.

3. The line and staff organisation is based on the principle of specialisation.

Advantages or merits of line and staff organisation

- It brings expert knowledge to bear upon management and operating problems. Thus, the line managers get the benefit of specialised knowledge of staff specialists at various levels.
- The expert advice and guidance given by the staff officers to the line officers benefit the entire organisation.
- As the staff officers look after the detailed analysis of each important managerial activity, it relieves the line managers of the botheration of concentrating on specialized functions.
- Staff specialists help the line managers in taking better decisions by providing expert advice. Therefore, there will be sound managerial decisions under this system.
- It makes possible the principle of undivided responsibility and authority, and at the same time permits staff specialisation. Thus, the organisation takes advantage of functional organisation while maintaining the unity of command.
- It is based upon planned specialisation.
- Line and staff organisation has greater flexibility, in the sense that new specialised activities can be added to the line activities without disturbing the line procedure.

Disadvantages or demerits of line and staff organisation

- Unless the duties and responsibilities of the staff members are clearly indicated by charts and manuals, there may be considerable confusion throughout the organization as to the functions and positions of staff members with relation to the line supervisors.
- There is generally a conflict between the line and staff executives. The line managers feel that staff specialists do not always give right type of advice, and staff officials generally complain that their advice is not properly attended to.

- Line managers sometimes may resent the activities of staff members, feeling that prestige and influence of line managers suffer from the presence of the specialists.
- The staff experts may be ineffective because they do not get the authority to implement their recommendations.
- This type of organisation requires the appointment of large number of staff officers or experts in addition to the line officers. As a result, this system becomes quite expensive.
- Although expert information and advice are available, they reach the workers through the officers and thus run the risk of misunderstanding and misinterpretation.
- Since staff managers are not accountable for the results, they may not be performing their duties well.
- Line mangers deal with problems in a more practical manner. But staff officials who are specialists in their fields tend to be more theoretical. This may hamper coordination in the organisation.

3 Functional Organisation

The difficulty of the line organisation in securing suitable chief executive was overcome by F. W. Taylor who formulated the Functional type of organisation. As the name implies, the whole task of management and direction of subordinates should be divided according to the type of work involved. As far as the workman was concerned, instead of coming in contact with the management at one point only, he was to receive his daily orders and help directly from eight different bosses; four of these were located in the planning room and four in the shop. The four specialists or bosses in the planning room are:

(i) Route Clerk

(ii) Instruction Card Clerk

(iii) Time and Cost Clerk

(iv) Shop disciplinarian.

The four specialists or bosses at the shop level are:

1. Gang Boss
2. Speed Boss
3. Inspector
4. Repair Boss
    - ***The Route Clerk;*** To lay down the sequence of operations and instruct the workers concerned about it.
    - ***The Instruction Card Clerk:*** To prepare detailed instructions regarding different aspects of work.
    - ***The Time and Cost Clerk:*** To send all information relating to their pay to the workers and to secure proper returns of work from them.
    - ***The Shop Disciplinarian:*** To deal with cases of breach of discipline and absenteeism.
    - ***The Gang Boss:*** To assemble and set up tools and machines and to teach the workers to make all their personal motions in the quickest and best way.
    - ***The Speed Boss:*** To ensure that machines are run at their best speeds and proper tools are used by the workers.
    - ***The Repair Boss:*** To ensure that each worker keeps his machine in good order

and maintains cleanliness around him and his machines.

- ***The Inspector:*** To show to the worker how to do the work.

The following chart depicts the functional foremanship:

It was F. W. Taylor who evolved functional organisation for planning and controlling manufacturing operations on the basis of specialisation. But in practice, functionalisation is restricted to the top of the organisation as recommended by Taylor.

Features of functional organisation

The features of functional organisation are as follows:

1. The work of the enterprise is divided into different functional departments and the different functional departments are placed under different specialists.
2. The functional specialist has the authority or right to give orders regarding his function whosesoever that function is performed in the enterprise.
3. 'Under this system, the workers have to receive instructions from different specialists.
4. If anybody in the enterprise has to take any decision relating to a particular function, it has to be in consultation with the functional specialist.
5. Under this system, the workers have to perform a limited number of functions.

Advantages of functional organisation

1. Functional organisation is based on expert knowledge. Every functionary in charge is an expert in his area and can help the subordinates in better performance in his area.
2. Division of labour is planned not incidental.
3. As there is not scope for one-man control in this form of organisation, this system ensure co-operation and teamwork among the workers.
4. This system ensures the separation of mental functions from manual functions.
5. It helps mass production by standardization and specialization.
6. This system ensures maximum use of the principle of specialisation at every work point.
7. As there is joint supervision in the organisation, functional organisation reduces the burden on the top executives.
8. Functional organisation offers a greater scope for expansion as compared to line organisation. It does not face the problem of limited capabilities of a few line managers.
9. The expert knowledge of the functional mangers facilitates better control and supervision in the organisation.

Disadvantages or demerits of Functional organisation

a) It is unstable because it weakens the disciplinary controls, by making the workers work under several different bosses. Thus, functional organisation violates the principle of unity of command.

b) Under this type of organisation, there are many foremen of equal rank. This may lead to conflicts among them.

c) The co-ordinating influence needed to ensure a smoothly functioning organisation may involve heavy overhead expenses.

d) The inability to locate and fix responsibility may seriously affect the discipline and morale of the workers through apparent or actual contradiction of the orders.

e) This system is very costly as a large number of specialists are required to be appointed.

f) A functional manager tends to create boundaries around himself and think only in term of his own department rather than of the whole enterprise. This results in loss of overall perspective in dealing with business problems.

g) It is difficult for the management to fi\ responsibility for unsatisfactory results,

4. **Committee Organisation**

Committee organisation as a method of managerial control has very little practical importance, because it is managed by a senior member of the committee only. But the committee organisations are widely used for the purpose of discharging advisory functions of the management. Committees are usually relatively formal bodies with a definite structure. They have their own organisation. To them are entrusted definite responsibility and authority.

According to Hicks, "A committee is a group of people who meet by plan to discuss or make a decision for a particular subject."

According to Louis A Allen, "A committee is a body of persons appointed or elected to on an organised basis for the consideration of matters brought before it."

A committee may formulate plans, make policy decisions or review the performance of certain units. In some cases, it may only have the power to make recommendations to a designated official. Whatever may be the scope of their activities, committees have corne to be recognised as an important instrument in the modern business as well as non-business organisations.

Objectives of committees

Committees are constituted to achieve one or more of the following objectives:

- To have consultations with various persons to secure their view-points
- To give participation to various group's of people
- To secure cooperation of different departments
- To coordinate the functioning of different departments and individuals by bringing about unity of directions.

Types of committees

1. ***Line committee:*** If a committee is vested with the authority and responsibility to decide and whose decisions are implemented, it is known as line committee.
2. ***Staff committee:*** If a committee is appointed merely to counsel and advise, it is known as a staff committee.
3. ***Formal committee:*** When a committee is constituted as a partof the organization structure and has clear-cut jurisdiction, it is a formal committee.

4. ***Informal committee:*** An informal committee is formed to advice on certain complicated matters. It does not form part of the organisation structure.

5. ***Coordinating committee:*** It is constituted to coordinate the functioning of different departments.

6. ***Executive committee:*** It is a committee which has power to administer the affairs of the business.

1. ***Standing committee:*** are formal committees that are of permanent character.

8. ***Ad hoc committee:*** They are temporary bodies. It is appointed to deal with some special problem and stops functioning after its job are over.

Advantages or merits of committee type of organisation

1. A committee is an effective method of bringing the collective knowledge and experience of a number of persons. Therefore, many multi-dimensional and complex problems of modern enterprises, which cannot be solved satisfactorily by individual managers, can be solved by committees.
2. Committees offer scope for group deliberations and group judgment. Results obtained by group deliberation and group judgment are likely to be better than those obtained by individual judgment.
3. When it is necessary to integrate varying points of view, which cannot conveniently be coordinated by individuals, the committee may be used to bring about coordination.
4. The management can give representation to the employees in various committees. This will motivate the employees for better performance as they feel that they have a say in the affairs of the organisation.
5. A committee form of organisation facilitates pooling of authority of individual managers for making some type of decisions of an inter-departmental nature.
6. A committee form of organisation tends to promote organisational cohesiveness. Group endeavour, team spirit and collective responsibility are control to the philosophy of committees.

Disadvantages of committee type of organisation

(a) If a manager has an opportunity to carry a problem to a committee, he may take it as a means of avoiding decision-making or to escape the consequences of an unpopular decision.

(b) Sometimes, a committee may not be able to take the needed decision because of the conflicting views of the members.

(c) Committees take more time in procedural matters before any decision is taken. In some cases, slowness seriously handicaps the administration of the organisation.

(d) Committees are an expensive device both in terms of cost and time.

(e) When the committee findings represent a compromise of different viewpoints, they may be found to be weak and indecisive.

(f) No member of a committee can be individually held responsible for the wrong decision taken by the committee.

(g) It is very difficult to maintain secrecy regarding the deliberations and the decisions taken by a committee, especially when there are many members in the committee.

3.35 SUMMARY

Organisation is the backbone of management. It is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. Organisation structure is primarily concerned with the allocation of tasks and deligation of authority.

3.36 SELF ASSESSMENT QUESTIONS

Q.1. Organisation is the backbone of Management. Comment.

Q.2. Define organization and explain its principles.

Q.3. Compare formal and informal organizations.

Q.4. What is an Organisation chart?

Q.5. Define Departmention and explain need of departmention.

Q.6. What is Span of management?

Q.7. What is decentralization and what are its advantages?

Q.8. Define delegation and discuss various principles.

Q.9 Discuss various types of delegation.

Q.10. What is Matrix organization?

UNIT -10 : DEPARTMENTATION, DECENTRALISATION, DELEGATION

AIMS AND OBJECTIVES

This lesson is intended to study the various aspects of organising. After studying this lesson you will be able to:

(i) Understand departmentation
(ii) To understand decentalisation
(iii) To know advantage and disadvantage of decentralisation
(iv) To understand delegation
(v) To know principles of delegation
(vi) Understand importance of delegation

CONTENTS

DEPARTMENTATION

3.12 MEANING

Departmentation is the process of grouping various activities into separate units of departments. A department is a distinct section of the business establishment concerned with a particular group of business activities of like nature. The actual number of departments in which a business house can be divided depends upon the size of establishment and its nature. A big business enterprise will, usually, have more departments as compared to a small one.in the words of Allen, "Departmentation is a means of dividing a large and monolithic functional organisation into smaller, flexible, administrative units."

3.13 NEED AND SIGNIFICANCE OF DEPARTMENTS

Departments comprise a framework for as organization and enables it to expand in definition. Departmcntation aims at (i) specialisation of activities for efficient performance ; *(ii)* simplifying the task of management within a workable span ; and *(iii)* maintaining co-ordination and control of the various activities, The advantages of departmentation can be summed up as :

1. It increases the efficiency of the enterprise since various activities are grouped into workable units.
2. It renders the task of fixation of accountability for results very easy since activities are well defined and responsibilities are clearly laid.
3, It provides for fixation of standards for performance appraisal and thus ensures effective control.
4, It creates opportunities for the departmental heads to take initiative and thus develop managerial facilities.

3.14 PROCESS INVOLVED IN DEPARTMENTATION

The various steps involved in departmentation are:

1. to identify task or duties ;
2. to analyse details of each task ;
3. to describe the functions or to group similar activities ;
4. to entrust the grouped activities to departmental heads ; and
5. to define the authority and responsibility of departmental heads.

3.15 DANGERS OF DEPARTMENTATION

Although departmentation is very essential for the efficient running and control of a business, there are a few dangers of departmentation which should be taken care of while assigning and grouping of activities:

1. Dividing the business house into various departments makes the co-ordination of various activities very difficult. To achieve individual efficiency, one department may work against the interest of another department thus reducing the overall efficiency and profitability of the business as a whole.
2. Dcpartmentation creates difficulties of communication among the various departments of the organisation and renders planning and control more difficult.
3. Departmcntation increases the levels of management which is more expensive and it also increases the gap between the top management and the workers.

3.16 METHODS OR BASIS OF DEPARTMENTATION

The following are the basis of dividing responsibility within an organisation structure.

1. Functional Departmentation.
2. Productwise Departmentation.
3. Territorial or Geographical Departmcntation.
4. Customerwise Departmcntation.
5. Process or Equipmentwise Dcpartmentation.
6. Combined or Composite Form of Departmcntation.

1. Functional Departmentation: It refers to grouping the activities of an enterprise on the basis of functions such as production, sales, purchase, finance, personnel, etc. The actual number of departments in which an enterprise can be divided depends upon the size of establishment and its nature. To begin with, we may have three or four main departments. With the growth in the size of the business, more departments and sub-departments may be created.

Advantages

The important advantages of functional departmentation are :

(i) It is a very simple, natural and logical way of grouping activities.

(ii) It promotes specialisation and expertise in various functional areas and experts can be employed.

(iii) It facilitates co-ordination both within the function and at the inter-departmental level.

(iv) It generates a high degree of centralisation at the level of chief executive.

Disadvantages

Functional departmentation suffers from the following drawbacks :

(i) It may lead to internal frictions among the various departmental heads as one department may ignore the interest of the other.

(ii) In functional departmentation, men are experts of their areas of function only. This hinders the development of all-round managers.

(iii) It leads to excessive centralisation and delay in decision making.

(iv) It is unsuitable where emphasis lies on products more than the functions.

2**. Productwise Departmentation**. The grouping of activities on the basis of products is very popular with large organisations having distinct type of products. Under this method, all activities related to one type of product are put together under one department under the direction of a production manager. An electronic company, for instance, may have different departments dealing in television sets, radios and transistors, computers, agro-dairy instruments, etc.

Advantages

The following are the main advantages of productwise departmentation:

(i) It ensures better customer service.

(ii) Unprofitable product lines can be easily determined.

(iii) It solves the co-ordination problem of functional departments.

(v) It makes control effective.

(vi) It assists in the development of all-round managerial talent.

(vii) It is flexible as a new product division can be easily added.

Disadvantages

Productwise dcpartmcntation suffers from the following drawbacks :

(i) It is expensive because of duplication of service functions in various product divisions.

(ii) It may not be linked by customers and dealers who have to deal with different salesmen of the same enterprise for different products.

(iii) It may cause difficulty in apportioning general expenses incurred by the enterprise as a whole.

3. Territorial or Geographical Departmentation. Vhen several activities of an enterprise are geographically dispersed in different locations, territorial or geographical departmentation may be adopted. All activities relating to a particular area or zone may be grouped together under one zonal manager or head

Advantages

The territorial departmentation offers the following advantages :

(i) It enables an enterprise to cater to the needs of local people in a satisfactory manner,

(ii) It enables a concern to make use of locational advantages.

(iii) It facilitates effective control.

(iv) It facilitates effective co-ordination of activities within an area,

(v) It assists in the development of all-round managerial talent.

Disadvantages

(i) It is an expensive method of creating departments and over head costs are also increased.

(ii) It leads to duplication of activities which creates confusion and involves costs.

(iii) Co-ordination among various territorial divisions may become difficult.

4. Customer-wise Departmentation: A business house may be divided into a number of departments on the basis of customers ir serves, viz., large and small customers ; industrial and ultimate buyers ; government and other customers etc. The peculiar advantage of customer wise departmentation is that it ensures full attention to different types of customers and their different needs, tastes and requirements can be met effectively. However, it may not be possible to group all activities of an enterprise on the basis of customers.

5. Process or Equipmentwise Departmentation: An enterprise where production is carried through different processes may adopt process wise partmentation to enable continuous flow of production. Similarly, where work is carried on machines which are common, departments may be created on the basis of equipments, such as milling departments, grinding departments, lathe department etc. The main advantage of this method is that it avoids duplication of equipment in various activities

6. Combined or Composite Method of Departmentation. In practice, it may not be advisable to create departments on the basis of any one of the above mentioned methods, An enterprise may have to combine two or more of the methods of departmcntaton to make best use of all of them. Such a method is known as combined or composite method of departmentation.

DECENTRALISATION

3.19 MEANING

Decentralisation means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegated to a head of each unit. It implies the dispersal of division making power at lower levels to management.

Definitions

According to **McFarland** . "Decentralisation is a situation in which ultimate authority to command and ultimate responsibility for results is localised as far down in the organisation as efficient management of the organisation permits." The delegation of authority and responsibility is allowed downward upto a level it is necessary. In McFarland's views the degree and extent of delegation should be determined as per the needs of the situation.

According to **Allen** Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the central points,"

Allen says that authority should be delegated to the lower levels of management and top management should retain only those powers which cannot be exercised at lower level. In his view decentralisation will involve systematic delegation of authority.

According to **Earl P. Strong** relates decentralisation to the working of different units of an enterprise. He says that decentralisation will require the delegation of authority to the persons in charge of different units. They should have sufficient authority to run the units independently.

3.21 MEASUREMENT OF DEGREE OF DECENTRALISATION

Decentralisation is not an absolute term. The degree of decentralisation varies from concern to concern. Earnest Dale has pointed out the following four tests to determine the degree of decentralisation:

1. **More Number of Decisions.** The greater the number of deisions made at lower levels of management, the greater is the degree of decentralisation :
2. **Important Decisions are takes.** ***If*** important decisions arc taken at lower levels then degree of decentralisation will be more. On the other hand if insignificant decisions are allowed at lower levels then decentralisation will be much less,
3. **Effect of Decisions.** If decisions affecting more functions are allowed at lower levels then decentralisation will be more. On the other hand if only operational decisions are made at lower levels then decentralisation will be less. When decisions involving finances are taken at lower level then degree of decentralisation will be more.
4. **Checking of Decisions.** When decisions are subject to the approval of superiors then decentralisation will be less. Still, it will be less if superiors are to be consulted before taking certain decisions. If subordinates are free to take decisions of their own then decentralisation will be more.

3.22 ADVANTAGES OF DECENTRALISATION

Some of the advantages of decentralisation arc discussed as under:

1. **It Reduces Burden of Top Executives.** Centralisation of authority over-burdens top executives. They are left with no time for planning, etc. In decentralisation decision-making power is delegated to the lower levels relieving top executives of some of their burden.

Under this system top executives will retain only that work which requires their personal attention otherwise everything is assigned to persons at appropriate levels. This will reduce the burden of top executives and they will be able to devote more time for planning, etc.

2. **It Takes Quick Decisions.** Under decentralised system decision-making powers are delegated to the level of actual execution. Whenever there is a need for taking a decision, the concerned executive will decide the things immediately. There is no need to make reference to the top level for most of the work. It quickens the process of decision-making.
3. **It Facilitates Diversification.** With the expansion and diversification of activities there will be a need to delegate authority at departmental level. Decentralisation gives enough authority to persons at various levels for carrying out the required task. The centralised system of authority will not allow diversification beyond a certain level because decision-making is reserved by one man only. The organisation will become more and more complex with the addition of new products and setting up of- more units. Decentralised system will be more suitable for expanding enterprises.
4. **Motivation of Subordinates.** Under decentralisation subordinates get opportunity for taking decisions independently. This fulfils the human need for power, independence and status. Subordinates will realise their importance in the organisation. They will try to put their maximum efforts so that their performance improves. They get a chance to take initiative and to try new ideas. The subordinates feel motivated under decentralised set-up.
5. **It is Sense of Competition.** Under decentralised system different departments or units are made separate profit centres. The employees of different dedpartments will compete with each other to show better results. The sense of competition will improve the performance of all departments or segments.
6. **Provides Product or Market Emphasis.** Since decision-taking is scattered and goes to lower levels of management there will be more product or market emphasis. The changing tastes and fashions require prompt decisions. The decentralised system will respond immediately to the changing situations. The persons concerned with marketing will take quick decisions as are necessary under the situation.
7. **Division of Risk.** The enterprise is divided into a number of departments under decentralisation. Management can experiment new ideas at one department without disturbing others. This will reduce thi. risk if things go adverse. Once the experiment is successful it can be used in other segments also. So risk element can be limited under decentralised system.
8. **Effective Control and Supervision.** With the delegation of authority, span of control will be effective. Since executives at lower levels will have the full authority to lake important decisions, they will recommend awards or punishments as per their performance. This will improve supervision and control.

Disadvantages of Decentralisation

Decentralisation suffers from a number of drawbacks and some of these are discussed as follows:

1. **Lack of Co-ordination.** Under decentralisation each department, unit or section enjoys

substantial powers. They have the powers to formulate their own policies and programmes. It becomes difficult to co-ordinate the activities of various segments. Moreover, every segment emphasises its own work only without bothering about others. This creates more difficulties in co-ordinating activities.

2. **Difficulty in Control.** Since different units work independently it becomes difficult to control their activities. Top management will not be able to exercise effective control because it does not remain in touch with day-to-day activities of various segments.
3. **Costly.** Decentralised system involves heavy overhead expenses. Every decentralized division has to be self-sufficient for its activities like production, marketing, accounting, personnel, etc. A number of persons will be employed to man various activities. These persons are paid higher salaries involving huge costs. Decentralised system is suitable for large scale enterprises only. Small-scale business units cannot afford to spend higher overhead expenses.
4. **Lack of Able Managers.** Decentralised system will succeed only if competent persons are employed to manage various jobs in different segments. Competent persons are not sometimes available as per the requirements. The system will fail if competent personnel are not available.

3.35 SUMMARY

Departmentation is a means of dividing a large and monolithic functional organization into smaller, flexible administrative units. It is the process of grouping various activities into separate unit of department. Span of management returns to the number of subordinates managed by a superior. The term span means the space between two supports of a structure.

Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the control points. Delegation is the assignment of authority to the subordinate in a defined area and making them responsible for the results.

3.36 SELF ASSESSMENT QUESTIONS

Q.1. Organisation is the backbone of Management. Comment.
Q.2. Define organization and explain its principles.
Q.3. Compare formal and informal organizations.
Q.4. What is an Organisation chart?
Q.5. Define Departmention and explain need of departmention.
Q.6. What is Span of management?
Q.7. What is decentralization and what are its advantages?
Q.8. Define delegation and discuss various principles.
Q.9 Discuss various types of delegation.
Q.10. What is Matrix organization?

UNIT-11: SPAN OF MANAGEMENT

LEARNING OBJECTIVES

This lesson is intended to study the various aspects of organising. After studying this lesson you will be able to:

(i) To know span management
(ii) To understand decentalisation
(iii) To know advantage and disadvantage of decentralisation
(iv) To understand delegation
(v) To know principles of delegation
(vi) Understand importance of delegation
(vii) To understand matrix organization

CONTENTS

SPAN OF MANAGEMENT

3.17 MEANING

Span management also known as span of control refers to the number of subordinates managed by a superior. The term span' literally means the space between two supports of a structure, *e.g.*, the space between two pillars of a bridge. The space between the two pillars should neither be too large nor too small. If it is too large the bridge may collapse; and it too small, It will enhance its cost.

"When applied to management, 'span' refers to the number of subordinates a manager or supervisor can supervise, manage or control effectively and efficiently. Obviously, if the number of subordinates placed under one manager is too large, it will become difficult to effectively control them and the desired results cannot be achieved. On the other hand, if the number is too small, the time, energy and abilities of the supervisor are not utilised fully and the task may not be accomplished. Span of supervision, therefore, refers to the optimum number of subordinates that a manager or supervisor can manage or control effectively. In the words of Spriegal “Span of control means the number of people reporting directly to an authority. The principle of span of control implies that no single executive should have more people looking to him for guidance and leadership than he can reasonably be expected to serve."

3.18 DETERMINING THE PROPER SPAN

Very often the question is asked as to how many subordinates a supervisor can manage effectively. There cannot be a definite answer to this question because the ideal number may be different under different situations depending upon the time, knowledge, energy and abilities of the supervisor. However, this question has been attempted by various management experts and even they are not unanimous over this point.

The idea of limited span developed from experience. Although the concept of span of control was discussed by Henri Fayol, but Sir Ian Hamilton is usually given credit for developing this concept. Sir Ian Hamilton was in favour of a narrow span consisting of not more than six subordinates working under a manager to get the work accomplished.

V.A. Graicunos pubBshed a famous paper in 1933. He analysed subordinate-superior relationship in terms of a mathematical formula. The formula was based on the theory that the complexities of management increase geometrically as the number of subordinates increases arithmetically. Graicunos identified three types of subordinate-superior relationship;

1. *Direct Single Relationship* arising from the direct and individual interaction of the superior with his subordinate. Thus, if a supervisor has four subordinates, there would be four direct single relationships.
2. *Direct Group Relationships* arising between the superior and the subordinate in all possible combinations, such as A to B with C, and A to C with B.
3. *Cross Relationships* arising from mutual relationships among subordinates for working under the same superior.

DELEGATION

3.24 MEANING

Delegation of authority involves giving authority to various organizational positions to get things done. All important decisions are taken at top level by Board of Directors. The execution is entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in turn delegate the authority to their subordinates. Every superior delegates the authority to subordinates for getting a particular work done. The process goes to the level where actual work is executed

There is a limit upto which a person can supervise the subordinates. When the number of subordinates increases beyond it then he will have to delegate his powers to others who perform supervision for him. A manager is not judged by the work he actually performs on his own but the work he gets done through others. He assigns duties and authority to his subordinates and ensures the achievement of desired organisational goals.

3.25 DEFINITIONS

Allen "The entrustment of a part of the work, or responsibility and authority to another, and the creation of accountability for performance."

O.S. Hiner. says "Delegation takes place when one person gives another the right to perform work on his behalf and in his name, and the second person accepts a corresponding duty or obligation to do what is required of him."

Douglas C. Basil. Opens, "Delegation refers to a manager's ability to share his burden with others. It consists of granting authority or the right to decision-making in certain defined areas and charging subordinates with responsibility for carrying through an assigned task."

3.26 CHARACTERISTICS OF DELEGATION

Delegation is the assignment of authority to subordinates in a defined area and making them responsible for the results. Delegation has the following characteristics :

1. Delegation takes place when a manager grants some of his powers to subordinates.
2. Delegation occurs only when the person delegating the authority himself has that authority i.e. a manager must possess what he wants to delegate.
3. Only a part of authority is delegated to subordinates.
4. A manager delegating authority can reduce, enhance or take it back. He exercises full control over the activities of the subordinates even after delegation.
5. It is only the authority which is delegated and not the responsibility. A manager cannot abdicate responsibility by delegating authority to subordinates.

3.27 Elements of Delegation

Delegation involves following three elements:

1. **Assignment of Duties**: (The first step in delegation is the assignment of work or duty to the subordinate i.e. delegation of authority. The superior asks his subordinate to perform a particular task in a given period of time. It is the description of the role assigned to the subordinate. Duties in terms of functions or tasks to be performed constitute the basis of delegation process.
2. **Grant of Authority:** The grant of authority is the second element of delegation. The delegator grants authority to the subordinates so that the assigned task is accomplished. The delegation of responsibility with authority is meaningless. The subordinate can only accomplish the work when he has the authority required for completing that task. Authority is derived from responsibility, It is the power, to order or command, delegated from superior, to enable the subordinate to discharge his responsibility. The superior may transfer it to enable the subordinate to complete his assigned work properly. There should be a balance between authority and responsibility. The superior should delegate sufficient authority to do the assigned work.
3. **Creation of Accountability.** Accountability is the obligation of a subordinate to perform the duties assigned to him. The delegation creates an obligation on the subordinate to accomplish the task assigned to him by the superior. When a work is assigned and authority is delegated then the accountability is the by-product of this process. The authority is transferred so that a particular work is completed as desired. This means that delegator has to ensure the completion of assigned work. Authority flows downward whereas accountability flows upward. The downward flow of

authority and upward flow of accountability must have parity at each position of management hierarchy. The subordinate should be made accountable to only one superior. Single accountability improves work and discipline.

3.28 PRINCIPLE OF DELEGATION

The following are the principles of delegation:

1. **Principle of Functional Definition**. The related or similar activities should be grouped together according to enterprise function. When the definition of a position is clear then delegation of authority becomes simple. In the words of Koontz and O'Donnell "the more a position or a department has clear definitions or results expected, activities to be undertaken, organisation authority delegated and authority and informational relationships with other positions understood, the more adequately the individuals responsible can contribute toward accomplishing enterprise objectives."

   It is very difficult to define a job and the authority required to accomplish it. If the superior is not clear about the results expected then it becomes all the more difficult. It should be clear who should do what so that right amount of authority is delegated. Dual subordination results in conflicts, division of loyalty and lack of personal responsibility for results.

2. **Principle of Unity of Command:** the basic management principle is that of unity of command. This principle states that a subordinate should report only to single superior. This will give a sense of personal responsibility. Although it is possible for a subordinate to receive orders from more superiors and report to them but it creates more problems and difficulties. An obligation is essentially personal and authority delegation by more than one person to an individual is likely to result in conflicts in both authority and responsibility. This principle is also useful in the classification of authority-responsibility relationships.
3. **Principle of Delegation by Results Expected.** The delegation of authority should be based on the basis of results expected. The authority should be sufficient to achieve the desired results. If the authority is insufficient then results will not be achieved. So there should be a balance between the results expected and the authority required.
4. **Principle of Absoluteness of Responsibility.** The responsibility of a subordinate, once he has accepted the work, is absolute to his superior. The responsibility of the superior does not decrease once he has delegated authority. A person can delegate authority and not responsibility. He will remain accountable for the work even if it is delegated to the subordinate. So the responsibility of superior and subordinate remains absolute.
5. **Principle of Parity of Authority and Responsibility.** Since authority has the right to carryout assignments and responsibility is the obligation to accomplish it, there should be a balance between the both. The responsibility should bear logical relationship with authority delegated. The subordinate should not be burdened with high performance responsibility with delegating enough authority. Sometimes the authority is delegated but the concerned person is not made accountable for its proper use. This will be a case of poor management. The parity between authority and responsibility will be essential for achieving efficiency.

6. **Authority Level Principle.** The principle of decision-making should remain at the levelat which authority is delegated. The managers delegate authority to subordinates but have the temptation to make decisions for them. They should allow the subordinates to take their own decisions as per the authority delegated to them. The delegation of authority will be effective only when it is clear and understandable to subordinates. The subordinates should know the area of their decision-making and should avoid the temptation of referring things to higher ups. In the words of Koontz and O'Donnell, the authority level principle would be "maintenance of intended delegation requires that decisions within the authority competence of individuals be made by them and not be referred upward in the organisation structure."
7. **The Scalar Principle.** The scalar principle refers to the chain of direct authority relationships from superior to subordinates throughout the organisation. The ultimate authority must rest somewhere. Subordinates must know to whom they should refer the matter if it is beyond their authority. The more clear the line of authority from top manager to every subordinate the more effective will be responsible decision-making."

3.29 TYPES OF DELEGATION

Delegation may be of the following types:

1. **General or Specific Delegation.** When authority is given to perform general managerial functions like planning, organising, directing etc., the subordinate managers perform these functions and enjoy the authority required to carry out these responsibilities. The chief executive exercises overall control and guides the subordinates from time to time.

   The specific delegation may relate to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation. Various departmental managers get specific authority to undertake their departmental duties.

2. **Formal or Informal Delegation**. Formal delegation of authority is the part of organisational structure. Whenever a task is assigned to a person then the required authority is also given to him. This type of delegation is part of the normal functioning of the organisation. Every person is automatically given authority as per his duties. When production manager gets powers to increase production then it is a formal delegation of authority.

Informal delegation does not arise due to position but according to circumstances. A person may undertake a particular task not because he has been assigned it but it is necessary to do his normal work.

3 Lateral Delegation: When a person is delegated an authority to accomplish a task, he may need the assistance of a number of persons. It may take time to formally get assistance from these persons. He may indirectly contact the persons to get their help for taking up the work by cutting short time of formal delegation. When the authority is delegated informally it is called lateral delegation.

3.30 NEED OF DELEGATION

Delegation is a universally accepted principle. It has been practised **since** time immemorial and in every field. Delegation is necessary not only for a business undertaking but also for running a government. In government, legislative bodies delegate their powers to Council of Ministers who in turn delegate to officers and so on. Delegation is essential even for running a family because head of the family will have to get the help of various members for performing various tasks. An industrial undertaking benefits by delegation in the following ways :

1. **Relieving Top Executives:** Top executives cannot perform and supervise each and every work. Moreover they are required to undertake important tasks of planning and controlling. Delegation helps executives in delegating their work to subordinate officers.
2. **Improved Functioning.** In the absence of delegation some persons may be burdened with more tasks while others may not have sufficient work to do. Delegation helps in rationalizing the functioning of an organisation. Work is divided among various persons in such a way that it is done in an efficient way. Nobody is unduly burdened and no work is left unattended.
3. **Use of Specialists.** Delegation enables the use of specialists for taking up different functions. A production manager will be assigned the task of production, a sales manager will look after sales department, a lawyer will look after legal matters and so on. The use of specialists for different functions will improve the quality of work.
4. **Helps in Employee Development.** When subordinates are given independent assignments then they will be able to use their initiative and experience. This will also give them confidence in taking up further responsibilities. Without delegation, subordinates will not get a chance to try their knowledge. Delegation of power is the best way of developing subordinates and preparing them for taking up more responsibilities in future.
5. **Helps in Expansion and Diversification.** The expansion and diversification of an enterprise needs the services of more and more persons. The assignment of various tasks to subordinates will prepare them for undertaking new assignments. If subordinates are not assigned important works earlier then it will be dangerous to give them independent tasks straight way. Delegation is very useful for undertaking expansion and diversification plans.

3.31 FACTORS INFLUENCING DEGREE OF DELEGATION

Delegation of authority is a must for every organisation. The question to be decided is how much authority should be delegated to subordinate managers. The pattern to be followed for delegation should be decided on the basis of its requirements. It will be wise to check from time to time the already existing delegation of authority in order to make sure that it is appropriate and adequate.

A number of factors influence the decision about delegation. Some of these are discussed as follows

1. Knowledge about Company: The history of the company influences the degree of delegation. A company grown over a period of time has a tendency to centralise powers. When a concern is small then most of the decision-making is done by the owner. With the growth of business, the tendency to centralise powers remains^ On the other hand if a concern is the outcome of a merger, amalgamation or combination, there may be a great amount of decentralisation. If a company is working on a decentralised pattern it will be run in the same way even on its acquisition. So the growth history of a concern influences the degree of delegation.

2. Assignment of duties*:* The element of delegation is linked to the availability of subordinate managers. If sufficient persons are available who can take responsibility then delegation can easily be done. Generally, managers complain that sufficient subordinate managers are not available who can be assigned important duties. Unless subordinates are delegated the powers they will not learn the art of management. With additional experience and training their judgment would be improved and they will become more capable subordinates. Many large firms push decision-making to the lower ranks of the organisation for the purpose of developing and training managerial manpower. A subordinate may be given small powers in the beginning. As he develops his managerial capabilities he can be assigned more important work. One thing should be clear that unless otherwise powers are delegated to lower levels, the concern will not be able to develop subordinate managers. The delegation process should be continually pursued so that people are trained to undertake more responsibilities.

3. Importance and Costliness of Decisions: The importance and costliness of decisions greatly influences the degree of delegation. Generally speaking, the costlier and more important the decision, the greater the probability of its being made at the upper level of the managerial hierarchy. Decision-making also requires various facts and figures about the issue. A manager will ensure that he gets all required information for deciding the issue This type of information is easily available at higher levels of management. A manager knows that he can delegate authority and not responsibility. Some decisions can influence the whole organisation. Any wrong decision on such important matters can damage the enterprise beyond control. Such decisions are taken at higher level because these persons have the past experience of deciding such things. In a manager's career he should first be given authority to take decisions which are not too costly so that he is able to learn from his experience.

4. Size of the Enterprise. The extent of delegation is linked to the size of the enterprise. In a large unit more decision making is needed at various levels of management. The problems of communication and co-ordination often arise in such units. If decision-making is closer to the place of action it will save time, paper work is reduced, misunderstandings in communication can largely be eliminated. There is a tendency to decentralise in big units for avoiding many difficulties.

5. Available Controls. A manager delegating authority wants to be sure that it is used in accordance with his intentions and the general objectives of the organisation. In order to achieve this there must be control devices. Generally, managers hesitate to delegate due to the reason that they donot know how to control. They have a feeling that it takes more time to exercise control than exercising the authority themselves. It will be better to set up some control devices. The better the control devices, the more will be the delegation of authority.

6. Types of Enterprise. The degree of delegation of authority may also be influenced by the type of enterprise. If the enterprise is in an industry which is rapidly expanding, as in the electronic field, top management will have to delegate otherwise ii will be over burdened with many decisions Decentralisation of authority will take place even if the subordinate managers donot have adequate experience to exercise authority. Management should make guidelines for subordinate managers for taking proper decision.

If the enterprise operates in a static industry then all decision-making is done at the central level. In case of banking and insurance the growth is slow and decision-making remains at the top. So delegation of authority depends upon the nature of the enterprise.

7. Environmental Factors. In addition to internal factors delegation may be influenced by internal factors too. These factors may be natural unions, government control over business and tax policies. Some large concerns have to deal with workers' unions at national level. All the negotiations are done and decisions are taken at national level. In such a situation the things are decided at head quarter level and are applicable at all levels It, therefore, follows that within the area of labour relations, decision-making is decentralised. The same holds true as applied to government control over business, and tax laws.

3.32 DIFFERENCE BETWEEN DECENTRALISATION AND DELEGATION

The words decentralisation and delegation appear to be inter- changeable but it is not so. Even though both involve dispersal of authority but decentralisation is an extension of delegation. Following are the points of distinction between the two:

	Delegation	Decentralisation
1. *Nature*	Delegation is individualistic. It involves two persons, superiors are subordinates.	Decentralisation is totalistic in nature. It involves delegation from top management to the department or divisional level.
2. *Control*	Control rests with the dclegator or superior	In this system top management exercises minimum control. All powers are given to concerned departments or divisions.
3. *Need*	Delegation is essential to get things done by others. Unless otherwise authority is delegated it will be difficult to assign responsibility.	Decentralisation is optional because it is the philosophy of management. Top management may or may not disperse authority.
4. *Responsibility*	In delegation, responsibility remains with the delegator. He can delegate authority and not responsibility.	In decentralisation, head of the department is responsible for all activities under him. He is required to show better performance of the whole department.

3.35 SUMMARY

Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the control points. Delegation is the assignment of authority to the subordinate in a defined area and making them responsible for the results.

3.36 SELF ASSESSMENT QUESTIONS

Q.6. What is Span of management?
Q.7. What is decentralization and what are its advantages?
Q.8. Define delegation and discuss various principles.
Q.9 Discuss various types of delegation.
Q.10. What is Matrix organization?

UNIT-12 LINE & STAFF ORGANISATION, MATRIX ORGANISATION

LEARNING OBJECTIVES

This lesson is intended to study the various aspects of organising. After studying this lesson you will be able to:

(i) To know principles of delegation
(ii) Understand importance of delegation
(iii) To understand matrix organization

CONTENTS

SPAN OF MANAGEMENT

3.34 MATRIX ORGANIZATION

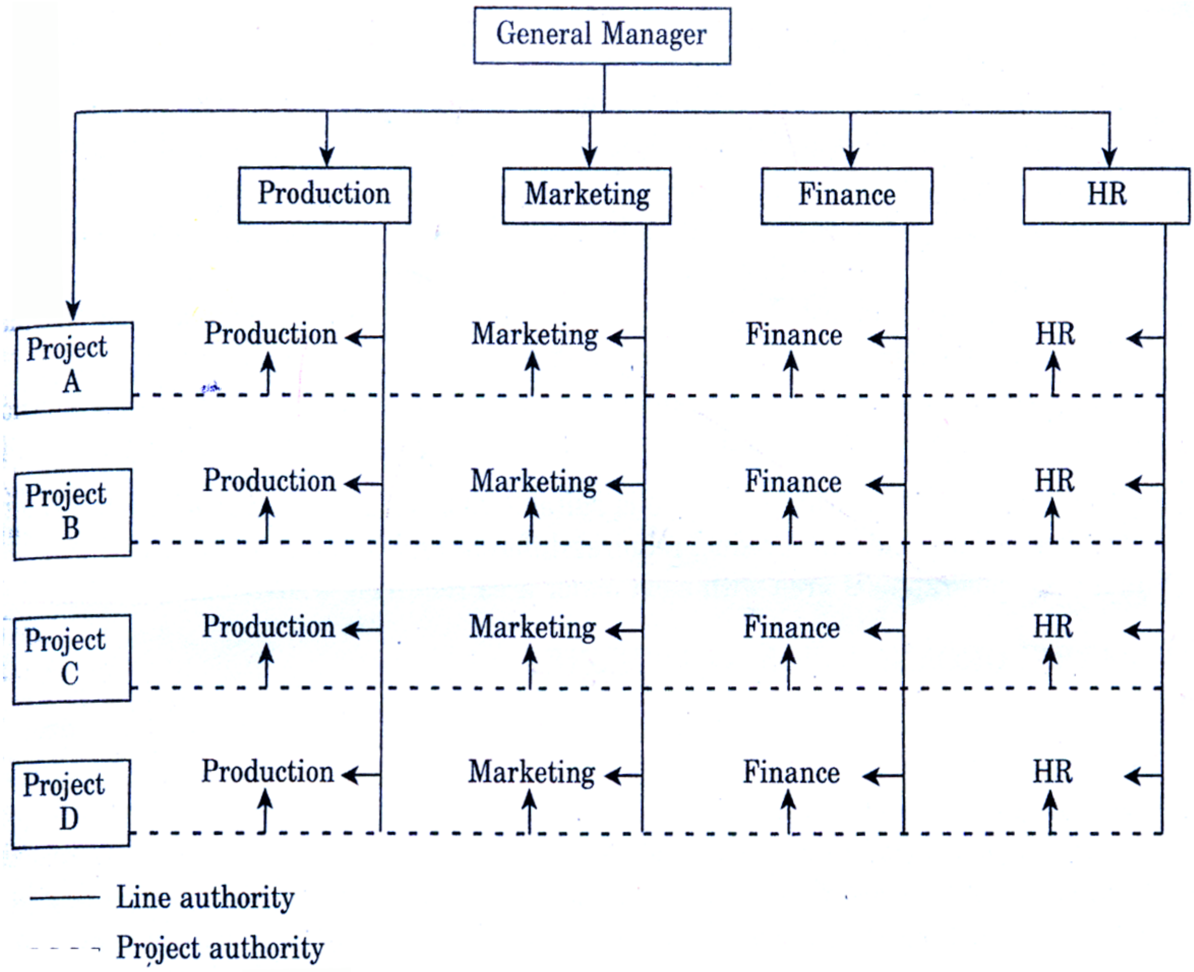
Matrix organization structure is the combination of two complementary structures — project structure and functional structure. Project organization structure is the structure in which divisions are created on the basis of projects undertaken by an organization at a particular time. On completion of a project, the concerned division is abolished and its resources are allocated to other projects. Project organization structure is created for completing projects of large size which take sufficiently long time. Matrix organization structure is also created for completing projects but size of these projects is much smaller with shorter time duration.

Design of Matrix Organizations Structure

In matrix organization structure, a project manager is appointed for each project to coordinate the activities of the project. Personnel are drawn from their respective functional departments. On completion of the project, these people may return to their original departments for further assignment. Thus, each functional staff has two bosses — his functional superior and his project manager. During his assignment to a project, he works under the coordinative command of the project manager and may be called upon by his functional superior to perform certain services needed in the project. Thus, a subordinate in matrix organization structure may receive instructions from two bosses. Therefore, he must coordinate the instructions received from two or even more bosses. Thus, there are two types of authority in matrix organization structure: line authority exercised by the concerned functional superior and project authority exercised by project manager.

Advantages of Matrix Organization Structure

As compared to functional and divisional organization structures, matrix organization structure is of comparatively recent origin but its use has spread in various fields, including educational institutions which undertake multidisciplinary projects. In fact, matrix structure has been evolved to overcome the limitations of traditional hierarchical organization structures (functional and divisional). It has the following advantages:



Matrix organization structure

1. Matrix organization structure focuses on resources of each project, permitting better planning and control to meet the project deadline. In project execution, time is of prime importance and, therefore, it should be completed within the specified time. However, since the organization cannot create many project divisions, matrix serves the purpose adequately.

2. It is quite flexible structure as compared to traditional hierarchical structures. Therefore, it can work very well in dynamic environment by absorbing the inevitable events that may occur as work progresses on projects.
3. It emphasizes professional competence by elaborating authority of knowledge rather than authority of position, this type of internal environment in the organization provides personnel to develop and test their professional competence and widen their scope to contribute maximum in the organization.
4. It relieves top management for taking long-term course of actions so that the organization can design its strategies suitable to environmental needs.

3.35 SUMMARY

Matrix Organisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the control points. Delegation is the assignment of authority to the subordinate in a defined area and making them responsible for the results.

3.36 SELF ASSESSMENT QUESTIONS

Q.1. Organisation is the backbone of Management. Comment.

Q.2. Define organization and explain its principles.

Q.3. Compare formal and informal organizations.

Q.4. What is an Organisation chart?

Q.5. Define Departmention and explain need of departmention.

Q.6. What is Span of management?

Q.7. What is decentralization and what are its advantages?

Q.8. Define delegation and discuss various principles.

Q.9 Discuss various types of delegation.

Q.10. What is Matrix organization?

BLOCK 04: COORDINATION AND CONTROLLING & CONTEMPORARY ISSUES

UNIT-13- PRINCIPLE OF COORDINATION –PROCESS OF COORDINATION

LEARNING OBJECTIVES

After studying this lesson you will be able to:

- Understand meaning and definition of co-ordination
- Explain essentials of Co-ordination
- Outline the process of co-ordination
- Understand the principles of co-ordination

Contents

CO-ORDINATION

4.1 MEANING

Coordination is concerned with harmonious and unified action directed toward a common objective. It ensures that all groups and persons work efficiently, economically and in harmony. Co-ordination requires effective channels of communication. Person to person communication is most effective for co-ordination. Co-ordination is undertaken at every level of management.

4.2 DEFINITION

According to Henry Fayol, "To Coordinate is to harmonise all the activities of a person in order to facilitate its working and its success".

According to George Terry, "Co-ordination deals with the task of blending efforts is order to ensure successful attainment of an objective. It is accomplished by means of planning organising, actuating, and controlling.

According to Neoman, "Co-ordination is a part of all phases of administration and that it is not a separate and definite activity".

4.3 NATURE OF CO-ORDINATION

1. Co-ordination is to harmonise various activities of the enterprise to ensure smooth working.
2. It is an effort to ensure the objections of the business with minimum friction and maximum co-ordination among various segments of the business.
3. Co-ordination is an effort to reach business goals by means of planning, organising, actuating and controlling various activities.
4. It is not a separate managerial function.
5. The exercise of each managerial function involves co-ordination.

4.4 ESSENTIALS OF CO-ORDINATION

In reality co-ordination is the essence of management. Co-ordination is better descriptive of manager's functions than management itself. Every managerial function needs co-ordination in itself. Following are the reasons for treating co-ordination as the essence of management;

1. Co-ordination is the synchronisation of human efforts in an organisation and management too tries to correlate various managerial functions for achieving business objectives. Business goals will be achieved only when activities of various functions will be co-ordinated. It will be a collective effort of all the functions which will be instrumental in reaching business goals. So management itself is the synchronisation of various activities being undertaken in the business.
2. Every business function has some objectives. In order to achieve these objectives various activities are undertaken, some more important and some less important. The functions of planning, organising, staffing, directing and controlling comprise of various sub-functions or activities. Unless these activities of various functions are synchronised the objectives of the functions will not be achieved. Similarly, in order to achieve business goals various functions need to be synchronised. So co-ordination is essential for every activity

of all the functions. So proper management needs proper co-ordination and it is inherent in every managerial activity.

3. When various functions are performed by taking into consideration the integration of various activities, the results will be good. On the other hand if every activity is taken up without having regard to other activities then there will be chaos and mismanagement. There will be a need of co-ordination for setting the things right. It was this reason that classical school of management considered co-ordinalion as a separate function of management. In the systems approach of management execution of management functions proceeds on integrative basis and the problem of co-ordination does not arise but it becomes automatic process. All managerial functions try to achieve integration of various efforts and co-ordination becomes the essence of management and not a separate function.

4.5 PRINCIPLES OF CO-ORDINATION

Mary Parker Follett, in her discussion, has stated the following important principles of co-ordination:

1. **Principle of Direct Contract.** Miss Follett believes that co-ordination can be achieved more easily by direct interpersonal horizontal relationships and direct personal communications,
which bring out agreement on methods, actions, and ultimate achievement. The possibilities of
conflict and misunderstanding always remain. These can be removed or sorted out by direct contact and proper communication among various persons. Direct contact even helps in creating mutual goodwill which may help in proper co-ordination.

2. **Principle of Early Beginning.** Co-ordination can be achieved more readily in the early stages of planning and policy-making. If the policies are in execution stage then co-ordination may become difficult. If the plans are executed without proper co-ordination then results may be disastrous. "If the head of the production department, while he is forming his policy, meets and discusses with the other heads, the question involved a successful co-ordination is far more likely to be achieved, that is, you cannot, with the greatest degree of success for your undertaking, make policy forming and policy adjusting two separate processes." Achieving co-ordination in the early stages of planning and policy making is essential.

3. **Principle of Reciprocal Relationship.** All the factors in a situation are reciprocally related. The work of one person is dependent on that of the other, who in turn, may be dependent on some other. For instance, A works with B and he in turn works with C and D. The relationship of all the four will be reciprocal. In the absence of co-ordination among them the work of everyone will suffer. Similarly, other factors like materials, finance, sales, production will be dependent upon one another. When members in an organisation realise that all factors are reciprocally related then co ordination becomes easy.

4. **Principle of Continuity.** As the fourth principle of co-ordination, Mary Follert states that co-ordination is a continuing process and something which must go on all the time. It is a managerial process which is exercised every time so that the working is smooth

and uninterrupted. It is not like reconciling conflicts as and when they arise. Co-ordination cannot be left to a sheer chance but management should make constant efforts to achieve it. There is a constant need for co-ordination in a business.

4.6 IMPORTANCE OF CO-ORDINATION

Co-ordination is essential at every level of management. It is a process of group efforts for achieving business, goals. The quality of management will depend upon the efficiency achieved in co-ordination. According to Chester Bernard, "the quality of co-ordination is the crucial factor in the survival of organisation." Smooth working and achievement of organisational goals will depend upon sound co-ordination. The important benefits of co-ordination are stated as follows:

1. **Better Personnel Relations.** Management and staff create cordial human relations through co-ordination. The points of dispute or conflict among different persons, between line and staff, etc. can be settled by mutual discussions. Better personal relations are also helpful in increasing the morale of employees which ultimately leads to job satisfaction.

The results-of co-ordinated group efforts will be much better than the sum results of different individuals. The members will willingly and wholeheartedly contribute towards the success of the enterprise. Therefore, co-ordination is necessary to bring unity of action in the organisation.

2. **Unity of Direction.** Co-ordination helps in creating unity of direction. Different segments of the business may set different goals. The co-ordination process helps in synchronising various efforts. It motivates various employees to view their work from the standpoint of the business. In the absence of co-ordination, there may be conflicting goals and everybody may perceive the objectives in a different way. This will create confusion and chaos in the organisation. Co-ordination will help in reconciling conflicting views.

3. **Essential for Management.** The increase in the size of organisation has brought a number of complexities. There is a degree of specialisation, division of labour and large number of individuals. Everybody has his own personality traits and ways of working. It is essential to synchronise the work of all persons in the organisation. Co-ordination helps in bringing unity of action for achieving business goals.

4. **Efficiency and Economy.** Co-ordination promotes efficiency and economy in the organisation. By co-ordinating activities the efficiency is brought in the working. It also helps in avoiding delays and eliminating duplication of efforts. This will result in saving of time and energy, thus bringing economy to the business.

5. **Helpful in Developing and Retaining of Personnel.** Co-ordination by synchronising various activities, helps in promoting team spirit among organisational personnel. There will be no conflict or confusion in division of work and everybody will try to improve his own performance. This helps in developing potentialities of every person in the organisation. Co-ordination also helps in promoting job satisfaction among employees by giving them personal contentment. The concern will be able to retain the services of good employees.

4.7 TECHNIQUES OF EFFECTIVE CO-ORDINATION

Every management will try to improve its working through proper co-ordination of work. The aim of every managerial function will be to reach organisational goals and this is facilitated only through co-ordination. The purpose should be to achieve effective co-ordination. Some of the techniques used for achieving effective co-ordination are discussed as follows:

1. **Goals are Well Defined**. The goals of the organisation should be clear and well-defined. Everybody should know the objectives and his contribution towards its achievement. Unity of purpose will be achieved through proper co-ordination.
2. **Simplified Organisation.** The organisational structure should clearly define the authority and responsibility of each and every person. This will help in reducing conflicts among persons. Over specialisation of activities also creates problems of co-ordination. There should be well-defined organisational charts, job descriptions, work manuals, etc. for avoiding any type of misunderstanding. Co-ordination will be Achieved when there are clear lines of authority and responsibilities.
3. **Effective Communication.** Effective communication helps in creating proper understanding among persons whose work needs to be co-ordinated. Through communication every individual understands his scope, limitations, his position in the organisation and his relationship with others. Regular communication among various persons helps in resolving conflicts and differences. People can understand the view point of others in the organisation.
4. **Effective Leadership.** Effective leadership is essential for better co-ordination. A good leader is able to achieve co-ordination both at planning and execution stages. If a leader is undecided about his task then he will not be able to either guide or co-ordinate their activities.
5. **Effective Supervision.** Co-ordination can also be facilitated by effective supervision. A supervisor is the person who constantly watches the work of his subordinates. He can adjust the work load, provide guidance to his subordinates if the situation demands. A supervisor is an important person in co-ordinating the work at execution level. He will keep the overall objectives of the organisation in mind and will direct the work of his subordinates in that direction.
6. **Co-operation**. Co-ordination can be achieved through voluntary co-operation of employees. There should be a feeling of mutual help for each other. Co-operation can be brought by keeping harmonious relations among employees. Management should encourage formal and informal communication among employees. There should also be committees to take important decisions. The decisions of committees will be group decisions and everybody will co-operate in implementing them.

4.8 PROCESS OF CO-ORDINATION

Co-ordination cannot be achieved through orders. It is a process which can be achieved through managerial functions. It is a by-product of good management. When all the functions are carried out properly then co-ordination will come by itself. Co-ordination may be achieved through following processes:

1. **Through Planning.** The planning is the elementary stage of achieving co-ordination. When various functions are properly planned and various policies are integrated then co-ordination will be easily achieved. If production manager is to plan for his development then it will be better to consult purchase manager, personnel manager, finance manager, sales manager also. When production is planned with the consent of other concerned managers then co-ordination

takes place at planning level. If other managers feel some difficulties then they will explain it and mutually accepted decisions will resolve the differences. Co-ordination can certainly be achieved at planning stage. According to Mary Follett, planning stage is the ideal lime to bring about co-ordination and they must see to it that various plans are properly interrelated.

2. **Through Organisation.** Co-ordination is an essential part of organisation. Mooney considers co-ordination as the very essence of organisation. When a manager groups and assigns various activities to subordinates, the thought of co-ordination will be upper most in his mind. The related activities are placed together to avoid delays and confusion. In the process of organisation, the authority and responsibility of various persons is defined and even the relationship among different jobs is also specifically given. The whole process of organisation will lead to effective co-ordination. A well thought-out organisation will ultimately lead to co-ordination.

3. **Through Directing.** When a manager directs his subordinates he will be co-ordinating their work. He will give them directions, guidelines and instructions for doing a job assigned to them. He will direct in such a way that the achievement of overall organisational objectives is ensured. The manager should use a group system to take decisions. Everybody should be free to express his opinion. This will create a sort of moral binding on the employees to work for the proper implementation of these decisions. The co-ordination work of the manager will also become easy. So, direction of employees will also lead to co-ordination.

4. **Through Controlling.** The manager is required to control the work of everyone in the organisation so that all efforts are directed towards main goals. There may be instances when performance of subordinates is not upto the mark or it is not in the direction in which it should have been. The manager will take corrective measures as and when required. He will synchronise the work of his subordinates so that the goals are achieved easily. The controlling function itself will facilitate co-ordination because it will require the evaluation of performance of subordinates and will enable the manager to make changes if there are deviations between standards set and results achieved.

5. **Through Staffing.** The staffing function can also help in proper co-ordination. While staffing, the manager should keep in mind the nature of jobs and the type of persons required for managing them. He should ensure the right number of executives in various positions for proper performance of their functions. The executives are of such a quality or are given such a training that they are able to co-operate and co-ordinate their efforts.

6. **Through Proper Communication.** Effective communication is of utmost importance for achieving better co-ordination. There should be a regular flow of information among various persons so that they are given required information for proper co-ordination. The personal contact is the most effective type of communication. Other methods like reports, procedures, bulletins, etc., can also be used properly. The development of data processing devices are of utmost use for facilitating quick communication. The subordinates must get proper information at the right time for enabling them to co-ordinate their work. According to Newman, "Since co-ordination is concerned with the inter-relationships of separate activities, it can be no better than the transfer of information about those activities to some common point or points, where the dovetailing takes place."

4.25 SUMMARY

To coordinate is to harmonise all the activities of a person in order to facilitate its working and its success. Co-ordination requires effective channels of communication. The quality of management will depend upon the efficiency achieved in coordination.

Controlling is the process that measures current performance and guides it towards some predetermined objectives. Control is checking current performance against predetermined standards contained in the plans with a view to ensuring adequate progress and satisfactory performance. There are three basic steps in a control process such as Establishing standards, Measuring and comparing actual results against standards, & taking corrective action. MBO provide for a regular review of performance. It is one of the techniques by which executives can improve orgnaisational performance and effectiveness. The merits of MBO are better managing, clarifying organization, encourages personnel to commit themselves from the achievement and developing controls.

4.26 SELF ASSESSMENT QUESTIONS

1. What is Co-ordination?

2. Describe principles of co-ordinations.

3. What are the techniques of effective co-ordination?

4. Define controlling and discuss its characteristics.

5. Discuss types of controlling.

6. What is the scope of control?

7. Discuss various control Techniques.

8. Define MBO and describe its features.

9. What is the process of MBO?

10. What are the merits of MBO?

BLOCK 04: COORDINATION AND CONTROLLING & CONTEMPORARY ISSUES

Unit 14: CONTROL – TOOLS AND TECHNIQUES, -MBO

LEARNING OBJECTIVES

After studying this lesson you will be able to:

- Explain scope of control
- Understand various control techniques
- Describe management by objectives
- Understand process of MBO
- Explain merits and failure of MBO

Contents

CONTROLLING

4.9 MEANING

Controlling is an important function of management. It is the process that measures current performance and guides it towards some predetermined objectives. Under primitive management, control was undertaken only when something went wrong and the objectives of control was to reprimand the person responsible for these events and take action against him. The modern concept of control envisages a system that not only provides a historical record of what has happened to the business as a whole but also pinpoints the reasons why it has happened and provides data that enable the manager to take corrective steps, if he finds he is on the wrong track. Therefore, there is no intention to punish the person for wrongdoing, but to find out the deviations between the actual performance and the standard performance and to take steps to prevent such variances in future.

The concept of control is often confused with lack of freedom. The opposite of control is not freedom but chaos or anarchy. Control is fully consistent with freedom. In fact, they are interdependent. Without control, freedom cannot be sustained for long. Without 'freedom, control becomes ineffective. Both freedom and accountability are embedded in the concept of control.

4.10 DEFINITIONS OF CONTROLLING

Control is the process through which managers assure that actual activities conform to planned activities. According to Breach.- "Control is checking current performance against predetermined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance."

According to George R Terry - "Controlling is determining what is being accomplished i.e., evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans."

According to Billy E Goetz - "Management control seeks to compel events to conform plans".

According to Robert N Anthony - "Management control is the process by which managers assure that resources are obtained and used effectively and efficiently."

In the words of Koontz and O'Donnell - "Managerial control implies measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans."

In the words of Haynes and Massie - "Fundamentally, control is any process that guides activity towards some predetermined goal. The essence of the concept is in determining whether the activity is achieving the desired results".

In the words of J. L. Massie - "Control is the process that measures current performance and guides it towards some predetermined goals."

In the words of Henry Fayol - "Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established. Its object is to find out the weakness and errors in order to rectify them and prevent recurrence. It operates on everything, i.e., things, people and actions".

From the above definitions it is clear that the managerial function of control consists in a comparison of the actual performance with the planned performance with the object of discovering whether all is going on well according to plans and if not why. Remedial action arising from a study of deviations of the actual performance with the standard or planned performance will serve to correct the plans and make suitable changes. Controlling is the nature of follow-up to the other three fundamental functions of management. There can, in fact, be not controlling without previous planning, organising and directing. Controlling cannot take place in a vacuum.

4.11 CHARACTERISTICS OF CONTROLLING

Managerial control has certain characteristic feature. They are:

1. Control is the function of every manager. Managers at all levels have to perform this function to contribute to the achievement of organisational objectives.
2. Control leads to appraisal of past activities. The deviations in the past are revealed by the control process. Corrective actions can be initiated accordingly.
3. Control is linked with future, as past cannot be controlled. It should anticipate possible deviations and to think of corrective action for the control of such deviations in the future. It is usually preventive as presence of control system tends to minimize wastages, losses and deviations from standards.
4. Control is concerned with setting standards, measurement of actual performance, comparison of actual performance with predetermined standards and bringing to light the variations between the actual performance and the standard performance.
5. Control implies taking corrective measures. The object in checking the variations or deviations is to rectify them and prevent their recurrence. It is only action which adjusts performance to predetermined standards whenever deviations occur.
6. Control can be exercised only with reference to and or the basis of plans. To quote Mary Gushing Niles - "Whereas planning sets the course, control observes deviations from the course or to an appropriately changed one".
7. To some people, control is opposite of freedom. This is not true. Control is based on facts and figures. Its purpose, is to achieve and maintain acceptable productivity from all resources of an enterprise. Therefore, control aims at results and not at persons. It is for correcting a situation, and not for reprimanding persons.
8. Information or feedback is the guide to control. The feedback is helpful to the manager to determine how far the operations are proceeding in conformity with plans and standards, and where remedial action is called for.
9. Control involves continuous review of standards of performance and results in corrective action which may lead to change in the performance of other functions of management. This makes control a dynamic and flexible process. .
10. Control is a continuous activity. It involves constant analysis of validity of standards, policies, procedures etc.

4.12 STEPS IN CONTROL PROCESS

There are three basic steps in a control process:

A. Establishing standards.

B. Measuring and comparing actual results against standards.

C. Taking corrective action.

A. Establishing Standards

The first step in the control process is to establish standards against which results can be measured. The standards the managers desire to obtain in each key area should be defined as far as possible in quantitative terms. Standards expressed in general terms should be avoided. Standards need to be flexible in order to adapt to changing conditions. The standard should emphasis the achievement of results more man the conformity to rules and methods. If they do not do so, then people will start giving more importance to rules and methods than to the final results.

While setting the standards, the following points have to be borne in mind:

(a) The standards must be clear and intelligible. If the standards are clear and are understood by the persons concerned, they themselves will be able to check their performance.

(b) Standards should be accurate, precise, acceptable and workable.

(c) Standards are used as the criteria or benchmarks by which performance is measured in the control process. It should not be either too high or too low. They should be realistic and attainable.

(d) Standards should be flexible i.e., capable of being changed when the circumstances require so.

B. Measuring and Comparing actual Results against Standards

The second step in the control process is to measure the performance and compare it with the predetermined standards. Measurement of performance can be done by personal observation, by reports, charts and statements. If the control system is well organised, quick comparison of these with the standard figure is quite possible. This will reveal variations.

After the measurement of the actual performance, the actual performance should be compared with the standards fixed quickly. A quick comparison of actual performance with the standard performance is possible, if the control system is well organised. While comparing the actual performance with the standards fixed, the manager has to find out not only the extent of variations but also the causes of variations. This is necessary, because some of the variations may be unimportant, while others may be important and need immediate corrective action by the manager.

C. Taking Corrective Action

After comparing the actual performance with the prescribed standards and finding the deviations, the next step that should be taken by the manager is to correct these deviations. Corrective action should be taken without wasting of time so that the normal position can be restored quickly. The manager should also determine the correct cause for deviation.

Taking corrective action can be achieved in the following way:

(a) The manager should try to influence environmental conditions and external situations in such a way as to facilitate the achievement of goals.

(b) He should review with his subordinates the instructions given earlier so that he may be able to give clear, complete and reasonable instructions in future.

(c) There are many external forces which cannot be adjusted by the manager. They have to be accepted as the facts of the situation, and the executives should revise their plans in the light of these changing forces.

4.13 TYPES OF CONTROLLING

Most control methods can be grouped into one of the two basic types:

1. Future oriented control and
2. Past-oriented controls.

1. Future-oriented Controls

These are also known as steering controls or feed-forward controls and are designed to measure results during the process so that action can be taken before the job is done or the period is over. They serve as warning-posts principally to direct attention rather than to evaluate e.g.: Cash flow analysis, funds flow analysis, network planning etc.

2. Past-oriented Controls

These are also known as post-action controls and measure results after the process. They examine what has happened in a particular period in the past. These controls can be used to plan future behaviour in the light of past errors or successes.

4.14 ESSENTIALS OF EFFECTIVE CONTROL SYSTEMS

1. ***Suitable:*** The control system should be appropriate to the nature and, needs of the activity. A large firm calls for controls different from those needed for a small firm. In other words, control should be tailored to fit the needs of the organisation. The flow of information concerning current performance should correspond with the organizational structure employed. If a superior is to be able to control overall operations, he must find a pattern that will provide control for individual parts. Budgets, quotas and other techniques may be useful in controlling separate departments.

2. ***Timely and Forward Looking:*** The control system should be such as to enable the subordinates to inform their superiors expeditiously about the threatened deviations and failures. The feedback system should be as short and quick as possible. If the control reports are not directed at future, they are of no use as they will not be able to suggest the types of measures to be taken to rectify the past deviations. A proper system of control should enable the manager concerned to think of and plan for future also.

3. ***Objective and Comprehensive:*** The control system should be both, objective and understandable. Objective controls specify the expected results in clear and definite terms and leave little room for argument by the employees. This is necessary both for the smooth working and the effectiveness of the system.

4. ***Flexible:*** The control system should be flexible so that it can be adjusted to suit the needs of any change in the environment. A sound control system will remain workable even when the plans change or fail outright. It must be responsive to changing conditions. It should be adaptable to new developments including the failure of the control system itself. Plans may call for an automatic system to be backed up by a human system that would operate in an emergency.

5. ***Economical:*** Economy is another requirement of every control. The benefit derived from a control system should be more than the cost involved in implementing it. A small company cannot afford the elaborate control system used by a large company. A control system is justifiable if the savings anticipated from it exceed the expected costs in its working.

6. ***Acceptable to Organisation Members:*** The system should be acceptable to organisation members. When standards are set unilaterally by upper level managers, there is a danger that employees will regard those standards as unreasonable or unrealistic.

7. ***Motivate People to High Performance:*** A control system is most effective when it motivates people to high performance, Since most people respond to a challenge, successfully meeting to tough standard may well provide a greater sense of accomplishment than meeting an easy standard. However, if a target is so tough that it seems impossible to meet, it will be more likely to discourage than to motivate effort.

8. ***Corrective Action****;* Merely pointing of deviations is not sufficient in a good control system. It must lead to corrective action to be taken to check deviations from standard through appropriate planning, organizing and directing. In the words of Koontz and O'Donnell, "An adequate control system should disclose where failure is occurring, who is responsible for them and what should be done about them." A control system will be of little use unless it can generate the solution to the problem responsible for deviation from standards.

9. ***Reflection of Organisation Pattern:*** Organization is not merely a structure of duties and function, it is also an important vehicle of control. In enforcing control the efficiency and the effectiveness of the organisation must be clearly brought out.

10. ***Human Factor:*** A good system of control should find the persons accountable for results, whenever large deviations take place. They must be guided and directed if necessary.

11. ***Direct Control:*** Any control system should be designed to maintain direct contact between the controller and controlled. Even when there are a number of control systems provided by staff specialists, the foreman at the first level is still important because he has direct knowledge of performance.

12. ***Focus on Strategic Points:*** A good system of control not only points out the deviations or exceptions but also pinpoints them where they are important or strategic to his operations.

4.15 SCOPE OF CONTROLLING

The scope of control is very wide. A well designed plan of control (or control system) covers almost all management activities. According to Holden, Fish and Smith, the main areas of control are as follows:

1. ***Control over policies**:* The success of any business organisation to a large extent, depends upon, how far its policies are implemented. Hence the need of control over policies is self-evident. In many enterprises, policies are controlled through policy manuals.

2. ***Control over organisation:*** Control over organisation is accomplished through the development of organisation chart and organisation manual. Organisation manual attempts at solving organisational problems and conflicts making long-range organisation planning possible, enabling rationalisation of organisation structure, helping in proper designing of organisation and department.

3. ***Control over personnel:*** The statement that 'Management is getting the work done through people' underlines sufficiently the importance of control of personnel. All employees working at different levels must perform their assigned duties well and direct their efforts in controlling their behaviour. Personal Director or Personnel Manager prepares control plan for having control over personnel.

4. ***Control over wages and salaries:*** Such type of control is done by having programme of job evaluation and wage and salary analysis. This work is done either by personnel department or industrial engineering department. Often a wage and salary committee is constituted to help these departments in the task of controlling wages and salaries.

5. ***Control over costs:*** Cost control is exercised by the cost accountant, by setting cost standards for material, labour and overheads and making comparison of actual cost data with standard cost. Cost control is supplemented by budgetary control systems.

6. ***Control over methods:*** Control over methods is accomplished by conducting periodic analysis of activities of each department. The functions performed, methods adopted and time devoted by every employee is studied with a view to eliminate non-essential motions, functions and methods.

7. ***Control over capital expenditures;*** It is exercised through a system of evaluation of projects, ranking of projects in terms of their rank power and appropriate capital to various projects. A capital budget is prepared for the whole firm. A capital budgeting committee reviews the project proposes and approves the projects of advantages to the firm. Capital budgeting, project analysis, break-even analysis, study of cost of capital, etc. are some popular techniques of control over capital expenditure.

8. ***Control over research and development;*** Such activities are highly technical in nature so no direct control is possible over them. By improving the ability and judgment of research staff through training programmes and other devices, an indirect control is exercised on them. Control is also exercised by having a research on the business.

9. ***Control over external relations:*** Public relations department is responsible for controlling the external relations of the enterprise. It may prescribe certain measures for other operating departments which are instrumental in improving external relations.

10. ***Overall control:*** It is effected through budgetary control. Master plan is prepared for overall control and all the departments are made involved in this procedure. For effective control through the master plan, active support of the top management is essential.

CONTROL TECHNIQUES

4.16 MEANING

A variety of tools and techniques have been used over the years to help managers control. The activities in their organization. Every management wants to ensure that the scarce resources at its disposal are effectively and productively utilised. To achieve this objective it has to devise a monitoring system which will keep the management informed about the implementation of its plans and policies. In case the plans are not properly implemented then variations in performance must come to the notice of management so that timely corrective measures are taken up. A control system should be devised to evaluate the performance of various segments of the enterprise.

There are two types of control techniques, which are as follows:

Types of control techniques:

1. Traditional Control Techniques	2. Modern Control Techniques
(i) Budgeting and Budgetary Control (ii) Cost Control (iii) Production Planning and Control (iv) Inventory Control (v) Break Even Analysis (vi) Profit and Loss Control (vii) Statistical Data Analysis	(i) Return on Investment Control (ii) Programme Evaluation and Review Technique (PERT) (iii) Management Information System (MIS) (iv) Management Audit

1. TRADITIONAL CONTROL TECHNIQUES

(i) Budgeting: A budget is a statement of anticipated results during a designating period expressed in financial and non-financial terms. A budget is the monetary or/and quantitative expansion of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co-ordination and control of business enterprise. So a budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.

BUDGETARY CONTROL

Budgetary control is the process of determining various budgeted figures for the enterprise for the future period and then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded. The comparison of Budgeted and actual figures will enable the management to. find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method. of control too. A budget is a means and budgetary control is the end-result.

Definitions

According to **Brown and Howard,** "Budgetary control is a system of controlling costs which includes the preparation of budgets, co-ordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability. Weldon characterises budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

J. Batty defines it as, "A system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities and services. **Welsch** relates budgetary control with day-to-day control process. According to him, "Budgetary control involves the use of budget and budgetary reports, throughout the, period to co-ordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget." From the above given definitions it is clear that budgetary control involves the following :

(a) The objects are set by preparing budgets.
(b) The business is divided into various responsibility centres for preparing various budgets.
(c) The actual figures are recorded.
(d) The budgeted and actual figures are compared for studying the performance of different cost centres.
(e) If actual performance is less than the budgeted norms, a remedial action is taken immediately.

Objectives of Budgetary Control

Budgetary control is essential for policy planning and control. It also acts as an instrument of co-ordination. The main objectives of budgetary control are as follows:

1. To ensure planning for future by setting up various budgets, the requirements and expected performance of the enterprise are anticipated.
2. To co-ordinate the activities of different departments.
3. To operate various cost centres and of departments with efficiency and economy.
4. Elimination of wastes and incuses in profitabilities
5. To anticipate capital expenditure for future
6. To centralize the control system
7. Correction of deviations from the established standards
8. Fixation of responsibilities of various individuals in the organization.

(ii) COST CONTROL

Cost control is a control of all the costs of an enterprise in order to achieve cost effectiveness in business operations. Cost can be classified as: fixed cost, variable cost, semi-variable cost. The fixed costs arc incurred over a period over a period of time and are not directly related to production. These costs remain the same even if there is an increase or decrease in production. Variable costs; on the other hand, change in the proportion of output. Semi-variable costs are fixed as well as variable in nature. Some costs may "be incurred continuously, others now and then and still others only deemed to be incurred (depreciation).

There may be different methods of recording cost for various products. In each method, classification, recording and allocation of expenses may be done differently. In each method there will be a system where deviations in standard or budgeted costs and actual costs will be reported to the concerned officials for taking corrective measures.

The cost standards are fixed for each product or activity and actual cost records are also sent to the incharge of the product or activity. In case of any deviation in cost, immediate remedial measures are taken up. The regular cost control system will help in keeping cost under check.

Merits

1. Cost Control System helps in discovering efficient and inefficient operations. The activities which are not profitable can either be closed or efforts for improving them may be made. On the other hand, profitable activities can be encouraged.
2. Cost control records provide valuable information for submitting tenders or quoting prices of products or services.
3. It helps in pinpointing the factors leading to losses. If the causes of losses are pin pointed then it will become easy to control them.
4. The reasons for variations in profit can be ascertained.
5. It helps in keeping a check on inventories. There will be a proper system of receiving, storing, issuing and using of materials and other stores.
6. Cost records become a basis for planning future production policies.

(iii) PRODUCTION PLANNING AND CONTROL

Production planning and control is an important task of production manager. It has to see that production process is properly decided in advance and is carried out as per plan. Production planning is the function of looking ahead, anticipating difficulties to be faced and the likely remedial steps to remove them. Production control, on the other hand, guides and directs flow of production so that products are manufactured in a best way and conform to a planned schedule and are of the right quality. Control facilitates the task of manufacturing and see that everything goes as per the plans.

Techniques. Following techniques are helpful in production planning and control. .

***(a)* Routing,** It is the determination of exact path which will be followed in production. It is the selection of the path from where each unit will have to pass before reaching the final stage. Route determines the best and cheapest sequence of operations to be followed.

***(b)* Scheduling.** It is the determination of time and date when each operation is to be commenced and completed. The time and date for manufacturing each component is fixed in such a way that assembling for final product is not delayed in any way.

***(c)* Dispatching (Implementation).** It refers to the process of actually ordering the work to be done. It involves putting the plan into effect by issuing orders. It is concerned with starting the process and operations on the basis of route sheets and schedule charts.

***(d)* Follow up and Expediting.** It is related to evaluation and appraisal of work performed. This is an important function of production control. If goods are to be produced as per the plans then a proper follow up of work is essential to see whether production schedule is properly adhered to or not. In case there are any bottlenecks then these must be removed in time.

***(e)* Inspection.** The purpose of inspection is to see whether the products manufactured are of requisite quality or not. It is carried on at various levels of production process so that predetermined standards of quality are achieved. In case the products are not of proper quality then immediate steps are taken to correct things.

(iv) INVENTORY CONTROL

Inventory control or materials management connotes controlling the kind, amount, location and timing of various commodities used in and produced by the industrial enterprises. It is the control of materials in such a manner that it ensures maximum return on working capital.

Inventory control is necessary for the smooth and uninterrupted functioning of production department. It's main purpose is to maintain an adequate supply of correct material at the lowest total cost. Inventory control is exercised at three stages. (i) purchasing of materials (ii) storing of materials *(iii)* issuing of materials.

Inventory control can be exercised by establishing various parameters :

(i) safety inventory level i.e. the stock which must be maintained at all time so that uninterrupted production is carried out. *(ii)* maximum inventory level i.e. the stock limits beyond which materials should not be stored. *(iii)* reordering level is the point at which fresh orders for purchasing inventory should go. (iv) danger level i.e. the level of stock at which extra effort should be made to replenish stocks so that production is not discontinued for want of materials.

(v) BREAK EVEN ANALYSIS

The study of cost volume profit relationship is frequently refer as breakeven analysis. The term break-even analysis is used in two senses-narrow sense and broad sense. In its broad sense, break-even analysis refers to the study of relationship between costs, volume and profit at different levels of sales or production. In its narrow sense, it refers to a technique of determining that level of operations where total revenues equal total expenses i.e. the point of no profit, no loss.

Assumptions: The break even analysis is based on the following assumptions :

(i) All elements of cost *i.e.* production, administration and selling and distribution can be segregated into fixed and variable components.

(ii) Variable cost remains constant per unit of output and thus fluctuates directly in proportion to changes in the volume of output.

(iii) Fixed cost remains constant at all volumes of output.

(iv) Volume of production is the only factor that influences cost.

(v) There is a synchronisation between production and sales.

Some words which are generally used in break-even analysis :

Break-even Point. It is a level of production at which revenue and costs (fixed and variable) are the same, at this point there is neither profit nor loss. Every concern tries to reach this level of production at the earliest and profit starts only when production increases beyond this level.

Contribution: It is the difference between sales and variable cost or marginal cost of sales. It may also be defined as the excess of selling price over variable cost per unit. Contribution is the amount that is contributed towards fixed expenses and profit.

Profit/Volume Ratio (P/V Ratio): It establishes the relationship between contribution and sales and is of vital importance for studying the profitability of operations of business. It reveals the effect on profit or changes in the volume. The concept of P/V ratio is useful to calculate the break-even point, the profit at a given volume of sales, the sales volume required to earn a given profit and the volume of sales required to maintain the present profits if the selling price is reduced by a specified percentage.

Breakeven point is an indicative of effectiveness and control. The production targets are fixed in advance and breakeven point helps in this fixation. In case there is an adverse change in break-even point then the causes for it are properly analysed. Breakeven point is a yard stick for measuring the performance of management. Break-even analysis is based on certain assumptions which may not always be correct so it cannot always be used as reliable standard for performance.

(vi) PROFIT AND LOSS CONTROL

Profit and loss control is a simple and commonly used overall control device to find out the immediate revenue or cost factors responsible for either the success of an enterprise. As a control device it is regarded very effective in certain respects because it enab1es the management to influence in advance revenues, expenses and consequently even profits.

The sales, expenses and profit of different departments or for different products are compared with that of other departments or products. The department or product becomes a cost centre. The in charge of the department is responsible for its performance. Even historical comparison is done to assess the performance. In case there are deviations in performance then immediate steps are taken to -rectify them.

(vi) STATISTICAL DATA ANALYSIS

Statistical data analysis is an important control technique. This analysis is possible by means of comparison of ratios, percentages, averages, trends etc. of different periods with a view to pinpoint deviations and causes. This method of control is very useful in case of inventory control, production control and quality control. The minimum and maximum control limits are fixed and deviations within these limits are allowed but if variations go beyond prescribed parameters then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits are plotted. A look at the chart will give an idea to the viewer if everything is going as per the plans or not. So analysis of data is a good device of control.

2. MORDERN CONTROL TECHNIQUES

Following are the modern techniques of control which are commonly used at present.

I. Return On Investment Control (Roi). Profits are the measure of overall efficiency of a business. Profit earned in relation to the capital employed in a business is an important control device. If the rate of return on investment (shareholders funds) is quite satisfactory, it will be taken as a yard-stick of good performance. The return on investment can be compared over a period of time as well as with that of other similar concerns. This comparison will show the present performance in relation to earlier periods and also the level of achievement of the concern in comparison to other concerns.

The return on investment is computed by dividing the operating net profit (before interest and tax) by the capital employed in the concern. The following formula is used for this purpose:

$$\text{Return on Investment} = \frac{\text{Net Profit before interest and tax}}{\text{Capital employed}}$$

ROI is used to measure the overall efficiency of a concern. It reveals how well the resources of a concern are used, higher the return better are the results.

II. Programme Evaluation and Review Technique (PERT). Programme evaluation and review technique (PERT) was first developed as a management tool for coordination and early completion of Polaris Ballistic Missile Project in USA resulting in a reduction of 30 per cent time in project execution. A contemporary of PERT is CPM (Critical Path Method) and was developed in connection with maintenance and construction work.

PERT is useful at several stages of project management starling from early planning stages when various alternative programmes are being considered to the scheduling phase, when time and resources schedules are laid out, to final stage in operation, when used as control device to measure actual versus planned progress. PERT uses 'network' as the basic tool of project management and is helpful in completing a project on schedule by co-ordinating different jobs involved in its completion.

III. Management Information System (MIS). Management information system (MIS) is an approach of providing timely, adequate and accurate information to the right person in the organisation which helps in taking right decisions. So MIS is a planned and organised approach to the transferring of intelligence within an organisation for better management. The information is furnished into useful quantums of knowledge in the form of reports. An effective system of MIS collects data from all possible sources. The information is properly processed and stored for use in future.

MIS is of two types; (i) Management operating system meant for meeting the information needs of lower and middle level management. The information supplied generally relates to operations of the business, (ii) Management reporting system which supplies information to top level management for decision-making. The information is presented in a way which enables management to take quick decisions.

An MIS should be so designed which helps management in exercising effective control over all aspects of the organisation.

IV. Management Audit Management audit is an investigation by an independent organization to find out whether the management is carried out most effectively or not. In case there are drawbacks at any level then recommendations should be given to improve managerial efficiency. In the words of Leslie R. Howard, "Management audit is an investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organisation and smooth running internally:'

Objectives

Management audit has the following objectives :

(i) To see whether the work at all levels is undertaken efficiently or not.

(ii) If the management is not done effectively then suitable recommendations are made to tone it up.

(iii) Whether the plans and programmes are executed properly or not?

(iv) Suggesting ways and means of increasing managerial efficiency.

(v) It also aims to help management at all levels in the effective and efficient discharge of duties and responsibilities.

(vi) The organisational structure is also reviewed to assess whether it can achieve overall business objectives or not.

(vii) Whether the enterprise's share in the market is increasing or declining and how it stands in comparison to competitors.

MANAGEMENT BY OBJECTIVES (MBO)

4.18 MEANING

Mbo PROVIDES FOR A REGULAR REVIEW OF PERFORMANCE. The objectives of MBO provides guidelines for appropriate system and procedures. MBO is one of the techniques by which executives can improve organizational performance and effectiveness. The idea of MBO was contributed by Donaldson Brown and Alfred Sloan in 1920s and Edward Hagenin in 1930s. (Peter Drucker, known as father of MBO technique, coined this term in 19543 Some other authorities on the subject are Charles L. Hughes, Goal Setting (American Management Association, 1965) ; Dale D. Me Conkey, How to Manage by Results (American Management Association, 1967) ; George S. Ordiornc, Management by Objectives (Pitman, 1965) ; W.J. Reddin, Effective Management by Objectives (Me Graw-Hill, 1971).

4.19 DEFINITION OF MBO

According to George S. Ordioruc, "The system of management by objectives can be described as a process whereby the superior and subordinate managers of an organisation jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members."

According to Koontz and Weihrich, "Management by objectives is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed toward the effective and efficient achievement of organisational and individual objectives.

S.K. Chakravarty defines it as. "MBO is a result-centered, non-specialist, operational managerial process for the effective utilisation of material, physical, and human resources of the organisation by integrating the individual with the organisation and organisation with the environment."

According to Terry and Franklin, "A managerial objective is the intended goal that prescribes definite scope and suggests direction to the planning efforts of a manager." This definition states four aspects of management by objectives *i.e.* goal, scope, definiteness, direction.

From managerial point of view the target to be achieved should be identified and clear. The scope of the goals should be stated in the prescribed boundaries. The goal should also state definiteness, a vague goal will create more confusion and has no managerial value.

Pros Reddin says that MBO is the establishment of effectiveness areas and effectiveness standards for management positions and as produce conversion of all these into measurable time sound objectives linked vertional, and horizontally with future planning".

4.20 FEATURES OF MBO

These are the following features of MBO:

1. MBO is not merely a technique but a philosophy to management. A technique is applicable only in specified areas by a philosophy or approach guides and influences every aspect of management. MBO is an approach which includes various techniques of better management.

2. In this approach various objectives of the organisation and of individuals are collectively decided by superiors and subordinates. These objectives become the targets which are to be achieved by various persons in the organisation. The review of objectives is also done collectively.

3. The corporate, departmental and individual objectives are used as a yardstick to measure performance. A comparison of targets and actual results will enable managers to judge the performance of subordinates and top level will similarly assess the performance of managers.

4. MBO provides for a regular review of performance. This review is normally held once in a year. It emphasises initiative and active role by the manager who is responsible forachieving the objectives. The review is future oriented and provides a basis for planning and corrective actions

5. The objectives in MBO provide guidelines for appropriate system and procedures. The degree of delegation of authority, fixation of responsibility, allocation of resources etc.can be decided on the basis of objectives of various individuals. These objectives alsobecome a basis of reward and punishment in the organisation.

4.21 PROCESS OF MBO

MBO is used to plan goals for the employees through their own participation. The goals will act as motivational factor and help in increasing employee efficiency The setting of goals is not a simple thing. It requires lot of thinking and planning. The setting of objectives requires following steps:

1. Setting Objectives at the Top: The first step in MBO process is to analyse the purpose or mission of the organisation. This exercise is undertaken at the top level. The mission of the organisation will be converted into goals for a given period, it may be for a quarter, half year, a year, 5 years or more In many cases objectives are set to coincide with the completion of a project or with an annual budget. This may not be desirable. Some goals may be set for a short period while some may be for a longer period. Generally as we go downward in the hierarchy the period for objective setting is short. At the operative level the objectives may be for a week or a month.

The goals set at the top level are only preliminary in nature. These goals are set by taking into account company's strengths and weaknesses and opportunities available. These goals may be modified while discussing them with the subordinates. The objectives should not be forced on the subordinates rather their viewpoint should be given weightage while fixing objectives. It will bring commitment from subordinates. The subordinates may suggest the problems which they will face in implementing the plans. The goals should be verifiable or other criteria for goal accomplishment should be established beforehand.

2. Clarifying Organisational Roles: Sometimes organisational roles are not properly clarified and specific responsibility for attaining the objectives is not fixed. There should be clear cut assignment of tasks and fixation of responsibilities. In some cases the responsibility of one person for a particular task may not be fixed) For example, the development of a new product may be the responsibility of research, production and marketing managers. Such activities can be put under the overall command of a particular person, say product manager. In the absence of such a command specific responsibilities for taking up separate tasks be given to concerned managers. So organizational roles should be clearly spelt out.

3. Setting Subordinates Objectives: The subordinate managers should be informed of general objectives, planning premises and strategies of the company. The superior should then discuss with the subordinate about the objectives which he can accomplish, time frame for them and the resources required. The feasibility of such goals for the company is also discussed. The superior has to play an important role while interacting with the subordinate. He should ask questions like what will be his contribution to the organisational goals? How can he improve his performance? What are the hurdles he faces in reaching has objectives? What changes he expects from superiors? How can the superior help him in his task. The answers to such questions can help in deciding the specific objectives of subordinates. The goals should be such which are practicable, realistic or achievable. Superiors are generally in the habit of fixing high objectives for their subordinates thinking that higher objectives will help them in increasing their efficiency

4. Recycling Objectives: Recycling of objectives denotes a joint and interactive process. Objectives cannot be set in isolation. Neither can they scl at the top and communicate to the lower levels nor can they be set at the bottom and communicated upwards. There should be proper consultalions and interactions at various levels before deciding about the objectives. The objectives set by an individual department may be higher than the expectations of higher management but still they may not reconcile with the objectives of other departments. The objectives of marketing department, for example, should reconcile with those of manufacturing and finance departments. So recycling of objectives helps in their easy achievement.

4.22 MERITS OF MANAGEMENT BY OBJECTIVES

MBO helps in implementing goal oriented management. It can be applied in various areas of organisation such as performance appraisal, organisational development, long range planning, integration of individual and organisational objectives and so on. merits of MBO can be stated as follows.

1. **Better Managing** MBO results in improved and better managing. Belter managing requires selling goals for each and every activity and individual and ensuring that these are

achieved. MBO not only helps in setting objectives but also ensures balancing of objectives and resources: For establishing objectives there is a need for belter and result oriented planning. Management by objectives forces managers lo think about planning for results, rather than merely planning activities or work. Managers will devise ways and means for achieving objectives. The objectives also act as controls and performance standards. So MBO is helpful in improving management.

2. **Clarifying Organisation:** MBO helps in clarifying organisational roles and structures. Responsibility and authority are assigned as per the requirements of the tasks assigned. There is no use of fixing objectives without delegating requisite authority. The positions should be built around the key results expected of people occupying them. Implementation of MBO will help in spotting the deficiencies in the organization.

3. **Encouraging personal commitment.** The main benefit of MBO is that it encourages personnel to commit themselves for the achievement of specified objectives. In a normal course people are just doing the work assigned to them. They follow the instructions given by the superiors and undertake their work as a routine matter. In MBO the purpose of every person is clearly defined with his or her own consent. People in the organisation have an opportunity to put their own ideas before superiors, discuss the pros and cons of various suggestions and participate in setting the final objectives When a person is a party for setting objectives then he will make honest endeavour to achieve them. He will feel committed to reach the goals decided with his consent. A feeling of commitment brings enthusiasm and helps in reaching the goals.

4. **Developing controls**. MBO mechanism helps in devising effective controls. The need for setting controls is the setting of standards and then finding out deviations if any. In MBO, verifiable goals are set and the actual performance will help in finding out the deficiencies in results. Every person is clear about what is expected from him and these standards act as clear cut controls. So controls can easily be devised when MBO is followed.

4.23 FEATURES OR DEMERITS OF MANAGEMENT BY OBJECTIVES

This system suffers from a number of demerits which are discussed as under :

1. **Failure to Teach MBO Philosophy**. The success of MBO will depend upon its proper understanding by managers. When managers are clear about this concept only then they can explain to subordinates how it works, why it is being done, what will be the expected results, how it will benefit participants, etc. This philosophy is based on self direction and self control and aims to make managers professionals.

2. **Failure to Give Guidelines to Goal setters.** If the goal setters are not given proper guidelines for deciding their objectives then MBO will not be a success. The managers who will guide in goal setting should themselves understand the major policies of the company and the role to be played by their activity. They should also know planning premises and assumptions for the future. Failure to understand these vital aspects will prove fatal for this system.

3. **Difficulty in Setting Goals.** The main emphasis in MBO technique is on setting objectives. The setting of objectives is not a simple thing. It requires lot of information for arriving at the conclusions. The objectives should be verifiable so that performance may be evaluated. Some objectives may not be verifiable, precaution should be taken in defining such objectives. The objectives should not be set casually otherwise MBO may prove liability for the business.

4. **Emphasis on Short Term Objectives.** In most of the MBO programs there is a tendency to set short-term objectives. Managers are inclined to set goals for a year or less and their thrust is to give undue importance to short term goals at the cost of long term goals. They should achieve short term goals in such a way that they help in the achievement of long term goals also. There may be a possibility that short term and long term objectives may be incompatible because of specific problems. So proper emphasis should be given lo both short term and long term objectives.

5. **Danger of Inflexibility.** There is a tendency to the strict to the objectives even if there is a need for modification. Normally objectives will cease to be meaningful if they are oftenly changed, it will also be foolish to strive for goals which have become obsolete due to revised corporate objectives or modified policies.

4.24 PREREQUISITES FOR INSTALLING MBO PROGRAMME

The installation of MBO programme will require a change in organisational culture and environment. The philosophy of MBO should be properly explained to every body in the organisation. The purpose of installing this system may also vary from organisation to organisation. Following are the prerequisites for installing MBO programme:

1. **Defining Purpose.** The first thing for implementing MBO programme is to define its purpose. Different organisations may have different purposes to be achieved from MBO programme. Howell suggested three stage evaluation of MBO: management appraisal and development, improvement of productivity and profitability and long range planning. An organisation may like to use MBO for improvement of its productivity, another may use it for improving managerial efficiency. In the absence of a definite purpose MBO will not be a useful exercise.

2. **Support from Top Management.** In order to succeed MBO programme must have the support of top management. The subordinates will implement this programme effectively only when they are sure of the sincerity of top management in pursuing it. MBO is a method of managing effectively, it is a continuous process and not a single time activity. Managers will discuss with subordinates their targets and will regularly evaluate their performance. If the performance is lower than the predetermined standards then the causes of deviations are ascertained and corrective actions are taken. Top management will have to show a constant interest in MBO programme otherwise it is likely to fail.

3. **Training for MBO Programme,** The success of any programme depends upon the knowledge of the persons implementing it. If they understand what they are implementing then others can be explained about the concept, philosophy and need for such a programme. The persons implementing MBO should be given proper training about the programme and its implementation. If people are not sure about the aims of the programme then they will find difficult to implement it. There is a need for structural change, behaviour change and attitude change for making the programme effective and successful.

4. **Participation. In order to secure commitment of subordinates for the programme,** there is a need for participation by everybody in the organisation. Subordinates should be made an integral part of this system. In case subordinates take MBO as any other method for evaluating their performance then it will not succeed. Subordinates should participate in setting their objectives and deciding their areas of accountability. The areas of participation, however, may vary according to the area of activity and the level of hierarchy. The type and extent of participation will vary from organisation to organisation.

5. **Feedback.** In MBO system every individual decides and controls his own performance. The person working under such a system should regularly know his performance and standing. In case the performance is not as per the goals then required correctives will be undertaken. The feedback will help in learning and improving situations. There should be periodic counseling and appraisal interviews where superior helps the subordinate in knowing his good and bad points and making suggestions for future improvements.

4.25 SUMMARY

Controlling is the process that measures current performance and guides it towards some predetermined objectives. Control is checking current performance against predetermined standards contained in the plans with a view to ensuring adequate progress and satisfactory performance. There are three basic steps in a control process such as Establishing standards, Measuring and comparing actual results against standards, & taking corrective action. MBO provide for a regular review of performance. It is one of the techniques by which executives can improve orgnaisational performance and effectiveness. The merits of MBO are better managing, clarifying organization, encourages personnel to commit themselves from the achievement and developing controls.

4.26 SELF ASSESSMENT QUESTIONS

1. What is Co-ordination?
2. Describe principles of co-ordinations.
3. What are the techniques of effective co-ordination?
4. Define controlling and discuss its characteristics.
5. Discuss types of controlling.
6. What is the scope of control?
7. Discuss various control Techniques.
8. Define MBO and describe its features.
9. What is the process of MBO?
10. What are the merits of MBO?

BLOCK 04: COORDINATION AND CONTROLLING & CONTEMPORARY ISSUES

UNIT 15: RECENT TRENDS AND CHALLENGES, -ROLE OF MANAGERS IN CHANGING ENVIRONMENT

LEARNING OBJECTIVES

The purpose of this lesson is to highlight the recent trends and challenges for management. After studying this lesson you will be able to-

i) Describe the challenging environment.

ii) Understand the recent trends and challenges for managers.

iii) Describe the role of managers in the challenging environment.

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5.1 Changing Environment

Organisational environments are no longer static; rather, they are becoming more complex, diverse and unpredictable. Environment is dynamic and environmental changes occur continuously. There is a growth in size and complexity of organisation in every field due to increase in population of our country and of the world. This will require new jobs, more products, new methods of production and distribution and new modes of living. This will affect the demand for products of many organisations.

Management concepts and practices, organisational structure and behaviour have responded to the changing influences. Due to changing environment, it is required to sketch out a frame work for looking at the future of management of organisations and analyse the important forces at work in this regard. The important areas which would create challenges for the management are as follows:

1) Social environment
2) Economic environment
3) Technological environment
4) Physical environment
5) Political environment
6) International environment

5.2 Recent Trends and Challenges for the Future Manager

The recent trends of the environment and their relevance for the future manager are as follows:

1. Changes in Social Environment

Social factors which will shape future management practices are as follows:

(a) Population Explosion. Population of our country and of the world is increasing rapidly. This will require new jobs, more products, new methods of production and distribution and new modes of living. The population mix will also change. There will be an increase in the proportion of older people due to increase in the average life span. This will affect the demand for products of many organisations.

(b) Educational Level. The governments of various countries have been taking steps to eradicate illiteracy and to increase the educational level of their citizens. Educated consumers and workers will create very tough tasks for the organisations in future. It would become really difficult to satisfy enlightened consumers whose behaviour would not be predictable. The workers will be better organised and compel the organisations to safeguard their interests and to allow them to have a say in their management.

(c) Leisure Time. People will have more leisure time because of reduced working hours, increased automation and quick means of transport and communication. The effects of this trend are many and varied. For some people, more leisure time means higher spending in pursuits of leisure which will encourage the growth of tourism, fast food and entertainment industries. For others, it means an opportunity for earning more by doing some part-time jobs.

(d) Public Opinion. Public opinion about business will shape the attitudes of future managers. If the people have distrust in the market system, they will prefer government controls to free competition. The public opinion is going to be very complex because of changes in values of society, increased international competition, rise of consumerism, use of industrial robots, etc.

2. Changes in Economic Environment

(Globalisation and Liberalisation)

The degree of resource exploitation will have a direct bearing on the economic environment and through this on the business. As is obvious from the present trends, physical environment will not remain confined to land only, but would extend to oceans and space also. In future, oceans will be developed via farming and mining operations; and space flights and missions will concentrate on studying causes of changes in atmospheric conditions and finding reserves of natural resources in land and water.

Economic conditions in India are changing at a fast speed because of Government's policy of liberalisation of industrial licensing and foreign direct investment and also the creation of World Trade Organisation (WTO). There is now increased emphasis on the globalisation of economy. The Indian managers will have opportunities of raising capital from foreign markets, distribute their products internationally and start industries abroad.

Business competition will no longer be restricted to national boundaries. It will become international because of growth of multinational corporations. Big organisations will continue growing through diversifications and take-overs. Despite growth of giant corporations, opportunities for small business will not be reduced. Small firms will be needed to serve as feeder to large ones and to supply non-standardised goods. All these will increase the complexity of decisions in the future.

3. **Changes in Technological Environment**

Technological changes will affect management in the future in terms of heavy investment in technology, understanding the principles of production and their consistent application, and effects of technology on markets. In future, all big organisations will be actively engaged in technological forecasting. Automation and information technology will assume new proportions as discussed below:

(a) Automation. Automation has created several problems. Jobs have become routinised and unchallenging introduction of industrial robots has created a feeling of job insecurity among workers. Once industrial robots take over from workers, the primary task of the workers would be to set-up production runs, to programme the robots and to run them under computer control. Thus, future organisations will have highly automated man-machine systems.

(b) Information Technology. There will be remarkable impact of computerised information systems on management. Firstly, there will be use of electronic equipment to collect and process data. Secondly, computers will help application of quantitative techniques to management problems. Thirdly, there will be simulation of higher order thinking through computer programmes. Thus, improved and innovative use of information technology would be an essential factor in future management. "In view of the fact that information technology will challenge many long established practices and doctrines, we will need to rethink some of the attitudes and values which we have taken for granted. In particular, we may have to reappraise our traditional notions about the worth of the individual as opposed to the organisation and about the mobility rights of young men. This kind of inquiry may be painfully difficult, but will be increasingly necessary".

4. Changes in Physical Environment

Protection of ecology and maintenance of ecological balance has become a major issue these days. This is evident from the rise of several social groups against felling of trees for commercial use (Chipko movement) and air, water and noise pollution. The society will no longer tolerate environmental pollution. The typical examples are closure of several tannery units in Kanpur by the Supreme Court as they were polluting the Holy Ganga and closure of several foundries around Taj Mahal by the Supreme Court as they were polluting the air leading to adverse effect on the whiteness of the national monument. The country cannot allow tragedies like Bhopal Gas Leak Case, 1984, at Union Carbide to occur again.

The growing awareness of the people about environment will pose problems before the managers. They will have to study the adverse effects of business operations on the environment and take suitable steps to check all kinds of pollution. Thus, there will be greater emphasis on the development of technology for pollution control and environmental restoration.

5. Changes in Political Environment

There will be greater Government's interference in business to safeguard the interest of workers, consumers and the public at large. Government's participation will also pose many challenges before management. The government may restrict the scope of private sector in certain areas. It does not mean chances of cooperation between the Government and private sector are ruled out. In fact, there will be more and more joint sector enterprises. The fear of nationalization of the mismanaged units will continue. Financial institutions will not be silent spectators; they will take active part in the policy formulation of the firms whom they have advanced funds.

6. Changes in International Environment

Several changes are taking place in the international environment which may have adverse or favourable impact on a particular business. For example, the disintegration of USSR caused great miseries for the Indian exporters in the early nineties. Not only their investment was blocked, further exports were also hindered. This compelled the Indian businessmen to explore new export markets. The managements will have to be alert in future to meet the challenges posed by international forces.

Because of liberalisation of industrial licensing by developing nations and reduction of economic barriers between nations as a result of GATT agreement, 1993, several changes seem to be imminent in the near future. Multilateral trade among the nations will increase. The role of World Trade Organisation, I.M.F., World Bank and other international institutions will change and a new economic order will take place leading to globalisation of economies.

5.3 CHANGING INDIAN BUSINESS ENVIRONMENT

During the last two decades there has been all around growth in size, complexity of organisations in India. In our business scenario, many changes have been introduced in the liberalization process of economy which began in 1990s and still continues. Some major changes are as follows:

1. **Industrial Policy Changes**: (i) very few industries requiring licenses,(ii) replac- ment of FERA by FEMA making dealings in foreign exchange much easier, (iii) almo- st no control under MRTP Act, (iv) role of public sector getting diluted, (v) liberalisa- tion of foreign direct investment, and (vi) more freedom in capital market.
2. **International Trade Policy Changes**: (i) globalization of economy, (ii) continuous lowering down of import tariffs, (iii) more items of import under general category, and (iv) emphasis on export but not through financial incentives.
3. **Structural Adjustment**: (i) phasing out of subsidies, (ii) gradual dismantling of administrated price mechanism, (iii) public sector disinvestment, (iv) exit policy for businesses and (v) smoother way for merger and acquisition.

All these changes have increased competition both from multinational corporations as well as from Indian organizations. The new as well as emerging situations are posing great challenges before Indian managers in the twenty-first century. Therefore, it is worthwhile to discuss these challenges.

5.12 Summary

During the last two decades there has been a phenomenal growth in size and complexity of organisations in every field be it government, religious, educational, medical, military or business. In fact, an increasing proportion of all our activities occur within the boundaries of these complex organisations and in that sense, we have become an 'organisational society'. Management concepts and practices, organisational structure and behaviour have responded to these changing influences.

The recent trends of the environment and their relevance for the future managers are changes in social environment, economic environment, technological environment, physical, political and international environment.

5.13 SELF-ASSESSMENT QUESTIONS

Q1. What do you mean by changing environment?

Q2. Describe recent trends and challenges for the future managers?

Q3. Describe the various changes in Indian business environment?

Q4. Discuss the challenges for managers of the 21^{st} century?

BLOCK 04: COORDINATION AND CONTROLLING & CONTEMPORARY ISSUES

Unit 16: CONTEMPORARY ORGANISATIONAL STRUCTURE, TRENDS IN MANAGEMENT, CHALLENGES IN TODAY'S GLOBAL ENVIRONMENT AND COMPETITIVENESS.

LEARNING OBJECTIVES

The purpose of this lesson is to highlight the recent trends and challenges for management. After studying this lesson you will be able to-

i) Describe the role of managers in the challenging environment.

ii) Explain the contemporary organisational structure.

iii) Understand trends in management and its challenges.

iv) Describe the global and comparative management.

CONTENTS

5.1 ROLE OF MANAGERS IN TWENTY FIRST CENTURY

There are two major sources of challenges which Indian managers have to face in twenty-first century: globalization of economy and emergence of newer management techniques and way of doing business. Some commonly used newer management techniques and way of doing business are total quality management, benchmarking, business process reengineering, business outsourcing, knowledge management, and e-business. Indian managers have to compete in globalized economy. For competing successfully, managers have to adopt contemporary management practices in place of age-old practices. Let us go through both these sources of challenges.

a) GLOBALIZATION OF ECONOMY

Today, world has become a global village and the economy has been globalized in which geographical boundaries of a country have only political relevance; the economic relevance has extended beyond these boundaries. Today, the market classification does not take into account national parameters but global parameters. In this globalization process, many multinationals like Exxon, Mobil Oil, Coca-Cola, Avon, IBM, etc., earn more than 50 per cent of their total revenues from foreign operations. Same is the case with many Indian IT companies like TCS, Infosys, Wipro, etc. Before going through the discussion of challenges created by globalization, let us discuss its concept and impact.

In a broad sense, globalization is “a process by which the people of the world are united into a single society. This process is a combination of economic, technological, socio-cultural, and political forces". However, from the point of view of management with which we are concerned here, globalization should be taken on the basis of economic and technological forces only, though organizations opting for global business have to take care of socio-cultural and political forces of the countries concerned while implementing their strategies. From this point of view, degree of globalization is measured on the following features:

1. Goods and services — exports and imports as a proportion of national income.
2. Human resource — inward/outward flows in relation to total national population.
3. Capital — inward/outward direct investment as a proportion of national income.
4. Technology — international research and development flows, proportion of population using particular inventions particularly factor-neutral advances such as cell phones, Internet, etc.

Impact of Globalization

Globalization links a country's economy with world economy. Higher the degree of globalization, higher is the degree of this linkage. This linkage creates impact on a country's economy in both ways — positively and negatively. Further, impact on economy has socio-cultural impact too. Thus, we can analyze impact of globalization in five areas — economic, financial, technological, competitive, and socio-cultural, both in positive and negative ways.

1) Economic Impact. Globalization has economic impact in two ways — import-export and foreign direct investment (FDI). Globalization provides opportunities in these two areas. A country can import from other countries whatever it cannot produce on its own or cannot produce at competitive costs. Thus, the country can save its resources to deploy these on producing those products (goods and services) where its competitive costs are favourable. Through this way, resources find their better usage. This is true for export too as the country can export its products in which it has competitive advantage. Similarly, a country can get capital through FDI or it can put its capital overseas. For example, India which has competitive advantage in IT sector is exporting its IT products to other countries or opening businesses there, more particularly in developed countries.

2) Financial Impact Financial impact of globalization is in two forms — an organization can put its money where it is more profitable, and an organization can raise finances from those countries where the cost of funds is lower. In this term, India stands to gain as its organizations are able to raise funds from overseas at a much lower cost than what they can do internally.

3) Technological Impact. Technological impact of globalization is in the form of availability of technology from other countries in three forms — import of technology, technical collaboration, and joint venture. Acquisition of a technology in each of these forms has different implications. In import of technology, an organization can import it once. Thereafter, it has to make further development with its own R&D efforts or make import of newer technology in the same line again. In technical collaboration, the technology exporter provides improved technology on continuous basis for a fee or royalty. In joint venture, the joint venture partners bring relevant technology. From technological point of view, India stands to benefit as developing a new technology is quite costly affair.

4) Competitive Impact. From the business point of view, competitive impact of globalization is most significant. In the globalized era, the competitive forces do not remain confined within the geographical boundary of a country but these extend beyond this as global players try to capture market share of local players. However, this has a positive point too. When competition increases in an industry, industry players make hectic efforts for market development. Because of these efforts, more and more people are attracted to become buyers of the industry's products. This has happened with many Indian industries. In this process, a change takes place in top line-bottom line relationship. Because of market development, while organizations are able to increase their sales revenues, profitability tends to decrease because of competitive pressures though volume of profit increases due to increased sales. For example, in the case of Indian companies, while sales revenues have increased much faster, gross profit margin has declined. Since profit has gone up in absolute terms, the above phenomenon is not a matter of serious concern for Indian companies.

However, there is a flip side of the above. In the globalized situation, only those organizations are able to compete successfully which adopt management practices according to the new situations as rules of games get changed. Those which are not able to do so, there is a question mark about their survival. Because of this phenomenon, globalization has been resented by businessmen in many countries.

5) Socio-cultural Impact. Various features of globalization have socio-cultural implications too. Globalization brings the so-called modernity, at least, in terms of external appearances like change in lifestyles, use of expensive items having prestigious value, and so on. This change takes place because of increased income level of people of certain categories added by easy availability of funds through loans.

However, globalization has some serious challenges for socio-cultural factors. It brings more disparity between haves and have-nots. As a result, there is some kind of polarization between these two groups, not only at the local level but at the international level too. This is not a positive signal for the human beings in the long run. This is the reason why politicians and social reformers raise their voices against globalization. Globalization affects socio-cultural phenomenon in another way too. In a country, socio-cultural phenomenon is based on certain assumptions through ages which are commonly shared by the people of that country. In many cases, globalization challenges these assumptions and tries to replace these with a new set of assumptions. To the extent, there is disparity between these two sets of assumptions. When people tend to resist the new assumptions, this brings social disorder within the country which is painful.

Globalization Challenges

Globalization of business is helpful in earning profit but at the same time, it creates many challenges for management. These challenges are: cultural diversity, language diversity, workforce diversity, and economic diversity.

1. **Cultural Diversity**. Culture is a set of beliefs, attitudes, and values that are shared commonly by the members of the society. Each country has its own culture. Cultural diversity is the degree of difference between cultures of two countries which is measured on the basis of five cultural dimensions. USA, where maximum management literature has evolved has high individualism, low power distance, low uncertainty avoidance, high materialism, and short-term orientation. Japan has entirely opposite cultural characteristics. Indian culture, in many ways, is nearer to Japanese culture than US culture.

Higher the degree of difference in these dimensions between cultures of two countries, higher is the degree of cultural diversity. Since management practices are culture-bound and the culture of one country differs from another, various management practices which are relevant for a company in its place of origin may not be relevant for its operations in other countries. For example, US management practices are quite different from Japanese management practices because of difference in cultures of these countries. It implies that managers are required to be familiar with the cultural characteristics of the host countries.

2. Multicultural Workforce. Workforce is the building block of an organization but there is multicultural workforce (also known as multi ethnic workforce) in global companies because employees of different countries work in these companies. Each country has different culture and ethnic groups. Based on their place of origin, employees of a global company may be divided into three groups: (a) parent-country national — permanent resident of the country where the company is headquartered, (b) host-country national — permanent resident of the country where the company's operations are located and (c) third-country national — permanent resident of a country other than the parent country and the host country. Multicultural workforce implies that various categories of employees bring not only their skills and expertise but also their attitudes, motivation to work or not to work, and other personal characteristics. Therefore, it is a challenge before managers how to integrate these diverse employees with the organization. Because of diversity, managing such employees with pre-determined management practices may not be effective but contingency approach is required so that management practices become tailor-made. Connerley and Pedersen suggest that a company that has multicultural workforce should encourage diversity and a multiplicity of viewpoints and establish a well-defined sphere in which diverse ideas and viewpoints may be freely expressed in the pursuit of common goals.

3. Language Diversity. Globalization has problem in the form of language diversity. Language is a medium of expression but employees from different countries have different languages. Though English is a very common language, it does not serve the purpose adequately as it does not cover the entire world. While employees coming from different countries may be encouraged to learn the language of the host country for better dissemination of information, it does not become feasible in many cases. An alternative to this is to send multilingual communication. It implies that anything communicated to employees should appear in more than one language to help the employees in understanding the message correctly. This system of communication puts extra burden on the communication channels.

4. Economic Diversity. Economic diversity is measured in terms of per capita income of different countries in which a global company operates. Economic diversity has implication to compensation management, that is, paying wages/salaries and other financial compensation to employees located in different countries. One of the basic principles of paying to employees is that 'there should be equity in paying to employees'. However, putting this principle in practice is difficult for a global company because its operations are located in different countries having different economic status. Therefore, it is a challenge before the managers how to bring equity in paying to employees. While establishing this equity, managers have to ensure that the employees are compensated adequately but at the same time, they have to ensure that the employee cost is not abnormally high to the organization.

B) TOTAL QUALITY MANAGEMENT

With the increased competition at the global level and discerning customers, more and more organizations are becoming conscious about the quality of their products. Indian organizations are preparing themselves according to this trend as each of them faces the challenging competition from global as well as local competitors. Quality is a sense of appreciation that something is better than something else. From operational point of view, quality means focusing on the creation of increasingly better products at progressively more competitive cost. Increasing quality consciousness has generated the adoption of total quality management (TQM). The concept of total quality management has spread throughout the world and has attracted the attention of Indian corporate sector also because of globalization of economy, increased competition and greater expectations of discerning customers. Fiegenbaum has defined total quality management as "total composite of product and service characteristics of marketing, engineering, manufacturing and maintenance through which the product and service in use will meet the expectations of the customers."

Total quality management comprises the following processes:

I. Quality Process. Quality process involves the understanding of who the customer is, what his needs are and how these needs can be satisfied. Thus, quality process comprises different steps through which complete satisfaction is provided to the customer.

2. Continuous Improvement. There is continuous process of improving the product quality and its delivery. The process comprises the plan-do-check-act (PDCA). Practice of PDCA cycle generates numerous opportunities for further improvement. Management of PDCA cycle involves continuously evolving objectives, policies and methods to achieve goals, education and training to employees, implementation, checking causes for low quality, taking appropriate actions and preventing recurrence.

3. People Process. People process deals with initiating and maintaining the total quality management. It is carried out through the involvement of all employees on the basis of three values: intellectual honesty, self-control, and respect for others. Thus, total quality management is not concerned only with shop-floor management but it involves the total organization and its personnel in terms of their support to the philosophy of total quality management.

Principles of Total Quality Management

For applying total quality management in an organization, certain principles are required. Deming, one of the early proponents of total quality management, has suggested 14 points to apply total quality management in an organization. These points are popularly known as principles of total quality management. These are as follows:

1. Create constancy of purpose of improvement of product and service.
2. Adopt the new philosophy that increasing quality is necessary for corporate survival.
3. Cease dependence on mass inspection to ensure quality from the start.
4. End the practice of awarding business on price tag alone; develop long-term relationships with suppliers to ensure supply of quality products/services.
5. Constantly and forever improve the system of production and service.
6. Institute modern methods of training on the job.
7. Institute leadership to motivate employees for continuous learning to improve quality.
8. Drive out fear so that employees can seek any information about total quality management practices.
9. Break down barriers between staff areas to ensure mutual cooperation among different departments and units.
10. Eliminate slogans, exhortations and targets for the workforce to ensure employees' attention on quality.
11. Eliminate numerical quota to ensure that only quantity is not emphasized.
12. Remove barriers to pride of workmanship.
13. Institute a vigorous programme of education and training.
14. Take action to accomplish the transition to total quality management.

C) BENCHMARKING

Benchmark is a term which is used in topography and refers to a mark which is used by surveyors as a reference point for taking actions related to land. In management, benchmark is a reference point for managerial actions. Benchmarking is a tool for making comparison of an organization's practices with those of others with a view to improve organizational practices.

Sarah Cook, who has done lot of work on benchmarking, has defined it as follows: "Benchmarking is a process of identifying, understanding, and adapting practices from within the same organization or from other businesses to help improve performance. In fact, the basic idea behind benchmarking is 'see what others do and try to improve upon that'. There are two issues in benchmarking: (i) what to benchmark and (ii) whom to benchmark. These issues can be resolved by going through types of benchmarking. There are different types of benchmarking. Since benchmarking is an evolutionary process in an organization, its application varies over the period of time resulting in different types of benchmarking such as:

1) Product benchmarking
2) Competitive benchmarking
3) Process benchmarking
4) Strategic benchmarking
5) Global benchmarking

D) BUSINESS PROCESS REENGINEERING

Organizations use various processes, known as business processes in case of business organizations, to achieve desired results. A business process is a set of logically related tasks which are performed in a specific order to achieve a business outcome. For example, sales order processing in a business organization is a business process. Over the period of time, many such processes emerge in an organization. Out of these, some processes become ineffective due to change in the working pattern of the organization. For example, if the organization has adopted computerized system for sales order execution, this process tends to be different from manually-operated sales order execution. This is true for many other business processes too. In such a case, the organization is required to reengineer its processes to bring efficiency. This is known as business process reengineering (BPR). Hammer and Champy have defined business process reengineering as follows: "Business process reengineering is the fundamental rethinking and radical redesign of processes to achieve dramatic improvement in critical, contemporary measures of performance, such as cost, quality, service and speed."

Objectives of business process reengineering are to (i) eliminate unnecessary processes and (ii) adopt effective processes to reduce time taken in completing the processes. Steps in business process reengineering are as follows:

1. At the initial step, process objectives are clarified, that is, what result a process is expected to achieve.

2. Based on the process objectives, an analysis is made to identify the processes which should be eliminated, the processes which should be redesigned, and the processes which should remain in their existing form.

3. Performance of the processes to be redesigned is measured to identify their shortcomings.

4. Based on the analysis of shortcomings of the processes to be redesigned, attempt is made to bring the necessary changes in the processes. At this stage, the organization may use benchmarking to redesign the processes.

5. After redesign of the processes, these are tested. During the test, unnecessary steps in the processes are eliminated.

6. After the processes are redesigned successfully, these are put in practice.

E) BUSINESS OUTSOURCING

Business outsourcing has become a very common practice in the present environment because of high emphasis on specialization. Thus, it is not necessary that a business organization does everything on its own but can get some things done by others who can do these in a much better way and at competitive cost because of their specialization in those fields. This feature of doing business has given the concept of business outsourcing (generally called as outsourcing). Outsourcing means getting things done externally rather than doing these within the organization. In the present context, outsourcing covers a number of fields ranging from goods to services. For example, Hindustan Unilever Limited outsources many of its goods from outside. Even it outsources its many human resource management processes from outside.

In outsourcing, an organization assigns the work to be outsourced to another party (generally known as vendor) either on fee basis or product purchase basis. Generally, non-core activities are outsourced. Core activities are those activities which are critical to achievement of organizational objectives while non-core activities are not critical. For example, recruitment of employees or maintaining their records is a non-core activity for an organization and can be outsourced.

NEED FOR OUTSOURCING

1. Focus on Core Activities. By adopting outsourcing, an organization may focus on its core activities which are critical to achievement of its objectives. For example, for an Electricity Board, the core activities are generation of power and its distribution. In this process, it requires preparing bills of electricity users. However, this is not a core activity but it requires lot of facilities. Therefore, this activity may be assigned to another entity.

2. Advantages of Specialization. A business organization generally selects a service provider which has specialization in the work that is assigned to it. Thus, the vendor performs the assigned work at a much lower cost than what the business organization may do.

3. Flexibility. As a business organization grows over a period of time, its activities in supporting systems go on increasing. If the organization performs all these activities on its own, its system of working becomes very rigid. Because of this rigidity, organizational changes may not be made as required by the business environment which keeps on changing. This problem may be overcome by going through outsourcing.

4. Freeing up Financial Resources. For undertaking various activities, investment is required in creating facilities necessary for performing these activities. By adopting outsourcing, an organization may save lot of its financial resources which may be invested in creating facilities required for core activities.

F) KNOWLEDGE MANAGEMENT

In recent years, more emphasis has been put on knowledge management so that any knowledge created at any place of an organization is shared by all relevant organizational members and duplication of effort to create the similar knowledge is avoided. Throughout the world, it has been recognized that the fundamental sources of wealth creation are no longer natural resources and physical labour, but it is the knowledge that has become the pre-eminent resource and has come to play a dominant role in any type of organization. Before understanding the concept of knowledge management, let us go through the concept of knowledge. In defining knowledge, there is a basic problem in that there is no common definition that captures the essence of knowledge. Dictionary meaning of knowledge is “that which is known, information, enlightenment, practical skill, acquaintance, etc." However, from the point of view of knowledge management, knowledge may be defined as “actionable wisdom that results facts, information, and techniques in a particular field." Whitehill has categorized different types of knowledge: encoded knowledge (know what), habitual knowledge (know how), scientific knowledge (know why), collaboration knowledge (know who), process knowledge (know when and where), and communal knowledge (care why). Knowledge management is creation, sharing and use of knowledge organization-wide. Thus, in knowledge management, there are three basic elements: knowledge creation, knowledge sharing, and knowledge utilization. Let us discuss these elements.

1. **Knowledge Creation**. Knowledge creation involves generating facts, information and techniques that are relevant to an organization and those associated with it. Knowledge creation uncovers new knowledge through several avenues-research and development, experimentation, creative thinking and automated knowledge discovery, benchmarking best-in-class practices, process improvement projects, feedback from customers, observing customers, and so on. A

basic feature of knowledge creation is that it is a never-ending process; it keeps on accumulating (but discarding the obsolete one), changing, and regenerating to suit the times.

2. Knowledge Sharing. Knowledge sharing involves communication and distribution of knowledge organization-wide. When a new knowledge is created in the organization, it is stored in organization's database for its wider dissemination.

3. Knowledge Utilization. The third element in knowledge management is knowledge utilization that is, using knowledge to solve problem for which it has been acquired. Unlike other resources that deplete when used, knowledge can be shared and used and grows through this process. “Knowledge perishes when it is not used; it increases when it is used; knowledge is essentially 'self-regenerative' and 'feeds on itself’".

Benefits of Knowledge Management

Knowledge management leads to create and sustain competitive advantage for an organization by:

1. Prevention of re-inventing the wheels at different places that is, doing a work that has already been completed by someone else. This saves time, money and effort of the organization.
2. Stimulating and enabling creation of new knowledge organization-wide. This practice helps in improved way of working resulting in better quality products with lower cost.
3. Organization-wide unity of thinking together with higher employee motivation. This results in better work coordination, better work environment, and better employee commitment.

G) E-BUSINESS

With emergence of information technology (IT) and its applications in business, there is a considerable change in the way the business is being done. This new way of doing business is known as electronic business (popularly known as e-business). E-business uses information technology in place of paper-pencil technology which is used in traditional business. E-business is defined as follows: E-business refers to any form of business transactions in which parties concerned interact electronically for completing the transactions.

E-business and E-commerce: Comparison

Sometimes, e-business and e-commerce are used interchangeably. This is so because application of IT started with buying and selling of goods and services and making and receiving payments electronically which come under commerce. Therefore, earlier definitions of e-business emphasized only these aspects. Over the period of time, applications of IT spread to cover all business aspects and IBM of the USA used the term e-business in 1997 to include its all business processes. Since then, the term e-business is used in a wider context including buying and selling of goods and services.

There is difference between e-business and e-commerce in terms of their coverage of activities. The scope of e-business is quite wide as compared to the scope of e-commerce. E-business involves not only buying and selling of goods and services but also includes collaborative partnership between two or more organizations. For example, collaborative projects for research and development, consultancy, etc. may be undertaken jointly by two or more organizations which interact electronically for completing these projects. E-commerce basically involves buying and selling goods and services and making payments electronically. In e-commerce, generally though not necessarily, electronic communication takes place through Internet whereas in many aspects of e-business, dedicated telecommunication networks or privately-owned telecommunication networks are used. Thus, the scope of e-commerce is limited as compared to e-business. E-commerce is a part of e-business just like the scope of business which includes commerce too.

Scope of E-business

The scope of e-business is quite wide. However, while defining the scope of e-business, one caution is needed. Sometimes, people tend to include all those activities of an organization in e-business which have been computerized. All these activities do not fall within the scope of e-business but suggest the scope of IT applications. For example, computer-aided design (CAD) is used quite frequently for developing new products. This does not fall under the category of e-business; it is just an application of information technology in business. Thus, e-business activities may be classified into three broad categories as given below:

1. **Internal Business Systems**. Internal business systems consist of those activities which are performed electronically by an organization for business purpose. All these activities taken together are also known as intra-firm e-business as only different departments of an organization are involved in this. Internal business systems include the following aspects:

(i) Enterprise resource planning.

(ii) Employee information portals.

(iii) Knowledge management.

(iv) Workflow management.

(v) Human resources management.

(vi) Document management systems.

(vii) Process control.

(viii) Internal transaction processing.

2. **Enterprise Communication and Collaboration**. It involves communicating with all relevant entities and includes the following aspects:

(i) E-mail.

(ii) Voice mail.

(iii) Chat systems.

(iv) Discussion systems.

(v) Conferencing.

(vi) Collaborative work systems.

3. Electronic Commerce. E-commerce includes the following aspects:

(i) Online marketing.

(ii) Online transaction processing.

(iii) Electronic funds transfer.

(iv) Supply chain management.

5.5 EMERGING ISSUES AND CHALLENGES OF MANAGEMENT

The changing environments of business are likely to pose the following challenges before the future managers.

1. **Reconciliation of Conflicting Demands of Social Groups**

The organisations are expected to reconcile the conflicting demands of various stakeholders such as owners, employees, suppliers, government and the community. The shareholders or owners of the business want the highest possible return, the workers the highest possible wages, the consumers the goods at the lowest possible price and the Government wants the highest possible revenue. It would be the duty of management to bring about a compromise among the interests of various parties. The business managers will also have to take care of the expectations of the society such as higher quality fair trade practices, maintenance of physical environment, etc. If they fail to meet the needs and expectations of the society, it will be rendered difficult for them to survive.

The managements of organisations will also have to give due consideration to he human resources working with them. They will have to change their policies to give the workers a greater say and influence in organisational functioning. Latent human capability is the most valuable resource of the organization, much more important than physical and financial resources. Increasingly, management will emphasize the importance of human resources and recognise that maintaining a viable psycho-social system is one of its most vital tasks. In other words, the organisations will have to decentralise authority, introduce flexibility in the structure and give sufficient freedom to individuals to take decisions to meet the social, economic and technological challenges successfully.

2. **Economic Liberalisation**

The liberalisation of the Indian economy has posed the following challenges for the managers:

(a) Competition in the fast growing domestic market.

(b) Diversification into the core and infrastructure sectors—power, telecom, roads, ports, insurance, etc. which were earlier reserved for the public sector.

(c) Raising India's exports and share of the world trade.

(d) Achieving the vision of becoming India-based multinational Corporation.

The above challenges have also created growth opportunities for the business organizations. The managers are expected to expand their business activities and enter new markets including foreign markets and also set-up production facilities in other countries to transform their organizations into global corporations.

3. **Globalisation**

The world has become a small village, thanks to the rapid means of transportation and telecommunications. Satellite transmission has widened the geographical markets. The countries have become interdependent, in terms of technology, capital, purchases and sales. Global companies buy from the cheapest markets and sell where they can get maximum prices. They carry on production in the country where cost of production is the minimum. In other words, globalisation calls for reduction of costs, improvement of quality, expansion of markets and diversification into new areas and markets.

Indian companies use not only imported components, but are also selling their finished products to markets abroad. To take advantage of global markets Indian companies are making strategic alliances with foreign companies. Global networking of suppliers, distributors, technical collaborators, ad agencies, etc. is being created. The most successful companies will rely more and more on global integration and networking.

Barriers to trade between different countries have been reduced to a great extent over the years. India, which is also a member of the World Trade Organization (WTO), has also removed most of the barriers to trade which has paved the way for free competition. Many foreign multinational corporations have brought technology and capital into India and are now competing among themselves and with the Indian firms. Several Indian firms have opened their subsidiaries in foreign countries and have also entered into alliance with local companies in foreign countries.

The global manager deputed in a foreign country is required to understand its culture and the behavioural forces that affect the employees in order to manage them effectively. Even if the global manager is working in his own country, he might have to manage the employees who belong to different cultures. In this case also, the manager will have to learn to adapt his management style to deal effectively with such workforce. Similarly, one has to master the art of interacting with bosses and peers belonging to different cultures.

4. **Expanding Operations of Business Organisations**

The changes in environment and technologies during the last four decades have compelled organisations to increase their scope and encompass additional activities. The development of big industrial houses with activities in a wide variety of industrial fields is a typical example of such expansion of activities of organisations. Industrial giants have accumulated vast financial resources and spread their risks by branching out into different areas of economic activities. To cope with the changing requirements, such organisations have developed new organisational structure with focus on planning, control and coordination. The managerial systems of these companies are substantially more flexible and dynamic than of the simplified single-product companies.

Another facet of expanding frontiers of organisational activities is the spread of corporations outside the national boundaries. These corporations are known as multinational or transnational corporations. Corporations which have their home in one country but operate under the laws, culture and customs of other countries as well are defined as multinational or transnational corporations. For instance, Coca Cola is a company registered in the U.S.A. and it has production and marketing facilities in many countries of the world. Some other popular multinational corporations include Pepsi (USA), Ponds (USA), Brooke Bond (U.K), Sony (Japan), Suzuki (Japan).

The journey from national to multinational corporation changes the environment framework within which the organisation operates. To quote Endel J.Kolde, "The primary distinction between an international and a domestic business lies in their environmental frameworks and in the organisational and behavioural responses that flow from these frameworks. As a company transcends a national setting, its environmental framework changes progressively in countless respects. There arise new ground rules as defined by law, custom and culture; new values, new opportunities as well as uncertainties. The wider the company's international scope, the greater the environmental diversities surrounding it".

The growth of multinational corporations has raised many problems as well as opportunities. A number of questions have been raised about the impact of multinational corporations on the sovereignty of nations. There is an inherent conflict between the multinational firm and nationalism. There is a concern that the growth of these huge organisations will conflict with the boundaries of the various sovereign nations and that national interests may be sacrificed to the multinational corporate goals. The future may see the rise of supranational government regulations and control of multinational business enterprises to ensure that they operate within the framework of national sovereignties.

5. **Satisfaction of Employees' Aspirations**

There has been a rise in the proportion of employees in today's industries who belong to the younger generations whose aspirations are different from those of the earlier generation. Today's workers are more career-oriented and are clear about the life-style they want to lead. The workers are becoming more aware of their higher level needs and this awareness would intensity further among the future workers. The managers would be required to evolve appropriate techniques to satisfy the higher level needs of workers in order to motivate them. Traditional allurements such as attractive salary, perquisites, job security, etc. may not succeed in motivating the ambitious employees. They would be motivated by better career prospects, growth opportunities and autonomy.

Now-a-day, both partners in many of the families pursue professional careers. Such husband-wife pairs often experience conflicts between their work and family responsibilities. Such people have lots of role pressures which may cause anxiety, stress, and depression for both husband and wife. That is why, managements of any organisations have taken several initiatives to help their employees achieve work life balance and reduce their stress. These include employee counseling, compressed workweeks, flexible work schedules and telecommuting.

6. **Empowerment of Employees**

Modern organisations employ young and dynamic persons with professional and technical qualifications at the junior and middle levels. Motivation of such personnel is a great challenge. Such people don't like close supervision and directive leadership as they are responsible and internally motivated. They want empowerment and self-direction of their activities.

Empowerment involves efforts to take full advantages of organisation’s human resources by giving everyone more information and control over how they perform their jobs. Various techniques of empowerment range from participation in decision-making to the use of self-managed teams in future. Organisations will follow team structures which will pave the way for empowerment of lower levels. Empowerment would be all the more necessary to speed up the process of decision-making, make use of environmental opportunities and to serve the customers and society better.

7. **Increased Complexity of Decisions**

The decision making process will become more complex in the future because of two important reasons. The first reason is that managers are getting more and better information. The availability of more and better information with the use of computerised management information system and other sophisticated data gathering techniques has enabled managers to have much better pictures of problems and a better understanding of the merits and demerits of possible solutions. The paradox of this information improvement is that a clear-cut “best solution” may be more difficult to identify than when the manager had only fragmented data for a decision. In such situations “really complicated things" take place which make the decision more difficult. This obviously throws a challenge on the shoulders of future managers to tackle a more “complex environment from which to choose.”

The second reason for greater complexity of decisions is the growing number of groups both inside and outside the organization which feel that they have a stake in the decision-making process. It is, therefore, imperative for management to take into consideration the interest of these groups while making decisions. Today, as new groups of persons, such as consumer organisations and community represent- tatives, begin to exert additional pressure on business, the complexity of decision-making continues to grow. Tomorrow's manager might face even more complexity.

8. Management Renewal

The outlook for management education will have to be changed. The manager of the future will be constantly frustrated by the obsolescence of experience. History and experience that once provided a sense of security and stability to preceding generations of managers will be of little comfort to future managers. This is true because the managerial climate changes so swiftly that outstanding solutions to problems in the past may be miserable failures in the present or future.

Naturally, the future managers will have to continuously renew themselves. The emerging challenges will require higher degree of professionalisation than ever before. The managers will have to attend seminars and educational programme to update their knowledge and skills. The organisations will also have to make provision for periodic leave to enable managers to keep abreast of their dynamic field. The future manager will also be required to be a behavioural scientist so as to deal effectively with the people he manages. The educational institutions will have to design courses in such a way that the future managers learn a true integrated view (i.e, economic, social and psychological) of the nature of human beings.

9. Business-Government Relations

The Government's interference in business will continue to safeguard the interests of workers, consumers and the public at large. It is the responsibility of the Government to see that the business does not exploit the workers and the customers and does not spoil the living conditions of the public. The Government has got sufficient powers under different statutes to protect the interests of workers and consumers and to compel the business to take preventive measures against water, air and. noise pollution. It will continue to guide and regulate business through economic planning, industrial policy, export import policy, monetary policy and so on.

The government lays down the socio-economic and political objectives which serve as constraints under which the business must operate. Government's participation in various business activities has also posed many challenges before the managers. In some areas, it has restricted the scope of private enterprise and on the other hand, it has also opened new avenues for investment and growth by providing infra-structural facilities. It is now realised that public and private sectors must cooperate with each other and they can jointly exploit the untapped resources of the economy. It may be predicted that in future there will be more joint sector enterprises and the public sector financial institutions will also serve as a guide to the business houses in the private sector.

10. Interface between Organisations

There would be increasing emphasis in future on the problems relating to interface between organisations. The managements of organisations will have to evolve ways and means for effective interface with the organisations on whom they are dependent for procurement of materials, technology and capital and also for sale of their products.

Advancements in information technology aided by developments in the computer science have improved communication systems across organisational boundaries. Traditionally, the concern has been with developing intra-organisational communication systems. In future, development of systems of information flow between organisations through INTERNET and other networks will be a common practice.

11. Increased Mobility of Professionals

There will be an increase in the mobility of various managerial and professional personnel between organizations. As individuals develop greater technical and professional expertise, their services will be in greater demand by various organisations in the environment. Professional mobility may increase the competition between organisations. It may also facilitate increased interface between organisations and lead to creation of joint ventures or even mergers.

5.6 TRENDS IN MANAGEMENT & ITS CHALLENGES

The basic purpose of management is and will be to coordinate the working of people in formally organized groups, to provide them appropriate working environment and to motivate them for the accomplishment of predetermined objectives of the organization. However, the specific tasks to be performed and the nature of leadership to be provided will differ according to the demands of the situations or challenges confronted in the future.

The changing trends in social, technological, political, economic and other environment are likely to create new challenge for the managers. Higher degree of professionalisation will be needed if the managers have to deal with the challenges effectively. Professionalisation of management requires expert knowledge of management theory and practices, training in management techniques and sensitivity to social responsibilities. To meet the forthcoming challenges, the managers will have to develop new principles, techniques and practices and modify the existing ones. “The managerial job will have many more intellectual requirements. It will involve more technical, scientific and engineering problems, as well as more complex budgeting and financial decisions. The manager will be functioning in a world where his performance will be evaluated, even more than it is today, on his intellectual skills in bringing about increases in rate of growth, in quality of services and output.”

The success of a future manager will depend upon his capability to accept new challenges and make better use of opportunities. For this, he will have to perform the following tasks:

1. Forecasting of Trends

Forecasting of changes in environment will become essential for effective management of resources. For instance, technological forecasting will be necessary to avoid blocking up of capital in those technologies which are going to be replaced soon. Social trends forecasting will reveal the expected changes in the value system and norms of the society. Economic forecasting will bring about the likely changes in the world economic order, economic policies of the national government and other economic trends in the economy.

2. Management of Information

The important question here is how the future managers will use information technology for furthering the objectives of the enterprises. They will have to design management information systems to suit their organisations. With a systematic analytical frame of reference quantitative techniques of operations research will be used frequently to solve management problems. Thus, use of computerised operations research models will provide a new dimension to decision-making in the future. Decision-making will no longer be used based merely on experience, institution and judgement.

3. Creativity

A creative manager has conceptual fluency. He is original and creates new ideas. In future, every manager will have to be creative in the sense that he must be able to produce new ideas quickly. The future manager will take more initiative than his predecessors. He will take more risks for a longer period ahead. To quote B.M. Bass, "Intellectual processes will be of greater importance to the future manager than to his present day counterpart; he will spend more time on them."

4. Strategic Planning

The top managers in the future will be involved more in strategic planning because of increased uncertainty in the environment. They will have to take more risks and for a longer period ahead. They will have to be continuously in touch with the trends in external environment of the business and take strategic decisions to make use of the opportunities. The strategic decisions will relate to internal growth through product and market development, diversification, external growth through mergers, take-overs and joint ventures, raising capital in the domestic and foreign capital markets, etc.

5. Management by Objectives

Management and appraisal by objectives will be the norm in the future as the employees will be more educated and will have higher levels of aspiration. The managers will have to help the subordinates to lay down their objectives which are in fusion with the organisational objectives.

6. Use of Inter-personal Skills

The future manager will have to be a behavioural scientist to effectively deal with colleagues, subordinates, customers and other groups. He will have to study their behaviour and use communication and leadership skills for better results. If his communication is good, he will be able to achieve good public relations outside the organisation and also good human relations within the organisation. He will also be able to create a good organisational climate under which workers are satisfied and have higher morale.

7. Management of Human Relations

Management of human relations in the future will be more complicated than it is today. Many of the new generation of employees will be more difficult to motivate that their predecessors. This will be in part the result of a change in value system coupled with rising educational levels. Greater skepticism concerning large organisations and less reverence for authority figures will be more common. Unquestioned acceptance of rules and regulations will be less likely.

Workforce in future will comprise better educated and self-conscious workers. They will ask for higher degree of participation and avenues for self-fulfillment. Moreover, the proportion of professional and technical employees will increase in relation to blue-collar workers. The ratio of female employees in the total workforce will also rise. Integration of women within managerial ranks might itself be a problem. Money will no longer be the sole motivating force for majority of the workers. Non-financial incentives will also play an important role in motivating the workforce. In short, human resources will be treated as assets which will appear in the Balance Sheets of business organisations in future.

8. Fulfillment of Social Responsibility

The organisations will have to discharge their obligations towards different social groups if they have to survive and grow. Reconciliation of conflicting interests of social groups like workers, consumers, shareholders and suppliers would mean that the future manager must sharpen his political skills and abilities. He will have to try to satisfy every group in order to have favourable public opinion. He will also have to participate actively in community affairs. He will have to contribute time and money for educational and social projects. He will also have to educate public opinion to dispel misconceptions about business. In fact, he will have to be the 'antenna' of his organisation. He will have to pick up messages from the environment and communicate effectively the policies of his organisation to the outside world.

9. Empowerment of Employees

Work-force in the future will comprise better educated and self-conscious workers. They will ask for higher degree of participation and avenues of self-fulfillment. Moreover, the proportion of professional and technical employees will increase in comparison with the blue-collared employees. These will call for changes in organisation design to empower the employees or to allow them greater autonomy in doing their jobs.

Empowerment involves efforts to take full advantage of organisation's human resources by giving them more information and control over how they perform their jobs. Various techniques of empowerment range from participation in decision-making to the use of self-managed teams. In future, organisations will follow team structures which will pave the way for empowerment of employees. Empowerment would be all the more necessary to speed up the process of decision-making, make use of environmental opportunities and to serve the customers and society better.

10. Creating Learning Organisation

Learning organisations are those which can create, acquire and transfer knowledge and also modify their behaviours to reflect new knowledge and insights. Building learning organisations is now recognized as the focus for top managements wanting to remain significant players in an ever-changing business environment.

In the turbulent environment, the learning organisations alone will survive because of their competence to learn, create, codify and use knowledge faster than their rivals. The organisations must, therefore, be built of, around, for and by people. The people must constantly enhance their abilities to produce extraordinary results, nurture innovative patterns of thinking, set free their collective aspirations and continually learn how to learn together, overcoming the learning disabilities that plague the organisation. The future organisation must be refined as a complex institution in which thinking, learning and knowledge-creation takes place, constantly generating ideas that will permit the transformation of the organisation by its people.

5.7 EMERGING PRINCIPLES OF MANAGEMENT

Thierauf, Klekamp and Geeding have enumerated the following principles which are emerging to keep pace with the changing environment:

1. Principle of Management by Perception. Management should have the ability to perceive future economic, political and social trends and determine their impact on the organisation so as to improve future performance. This principle is forward looking as opposed to the backward looking approach of feedback control which focuses on comparison after the fact.

2. Principle of Social Responsibility. The focus of this principle is to identify and analyse those social forces which have an impact on the organisation so that they may be integrated with the organisational objectives and plans to meet social challenges now and in the future.

3. Principle of Effective Organisation Development. Going beyond the traditional purpose of organisation development, i.e., creating a more benign working environment, effective organisation development should focus on economic goals, i.e., reducing the cost of labour turnover, and absenteeism as well as improving operational performance.

4. Principle of Effective Management Information System Utilisation.

Management should be able to extract timely information from the management information system to control present and future operations. This system is both forward looking and backward looking in that it enables projection of future events and reports information after the fact. Information of both types has a place in an effective management information system.

5. Principle of Effective Employee Utilisation. The thrust of this principle is integrating all types of organisation personnel into those positions for which they are qualified. It focuses particularly on promoting minority groups and women to managerial positions.

5.8 CHALLENGES OF INTERNATIONAL MANAGEMENT

In a liberalised and globalised economy, managers face the following environmental challenges:

1. Economic environment: In the market economy of today, consumers are free to buy what they want and producers are free to produce what they want. Keeping in view the economic system of a country, demands and preferences of consumers and system of ownership (private or public), managers decide whether or not they should carry business operations in the host country. Natural resources (oil, iron, coal, natural gas, uranium etc.) of a country also attract foreign enterprises to manufacture goods for domestic and international markets. Infrastructural facilities like roads, schools, hospitals, transport, communication system etc. affect economic development of a country. An economically developed country attracts and supports foreign enterprises.

2. Political/Legal environment: Political environment of a country also offers challenges to international managers. A politically stable economy where rules and regulations affecting the business operations do not change frequently; where incentives (reduced interest rates on loans, tax subsidies, market protection etc.) attract foreign business; where international economic communities agree to reduce trade barriers on international trade (in the form of tariffs, quotas, export restraint agreements and "buy national" laws) to protect domestic business (more the trade barriers, less the international business), offer great advantage to foreign enterprises.

3. Cultural environment: International business is also affected by cultural environment of a country. The value systems, social and ethical beliefs, understanding and interpretation of symbols and language of different cultures have direct impact on business practices. The international manager must, therefore, get accustomed to cultural environment of the economy to establish his business there.

5.9 MANAGEMENT CHALLENGES IN THE INTERNATIONAL/GLOBAL ECONOMY

As internal and external, domestic and international environment is changing radically, the managerial functions are also undergoing a change. The following challenges are faced by managers in carrying out these functions.

1. Planning: Planning becomes complex in the changing business environment. At the domestic level, local market conditions, technological factors, growth of products and markets, strengths and weaknesses of domestic and foreign competitors and a host of other factors become challenging to effectively plan the business operations. At the international level, economic, political and legal stability of economy, availability of technology and finance, ease of formation or strategic alliances, understanding of the environmental circumstances and many other issues affect planning. Managers who are able and competent to forecast environmental opportunities will be successful in making optimum plans.

2. Organising: Managers have to reorient their organising abilities to face the competitive challenges in domestic and international markets. Line organisations cannot be suitable forms of organisations and managers have to adopt project, matrix or network organisation structures. They should be competent to manage organisation structures and designs, manage people and change, both at the national and international levels.

Firms operating at the international level should give authority to managers in each country to manage their business rather than exercising authority from the head office.

3. Staffing: With increase in knowledge and competence of workers, managers have to be skilled in making appointments so that right persons are selected for the right jobs and expenditure on training and development is worthwhile.

4. Directing: As management is moving towards excellence and managers deal with people from different social and culture backgrounds, they must understand how culture factors affect individuals, how motivational forces and communication vary across cultures and, thus, interact with work groups of different cultures.

Even while interacting with people of the same culture, managers adopt democratic styles of leadership, non-financial motivators and two-way communication to get better responses from the employees.

5. Controlling: The basic issues with respect to control are operations management, productivity, quality, technology and information systems. Mangers have to take care of distance, time zones and cultural difference (in international management) while controlling the business operations. Control through computers and management information system is replacing direct controls through close contacts and supervision.

5.10 CONTEMPORARY ORGANISATIONAL STRUCTURE

Organisation is the foundation upon which the whole structure of management is build. Organising normally follows planning because the organisation must implement the strategic plan. The planning process itself, because it encompasses an analysis of all the firm's activities, often discloses a need to alter the organisation.

In designing the organisational structure, management is faced with two concerns:

1. Finding the most effective way to departmentalise to take advantage of the efficiencies gained from the specialisation of labour and

2. Coordinating the firm's activities to enable it to meet its overall objectives.

Organisational Structure: Organisational structure provides a route and locus for decision making. It also provides a system, or a basis, for reporting and communication networks. The basics of an organisation chart are similar for both domestic firms and international firms. But since international firms have to face complex problems, the form of the organisational structure is specific to them. The structure of an organisation becomes complex with the growing degree of internationalisation.

Co-ordination among the branches/units: The different branches/units need to be well co-ordinated in order to make the organisational structure effective. Proper co-ordination smoothens communication between one branch and another. It is true that there are impediments to effective co-ordination. Managers at different units may have varying orientation. The geographic distance may be too much to ensure effective coordination.

Formal co-ordination can be ensured through direct contact among the managers of different branches/units. It can also be ensured by giving a manager of a unit the responsibility for coordinating with his counterpart in another unit. A number of international firms have adapted the practice of direct reporting to headquarters by managers.

5.11 GLOBAL AND COMPARATIVE MANAGEMENT

Management for Global Business: For businesses, to remain competitive, they must continually evolve to tap into the global markets and emerging world opportunities. In this context, global business management can be defined as the fundamental principles and practice of conducting global business activities, the proper evaluation of international business opportunities and the optimum allocation of resources so as to attain the individual business objectives in a global environment. Domestic businesses in an attempt to become multinational or trans-national corporations face numerous concerns which can be duly addressed by global business management. In the wake of globalisation and rapidly integrated world, in terms of preferences and culture, the organisational and geographical complexity of global companies are getting even more pronounced. Some of the pivotal issues of global business management include:

- **International trade:** International trade constitutes an integral part of the global business management due to the increased restrictions imposed by many of the countries, which hamper the movement of goods and services across the world. Global business management is greatly affected by the supply of materials and essential commodities to various branches of a global company.
- **Global human resource management:** Global Business Management (GBM) is enmeshed in the principles of global human resource management which deals with the issues of factor movements, namely migration from the less developed to the developed world. International migration is a burning issue around the world. Global business management has to devise methods of tackling the issue of international human resource management and the activities of outsourcing activities to countries where labour is abundant and cheap.

- **Global investment and global finance:** The issue of global investment and finance are an integral part of the activities of the global organisation. Global finance is a reflection of global business management with the effective allocation of financial resources to maximise the assets of the company. GBM is also affected by movements of capital and currencies between countries and the difference in the exchange rates between different currencies.

GBM is closely linked with business management strategy and business process management. Business management strategy is concerned with achieving the operational goals while Business Process Management (BPM) is concerned about the control, analysis and monitoring of the operational business processes.

5.12 Summary

The recent trends of the environment and their relevance for the future managers are changes in social environment, economic environment, technological environment, physical, political and international environment.

There are two major sources of challenges which Indian managers have to face in the 21^{st} century i.e., globalisation of the economy and the emergence of newer management techniques and way of doing business. Economic liberalisation in India along with rapid technological advances has changed the way the business was being done in India. Some newer management techniques and way of doing business are total quality management, benchmarking, business process re-engineering, business outsourcing, knowledge management and e-business. For competing successfully, managers have to adopt contemporary management practices in place of age old practices.

5.13 SELF-ASSESSMENT QUESTIONS

Q1. What do you mean by changing environment?

Q2. Describe recent trends and challenges for the future managers?

Q3. Describe the various changes in Indian business environment?

Q4. Discuss the challenges for managers of the 21^{st} century?

Q5. What are the emerging issues and challenges of management?

Q6. What are the emerging principles of management?

Q7. Describe various challenges of international management?

Q8. Discuss global and comparative management?