PONDICHERRY UNIVERSITY

(A Central University)

DIRECTORATE OF DISTANCE EDUCATION

PRINCIPLES OF MANAGEMENT

Paper Code:

BCOM1001/BBA1001

Bachelor of Commerce - B.Com

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I Year

DDE – WHERE INNOVATION IS A WAY OF LIFE

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PRINCIPLES OF MANAGEMENT

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PAPER I - PRINCIPLES OF MANAGEMENT

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TEXT BOOK:

Dinkar Pagare, Business Management

REFERENCES:

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Lesson 1.1 Nature and Functions of Management

Learning objectives

After reading this lesson you should be able to

- Understand the meaning and importance of management
- Know the functions of management
- Differentiate administration and management
- Evaluate whether management – a science or an art?
- Know the functional areas of management.

Introduction

Management is universal concept that is generally used in every walk of life and more so in the modern business world. It is an activity that is applied to any kind of organisation where human beings are involved as a group in order to accomplish, some common goal. The concept of management has gained importance in the last few decades due to the increase in the scale of operations of modern organisations. Changes in science and technology have created new challenges. In order to meet these challenges, every organisation requires a good management force which would be in position to adapt itself according to changing situations and environments. The major aim of management is not only to ensure maximum returns from the various factors of production but also to make sure that it satisfies its obligations towards different sections of society.

Meaning of Management

Management is a very broad term which can be analysed in different ways. The meaning of management varies depending upon the context in which it is used. A few important meanings of management are stated below.

Management as a Group of Persons: Here management generally denotes a group of managerial personnel who guide and coordinate the efforts of others in order to achieve certain pre-determined objectives. The members of the group are individually called as managers.

Management as a Resource: Like all the other factors of production, management is also a factor of production, it is considered to be a very important factor because it integrates the other factors. Management is an economic resource which brings together the Six M's namely, men, money, materials, machines, methods and markets to achieve specified objectives.

Management as an Academic Discipline and a Field of Study: Here management refers to a separate branch of knowledge, which includes management concepts, principles, techniques and skills for tackling managerial problems. It is a multi-disciplinary discipline. Today management has become a very popular field of study and this is evident from the fact that institutions imparting management education have a very great demand for admission.

Management as a Process: The concept of Management as a process is analysed by Geroge R.Terry. According to him, Management is a process that includes distinct management functions namely, planning, organizing, staffing, directing and controlling which are performed to accomplish specified objectives by the use of the Six M's (men, money, materials, machines, methods and markets). Management is called a process because it includes a series of functions that lead to the achievement of certain specific objectives. Management as a process is concerned with

1. Defining the goals of an organisation;
2. Laying down the policies, procedures, strategies and programmes that are required to accomplish the organisational goals;
3. Integrating the various resources (6 M's) and making the best use of them;
4. Exercising effective control over the various resources; and
5. Creating an environment which provides for maximum satisfaction to people associated with the organisation.

Definitions of Management

"Management is what a manager does'. – Louis Allen. This concept of Management clearly indicates that irrespective of the level at which a manager may operate, he performs certain functions namely, planning, organizing, directing and controlling. He initially plans the goals to be attained through formulation of policies and plans. He then designs a suitable organisation structure which provides for division of work and assignment of authority and responsibility to the people at various levels. He then plays the role of a leader in trying to guide and motivate the action of others according to his plan.

Lastly, he will have to check and control the works of others in order to ensure that there is no deviation. In case of deviations, he will have to take remedial action.

This concept of management is simple and it indicates a series of functions that are performed simultaneously or continuously. Another important aspect is that the concept of management is universal, which can be applied to any type of organisation.

The problems of this concept are, that is does not take into consideration the social and human aspects of management but concentrates only on certain functions. Secondly, it ignores individual interest and lastly, it looks at management only from the top manager's point of view.

"Management is the art of getting things done through the effort of other people". – Lawrence A. Appley. In this definition, management is considered an art, and the work of a manager is to extract does not give a true picture of the term 'management'. It ignores the scientific aspect of management, workers aspirations and feelings are not given any consideration. It gives an impression that a manger has to obtain results by some way or the other without specifying his role clearly. It also does not indicate the formal organisation structure that is required management.

To manage is "to forecast and plan, to organize, to command, to coordinate and to control" – Henri Fayol. This concept of management is in line with the views held by Louis Allen.

"Management is a multipurpose organ that manages a business and manages managers and manages worker and work" – Peter F. Drucker. In this concept the task of a manager is to accomplish economic results, to make best use of human and material resources and to provide a conducive environment for the work force. The problem regarding this concept is that the managerial functions are not clear because of the complex nature of this concept.

"Management is defined as a process by which the elements of a group are integrated, coordinated and utilised so as to effectively and efficiently achieve organisational objectives" – Howard M.Carlisle. Of all the concepts, related to management this appears to be the real concept of management because it integrates human and physical resources of an organisation to attain its objectives in an effective manner. The essence of management lies in coordinating all these activities.

Importance of Management

Management is an essential task in every field of organised activity. It coordinates and integrates the various activities of an organisation in order to accomplish certain specified targets. The importance of Management is clearly highlighted in the following points:

1. Management helps in determination of the objectives of an organisation through sound resource planning. Unless the objectives are identified and well –defined, no organisation can accomplish its goal.
2. It helps to accomplish the goals of an organisation through integration of human and non-human resources.
3. The resources of an organisation can be effectively utilised only when there is a sound management force, because only efficient managers can meet new challenges.
4. Management is the brain of an enterprise. It is here that decisions are taken and policies are formulated. It provides foresight to the enterprise based on which the future is predicted.
5. Economic and social development takes place through management.

Functions of Management

Management in order to accomplish the organisation's goal will have to perform certain tasks. We call these tasks, the functions of Management. There is no uniformity regarding the function of Management- different management experts have given their own views regarding the functions of Management. Generally speaking management consists of five important functions namely: 1) Planning 2) Organising 3) Staffing 4) Directing and 5) Controlling.

1. Planning: Planning is a very important function of management, it is the most basic or primary function. It is a mental process requiring the use of intellectual faculties, foresight, imagination and sound judgment. Three important aspects of planning are forecasting, decision making and problem solving. It decides in advance what to do, how, to do, when to to and who is to do it. Planning involves systematic thinking about the manner in which specified objectives are to be achieved in future. The planning process involves the following steps:

a. Determination of the goal or mission of the organisation.
b. Forecasting the future based on past and present activities.

c. Selection of best course of action from different alternatives and formulation of plans.
d. Formulation of policies, procedures, budgets etc., to achieve the objectives.
e. Determining the actual performance.

2. Organising: Once plans have been established, the nest stage is that of organising. Organising establishes harmonious relationships among the members of an organisation by providing them with adequate authority and responsibility. It clearly specifies the task of each individual and the extent to which he can carry it out. According to Louis A. Allen, "organisation 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". From this definition it is clear that organizing determines the tasks to be performed, it groups the task in such a manner that each individual knows the task to be performed by him and thereby creates a structure of authority and responsibility among them to achieve organisaitonal objectives. A good organisation helps to avoid overlapping and duplication of work. Organisation process involves the following steps:

a. Identification and analysis of activities required for the achievement of objectives;
b. Grouping of activities according to the requirement of the organisation;
c. Assignment of duties to the individuals concerned;
d. Delegating authority to the subordinates and thereby fixing responsibility for performance; and
e. Establishing proper authority relationship throughout the organisation.

3. Staffing: Staffing is another important function of Management. The best form of planning and organizing will yield no result without manpower. The function of staffing fills this gap. T helps in trying to put the right man in the right job. The staffing function involves recruitment, selection, training, development and appraisal of personnel. The staffing function has gained importance, with the growing size of an organisation, improvement in technology and recognition of the human factor in industry.

4. Directing: Directing may be defined as a function of management which is related with instructing, guiding and inspiring the human factor in an organisation to achieve its objectives. Not only orders and instructions with those activities which deal with guiding, supervising, influencing and motivating the subordinates in their jobs. Through direction, management initiates action. It is a function that is carried out throughout the organisation. Direction consists of three important sub-functions or elements, namely motivation, leadership and communication. Through motivation subordinates are stimulated to work effectively, through leadership they are influenced and guided and through communication they are provided with proper information to vary out their activities to accomplish the results. (Note:- These three elements of Direction are discussed in detail in units 5 and 6).

5. Controlling: Controlling as a function of management deals with checking and verifying the activities that have been performed against the pre-determined standards. Controlling helps to take corrective action if the results do not conform to plans already established. According to Henri Fayol, control consists in verifying whether everything occurs in conformity with the plans adopted instructions issued and principles established. The following are the steps involved in the controlling process:

a. Establishment of standards
b. Measurement of actual performance
c. Comparison of actual performance against the standards established
d. Determining the reasons for deviation
e. Taking corrective action
f. Feedback in order to determine actual performance

Another important function of management is coordination. In ensures unity of action. Though some management experts consider coordination as a separate function of management, it is more appropriate to say that coordination is the essence of management. It is one word that best suggests the sum total of all managerial functions and that it is not one of its functions. Coordination is otherwise termed as the manager's functions. Coordination is the orderly arrangement of group effort, to provide unity of action in the pursuit of a common purpose.

Administration and Management

The two terms 'Management' and 'Administration' are used interchangeably. There is a lot of controversy on the usage of these two terms. Many experts have given different views on this subject. These views have resulted in three different approaches.

1. **Administration is above Management:** Many management experts like Oliver Sheldon, William Spriegel, Milward, Lansberg, Ordway Tead etc., are of the view that Administration is a higher level activity, though both may be performed by a single individual in an organisaiton. Administration is concerned with decision making and policy formulation, while management is concerned only with the

execution of what has been laid down by the administrators. The actual difference between Administration and Management can be tabulated as follows:

ADMINISTRATION	MANAGEMENT
Administration is a higher level function.	Management is a lower level function.
It is concerned with laying down the policies and goals of an organisation.	It is concerned with execution of the policies that have been laid down.
It refers to the owners of the organisation.	It refers to the employees.
Administration is concerned with decision making.	Management is concerned with execution of decision.
Decision making is influenced by social, economic and political factors.	Decision making is restricted to the extent of guiding and directing an organisation to accomplish its objectives.
It acts through the management.	It acts through the organisation.

2. Administration is part of Management: This approach holds that management is ac comprehensive term and that administration is a part of it. This view point was propounded by E.F.L. Brech. According to him, "Management is the generic term for the total process of executive control involving responsibility for effective planning and guidance of the operations of an enterprise. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans". Thus Brech conceives administration as part of management. Kimball and Kimball, Richman and Copen also hold similar views. If this view is accepted, it becomes quite contrary to the previous view because administration becomes a subordinate function to overall management, which is concerned with day-to-day executive routine work which is a part of management.

3. Administration and Management are the same: The third view is a more practical one, where there is no distinction between the two terms 'management' and 'administration'. Management is used for higher level functions like planning, organizing, directing and controlling in a business orgnisation, whereas, administration is used for the same set of function in government organizations. Many experts like Henri Fayol, William Newman, George R.Tery, Louis Allen favoured this view. The distinction between management and administration is only of academic interest, but in real life, such there is no distinction.

In order to overcome these controversies, management can be classified into i) Administrative management and ii) Operative management. Administrative management involves the laying down of policies and objectives of the organisation, where operative management is concerned with implementing these policies to accomplish the goal of the organisation. At every level of management an individual performs both these types of functions. At the higher level they spend more time on administrative activities and at lower level they spend more time on executive activities.

Management – A Science or an Art

Management a Science or an Art is a controversial issue with regard to the nature of management. In order to specify the learning process o management, it is necessary to indicate the exact nature of management, as a Science or an Art or both. The learning process in science differs from that of art. Learning of art involves its continuous practice whereas learning of science involves the assimilation of principles. Therefore, it is necessary to analyse and see whether management is a Science or an Art.

Management as a Science: Science is a systematised body of knowledge gathered by experiment and observation, critically tested and brought under general principles. Scientific principles are universally applicable, they establish cause-effect relationship between different variables and their validity can be verified. They also help in predicting future events. The following characteristics are essential for a subject to be recognised as a science:

1. Systematized body of knowledge including concepts, theories and principles that are universally applicable
2. Based on scientific enquiry
3. Should establish cause-effect relationship
4. Principles should be verifiable
5. Reliable basis for predicting future results

Judging from the characteristics, it can be said that management has systematised body knowledge. However management is an ‘inexact Science’ or “Pseudo science” because it deals with people and predicting their behaviour accurately is a very difficult task. The theories and principles in Management though universal in nature, may produce different results when applied in different situation. That is why management is called a

behavioural Science, because its application does not lead to the same results whenever applied.

Recently management has come to be recognised as a Science. Earlier experience was the only means to acquire the skills of management, because knowledge of management practice was not systematised. Management experts have now given management the shape of an organised body of knowledge which has its own filed of activity and distinct boundaries. This helps in accomplishing certain goals through rational means. Hence, Management is called a Science.

Management as an Art: Art involves the achievement of desired results through the practical application of theoretical knowledge and skills. If a Science is learnt, an Art is practiced. The following are the features of an Art:

a. Personal skill and practical knowledge
b. Creative in nature
c. Helps in achieving desired and concrete results and is result oriented in its approach
d. Clearly prescribes how an activity can be performed and how it could be improved through constant practice

Management is an art because of the following facts:

a. Management process involves the use of personal skill and practical knowledge. While dealing with people, every manager will have to apply certain skills and knowledge.
b. Management is creative. In fact, it is one of the most creative arts, because in changing environment management can achieve desired goals through moulding and welding the activities and behaviour of people.
c. Application o certain skills and practical knowledge helps to achieve concrete practical results.
d. Continuous practice of management helps in the efficient accomplishment of organisational goals.

Hence, Management is both a Science and an Art. It is a Science because it contains universal truths which form an organised body of knowledge. It is also an Art because it requires certain personal skills which are the possession of the manager, and which when applied achieve desired results.

Functional areas of management

The concept of Management is very wide. The functional areas or operational areas of management may be broadly classified into: 1) Production Management 2) Marketing Management 3) Financial Management and 4) Personnel Management. We shall now analyse each one of these functional areas of Management separately.

1. Production Management: The purpose of a business unit is to produce and distribute goods and service. Production Management is concerned with planning, organising, directing and controlling the production function so that the right product is produced at the right time, in the right quantity and at the right price. It involves the following activities:

i. Product designing.
ii. Layout and location of plant and machinery.
iii. Management of purchase and storage of materials.
iv. Proper repairs and maintenance.
v. Effective control of inventory and quality.
vi. Research and Development.

2. Marketing Management: Marketing Management is the process of understanding and identifying the consumer needs and wants, and thereby satisfying these wants by supplying the requisite goods and services, it includes the following activities:

i. Determination of consumer demand through marketing research.
ii. Designing suitable products capable of satisfying wants.
iii. Establishing appropriate pricing strategies and policies.
iv. Choosing the right and best channel of distribution.
v. Making the best use of promotional activities like advertising, personal selling and sales promotion to reach the customers.

3. Financial Management: Finance is the life blood of business organisation and every managerial decision has its own financial implication. Financial Management provides the right type of funds to an organisation at the right time and at reasonable cost. The main functions of Financial Management are:

i. Determining the extent of funds required for both long term and short term needs of business.
ii. Selection of the appropriate source of funds and maintenance of these funds at the lowest cost.
iii. Making sure that funds are obtained when they are needed.

iv. Ensuring effective use and proper allocation of funds so as to achieve optimum financial efficiency in the enterprise.
v. Proper administration and allocation of earnings.

Financial Management thus involves proper allocation and utilisation of financial resources.

4. Personnel Management: Personnel Management is that function of management which is primarily concerned with the human relationship within a business enterprise. Personnel management is concerned with managerial (planning, organizing, directing and controlling) and operative functions (procurement, development, maintenance, compensation and utilisation) with a view to accomplishing organisational goals effectively and efficiently and thereby meeting individual and group goals. It involves the following activities:

i. Organisational planning, development and task specification.
ii. Recruitment and selection.
iii. Placement.
iv. Training and education.
v. Compensation, wage and salary administration.
vi. Motivation and Incentives.
vii. Employee welfare and benefits.
viii. Labour relations.
ix. Maintenance of employee records to be utilised for promotions transfers.
x. Personnel research and personal audit.

Questions

1. Explain the different functions of Management.
2. "Management is getting things done through others" – Comment.
3. Explain the concept of Management as a process.
4. "Management is both a Science as well as an Art" – Discuss.

Lesson 1.2 Evolution of Management Thought

Learning objectives

After reading this lesson you should be able to

- Understand the emergence of management
- Know Taylor's contribution to management thought
- Identify Henri Fayol's Contribution to Management Thought
- Know George Elton mayo's Contribution

Introduction

The need for a systematic study of management was not realised till the beginning of the present century. The study of management is a product of the twentieth century. However management practice did exist among human beings of the past generations while they lived together in groups. Management is as old as civilization itself. The origin of management as a discipline was the work of Frederick Winslow Taylor and his associates during the scientific management movement that developed around 1900. Some of the reasons for slow development of Management thought and practice are:

1. Non-recognition of business as an occupation until recently.
2. A wrong notion about the concept of management that "Managers are born and not made".
3. Failure to treat management as a science and not merely an art by economists, psychologists and sociologists.
4. Management was not considered as a subject worthy of theoretical analysis by well-known economics.
5. Even businessmen did not develop a body of principles of guide management practice.

The development of a theory of management has come only in the past half century because it was felt that for attainment of an effective enterprise system, proper handling of human factor was necessary. Human unrest, national unionism, manipulation of resources and the attack by government and other social groups on free private enterprises were instrumental in forcing managers to examine the nature of their job.

The Second World War and the subsequent defence and space programs also contributed to the development of a theory on Management. The emphasis was to make the best use of limited resources to accomplish the objectives. The increasing complexities of business activities and the growing competition further provided the driving force for developing systematic management concepts and principles. In addition to this, enterprises have been faced with the problem of cost-price squeezes. Businesses which failed to use modern techniques of management were not in a position to cope up with this problem.

Early contributions to management thought have come from the Egyptians, the early Greeks and the ancient Romans. In addition to this, management thoughts have come from the Roman Catholic Church, military organisation and camera lists of the sixteenth to eighteenth centuries. These contributions were in the field of principles of specialization, selection and training of subordinates and effective use of staff in the performance of major activities. In later periods, contributions to development of management thought came from James Watt. Mathew R.Boulton, Robert Oweri and Charles Babbage. Their ideas only created an awareness about management problem. The real development of management thought began with Frederick Winslow Taylor's scientific approach to Management.

Pioneers of Management Thought

During the last four decades there has been a number of contributions to the development of management thought. The development of management as a discipline has come in a short period of time when compared to other sciences. Among the pioneers of Management thought, the contributions of F.W Taylor. Henri Fayol and Elton Mayo are outstanding. These contributions give a clear view about the development of Management concepts and principles. We will now examine these contributions individually.

Taylor's Contribution

Frederick Winslow Taylor (1856 – 1915) is called as the Father of Scientific Management and his contribution as the Principles of Scientific Management. Taylor gave up his studies in 1875 and started working as an apprentice patternmaker and machinist. In 1878, he joined the Midvale Steel Works in Philadelphia as an ordinary worker and later rose to the position of chief engineer after completing his degree in engineering through evening studies. Later on, he joined Bethlehem Steel Company. He conducted a number of experiments about how to increase the efficiency of people. He studied the problem of management from the shop floor level (lower level). According to Taylor, "Management is knowing exactly what you want men to do and then see that they do it in the best and cheapest way". He spends most of his life as a consulting engineer. Since Taylor rose from an ordinary worker to the position of a chief engineer, he was in a position to understand the problems and attitudes of workers and this gave him ample opportunity for improving the quality of Management. His contributions were compiled into a book called "The Principles of Scientific Management" in 1911. The contribution of Taylor to Management thought can be analysed under two broad heads, namely 1) Principles of Scientific Management and 2) Main features or Techniques of Scientific Management.

1. Principles of Scientific Management

The following are the principles of Scientific Management developed by Taylor on the basis of his experiments:

i) Replacing Rule of Thumb with Science: Taylor emphasised the use of organised knowledge in scientific management and wanted it to replace rule of thumb. Scientific methods denote precision, while rule of thumb emphasises intuition and experience to determine the work methods and tools. The basic cores of scientific management are fair work, standardisation of work etc. It is essential that these are measured properly and not based on estimates. This concept can be applied in all aspects of management.

ii) Harmony in Group Action: Harmony in group action is one of the most important principles of scientific management where Taylor emphasised that there should be harmony in group action rather than discord. This would help in proper understanding and maximum contribution on the part of the group.

iii) Cooperation of Human Beings: Scientific management stresses on cooperation of human beings rather than chaotic individualism. It is based on mutual confidence, utmost good faith, cooperation and good will. Mutual understanding and positive thinking would develop good cooperation between workers and management. He suggested substitution of peace for war and replacement of suspicion with mutual confidence and cooperation.

iv) Working for maximum Output: Taylor was against inefficiency and deliberate curtailment of production. He always emphasised on continuous increase in productivity instead of restricted production either by workers or management. He pointed out that both management and workers could gain from it. Management could secure higher profits and workers could expect higher wages.

v) Development of Workers: Another principle of Scientific management is developing all workers to the fullest extent possible for their own and their enterprise's highest prosperity. This involves scientific selection and training of the workers, which would improve productivity and help a worker to adapt himself according to changing situations.

2) Techniques of Scientific Management

Taylor and his close associates suggested the following techniques of Scientific Management in order to put it into practice.

i) Separation of Planning and Doing: Taylor emphasised the need for planning work to be performed and he wanted the planning function to be separated from the executive function. Before Taylor's scientific management, both planning and execution were carried out by the same individual and there was only a supervisor to control the job. This led to a lot of confusion and Taylor wanted the planning activity to be done separately by the planning department, where the worker had no role to play.

ii) Functional foremanship: Taylor developed a theory on functional authority called functional foremanship based on specialization of functions. Here planning was separated from executing. In this system, eight foremen were involved to direct and control the activities of the workers. Of these, four were concerned with planning, namely, route clerk, instruction card clerk, time and cost clerk and shop disciplinarian. The remaining four were concerned with getting the required performance from the workers, namely gang boss, speed boss, repair boss and inspector. The concept of functional foremanship is clearly indicated in Figure 1.

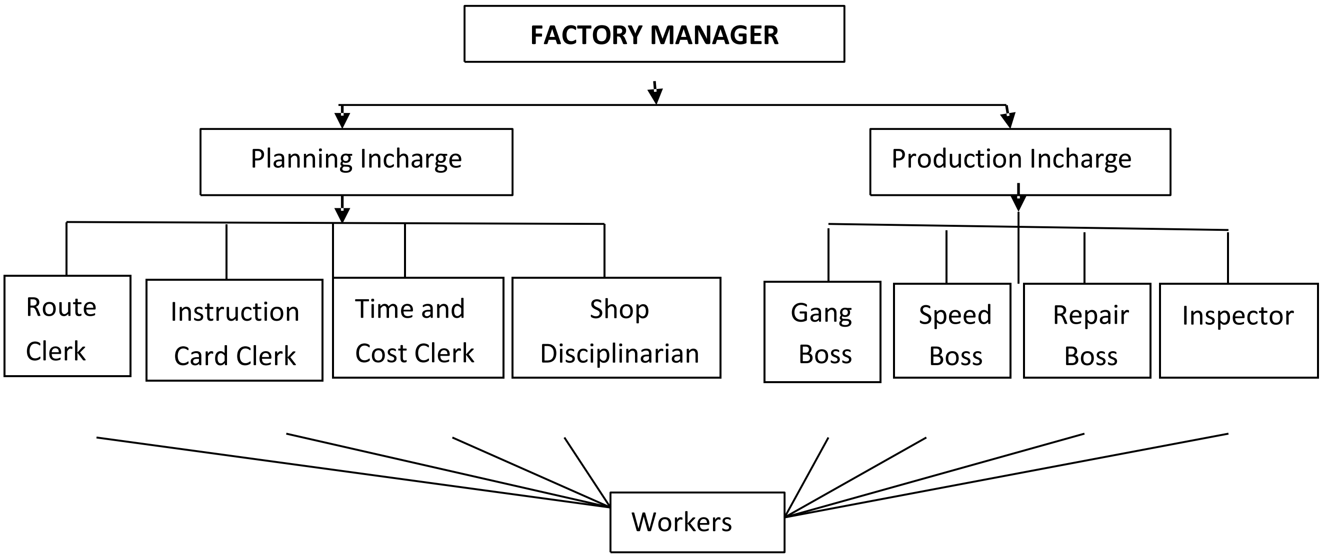


Figure 1: Functional Foremanship

iii) Job Analysis: it is undertaken to find out the best possible way to do a particular activity. Any activity that requires minimum movements and consequently less cost and time is the best way of doing that activity or job. This can be determined by taking up time – motion and fatigue studies.

Time study: this is otherwise called work measurement. It helps in recording the time required to do each element of an industrial operation. Thus, the precise time for each operation is clearly laid down. This helps in fixing fair and standard work for a period.

Motion study: it helps in studying the movement of an operator or machine. Here, wasteful movements can be eliminated and the earliest method of doing a particular job can be determined.

Fatigue study: Both physical as well as mental fatigue has an adverse effect on the worker's performance and health. Fatigue study indicates the amount and frequency of rest required in completing the job. Fatigue is normally caused because of continuous work without rest pauses, repetitive operations, poor working environment etc. Fatigue study is to maintain operational efficiency of works. The concept of job analysis, as given by Taylor, suggests a fair day's work requiring certain movements and rest pauses to complete it.

iv) Standardisation: Taylor suggested standardisation of instruments and tools, amount of work, period of work, working conditions, cost system and several other items. This would help to reduce wastage and spoilage of materials, reduce fatigue among the workers and improve quality of work. Standardisation of activities and equipment should be fixed well in advance on the basis of job analysis and various elements of costs that are required for performing the work.

v) Scientific Selection and Training: According to Scientific Management workers should be scientifically selected taking into account their education, experience, skill, and physical strength so that the right man is put into the right job. A person who is technically and physically fit for a given job should be assigned that work. Besides this, proper training should be given to make him efficient and perfect.

vi) Differential Piece Wage Plan: Taylor applied the concept of differential piece-wage plan in order to motivate and attract highly efficient workers. According to the plan if a worker completes the normal work given to him, he will be given a higher piece rate. On the other hand, one who does not complete gets a lower piece rate. Taylor also suggested that only individual performance should be taken into consideration.

vii) Economy: Application of scientific management should always lead to economy and profitability. For this purpose, techniques of cost estimates and control should be adopted. By making effective use of resources, wastage can be eliminated and thereby profitability and efficiency can be improved. Scientific management should not be based only on technical and scientific aspects but due consideration should also be given to profit and economy.

viii) Mental Revolution: The concept of Mental Revolution laid down by Taylor calls for a change in the mental attitudes of the workers and the management towards each other.

This change in mental attitude can be brought about through mutual cooperation and confidence. No principle of scientific management can be applied without the revolutionary change in attitude. Mental Revolution can be obtained by i) taking proper efforts to increase production, ii) creating a spirit of mutual confidence and trust, and iii) developing scientific attitude towards problems. Mental Revolution helps in effective accomplishment of organisational goals because both workers and management would turn their attention towards increasing the size of surplus and will not be bothered about the division of surplus.

Taylor's scientific management has provided a number of benefits to the industry. The main benefits are conservation and savings, better utilisaion of different resources, development of workers and satisfaction of customer needs by providing quality products at lower prices.

Criticism of Taylor's Scientific Management

Taylor's Scientific Management suffers criticism not only from workers and managers but also from psychologists and the general public. The criticisms are as follows:

i. Taylor's Scientific Management Concepts were confined only tto ne functional area of management, namely, production and it ignored others aspects of management like marketing, finance and personnel.
ii. The concept of functional foremanship cannot be applied in practice as it is against the principle of unity of command.
iii. Workers feel that the concept of scientific management is a means to exploit them without providing them with proportionate returns.
iv. Introduction of scientific management concepts involve huge expenditure.

In spite of these criticisms, many of Taylor's concepts are still being applied by modern business organisations. It was Taylor who first introduced scientific reasoning to the discipline of management.

Henri Fayol's Contributions

Henri Fayol (1843-1925), a French industrialist is known as the real father of modern management theory. In 1860 Henri Fayol joined a French mining company as an Engineer and later became its Managing Director. When he took charge, the company was on the verge of closure, but when he retired in 1918, the company's financial position was very sound. Fayol pointed out that the reason for his success was his system of management which he emphasized could be both learnt and taught. His observations on the general principles of management were first published in French in 1916, under the title Administration Industrielleet Generale (General and Industrial Management). This was not translated into English nor made available outside France until 1929. Moreover, no English translation was published in the United States until 1949. Henri Fayol's contribution could not make much impact on the development of management thought in the earlier periods because of these delays. However, after its publication, Fayol's perception of management principles, disclosed and extraordinary insight into the basic problem of modern management.

Henri Fayol evolved a general theory of management which could be applied to any filed of organised activity, particularly from the top level of management. He viewed the problem of managing an enterprise from the top management angle. Henri Fayol's observations fit well with the requirements of present-day management. That is why he is rightly called the Father of Modern Management Theory.

Fayol found that the activities of an industrial undertaking could be classified into six groups, namely:

i. Technical (concerned with production);
ii. Commercial (related to buying, selling and exchanging):
iii. Financial (search for capital and optimum use of it);
iv. Security (protection of person and property);
v. Accounting (including statistics); and
vi. Managerial (relating to planning, organisation, command, coordination and control).

Fayol pointed out that these activities exist in every type and size of business. He observed that the first five were well known, and consequently devoted most of his book to anyalse the last activity namely Managerial. Fayol's contribution to management can be divided into three parts:

I. Managerial qualities and training, II. General principles of management, and III. Elements of Management. General principles indicate the rules or guidelines which are fundamental truths that establish cause-effect relationship, whereas, elements of management indicate the functions that are to be performed by a manger. Let us now exa…. Each one of these parts separately.

I. Managerial Qualities and Training

According to Henri Fayol, there are six types of qualities that a manager should possess in order to be effective in carrying out his duties. They are:

1. Physical (health, vigour and address);
2. Mental (ability to understand and learn, judgment and adaptability);
3. Moral (relating to energy, initiative, firmness, loyalty and dignity);
4. Educational (general acquaintance with matters not belonging exclusively to the functions performed);
5. Technical (peculiar to the function being performed); and
6. Experience (arising from the work).

Fayol pointed out that the technical ability of a worker was the important ability and the relative importance of managerial ability increases as one goes up the main of command. On this basis, Fayol developed the need for principles of management and for management teaching. He held that managerial ability should be first acquired in school and later in the workshop. He developed fourteen principle of management to be taught in academic institutions, in order to acquire managerial ability and knowledge.

II. General Principles of Management

Principles of Management are fundamental truths and they establish cause-effect relationship. Henri Fayol has listed fourteen principles of management. Fayol emphasised on two important aspects with regard to his principles.

i. The list of principles is only suggestive and not exhaustive and only those principles which he used on most occasions had been discussed.
ii. These principles are flexible and not rigid and they can be adopted to every need and situation provided one knows how to make use of them.

The fourteen principles of management are as follows:

1. Division of Work: In order to take advantage of specialisation, this concept of division of work was formulated. Specialisation leads to efficiency and accuracy which increases output. Fayol applied this principle to both managerial as well as technical work. The principle of division of work can be applied to all levels of the organisation.

2. Authority and Responsibility: Henri Fayol points out that these two terms 'authority' and responsibility are related to one another and they go hand in hand. Responsibility is corollary to the former and arises from it. There should be parity of authority and responsibility, in order to discharge responsibility properly. According to Fayol, authority is derived from one's position, whereas personal authority is derived from personal qualities like experience, intelligence etc.

3. Discipline: Discipline is "respect for agreements which are directed to achieving obedience, application, energy and outward marks of respect". Discipline is essential for smooth functioning of an enterprise and it should prevail at all levels of an organisation. Discipline can be enforced through good supervision, fair and clear agreements and judicious sanction of penalties.

4. Unity of Command: This principle is based on the concept of “one man – one Boss” Every individual in an organisation should receive instructions and orders from only one superior. If a person receives instructions from two or more superiors, then it would lead to unnecessary conflict and delay. For effective functioning of an organisation, unity of command is essential. But for unity of command, authority is undermined, orders are disturbed and stability is threatened.

5. Unity of Direction: According to this principle, each group of activities having the same objective must have one head and one plan. Unity of direction and unity of command are not the same. Where the later pertains to the functioning of persons, the former is concerned with the functioning of the body corporate directed towards achievement of common goals. Unity of direction leads to unity of action and coordination of efforts.

6. Subordination or Individual to general interest: When there is a conflict between individual interest and general interest, individual interest should be subordinated to general interest. The interest of the organisation is above the individual interest. Factors like ambition, weakness, selfishness etc., may reduce the importance of general interest. Constant supervision, fair agreement and firmness on part of the superiors help in subordination of individual to general interest.

7. Remuneration of Personnel: Fair remuneration and maximum possible satisfaction to both employees and employers, were advocated by Henri Fayol. In large scale organisation, he favoured non-financial incentives. He favoured profit-sharing plan for managers and not for workers.

8. Centralisation: Without using the term centralization of authority. Fayol refers the extent to which authority is centralised or decentralised. Centralisation and decentralization are only a question of proportion. According to Henri Fayol, the size of the firm and the individual circumstances will determine the degree of Centralisation.

9. Scalar Chain: Scalar chain of authority refers to the flow of communication ranging from the highest to the lowest level. All upward and downward communication should flow through each position in the line of authority which he should clear. The chain of command can be short-circuited only in special circumstances when it is absolutely essential. For this purpose, Henri Fayol has suggested the concept of ‘Gang plank’ wherein two subordinates can deal directly with each other, provided they inform their immediate superior of any action taken by them. This concept of gang plan is clearly explained in Figure 2.

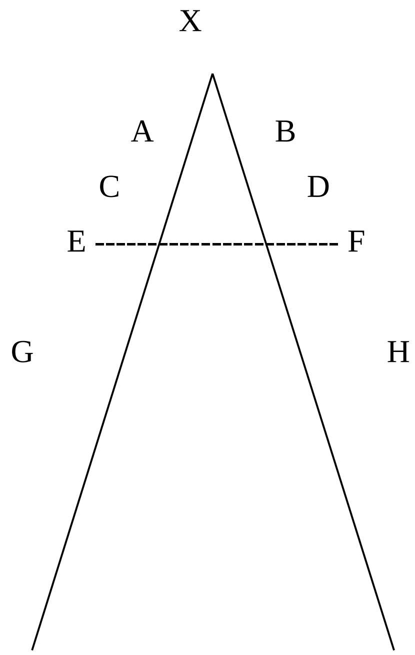


Figure 2: Scalar chain and gang plank

In Figure 2, X is a superior having two immediate subordinates namely, A and B in turn they have two subordinates C and D and so on until G and H any communication from top to bottom should flow through X, A, C, E and G. Similarly, it should flow from G to X, while to go through the formal chain, namely E to X through C and A and then from X to F through B and D. Fayol suggested that this chain of communication takes time, and this can be substituted by gang plank (dotted line) without weakening the normal chain of command. E and F can communicate directly with one another provided their immediate superiors C and D authorise them to do so and it is the duty of E and F to inform their superiors of any action. By following this pattern quick decisions can be taken without any delay.

10. Order: This principle relates to two aspects to an order, namely social order and material order. In social order there should be a right person in the right place and in material order there should be a place for everything and everything should be in its place. Order in an organisation helps to establish constant balance between human requirements and resources.

11. Equity: Equity refers to the combination of justice, fairness and kindness. Equity of treatment brings about loyalty in the organisation. The concept of equity should be applied at all levels in the organisation.

12. Stability of Tenure: According to this principle, there should be reasonable security of jobs. Workers should not be removed within a short period. Stability of tenure is required to get a worker accustomed to his new job and help him to perform better in future. Unnecessary labour turnover affects the organisaiton to a great extent and is a cause of bad management. Fayol suggested stability of tenure for all and more so to managerial personnel.

13. Initiative: Fayol advocated that managers should encourage their employees for taking initiative. It is concerned with the power of thinking out a plan and ensuring its successful implementation. It adds to the energy and zeal of human beings.

14. Esprit de Corps: This is a French term which means "union is strength". It refers to the spirit of loyalty and devotion which integrates the members of a group. Unity can be obtained in an organisation, through proper coordination of work, smooth social relationship among the work force and by creating enthusiasm among the workers to contribute to their maximum possible extent.

III. Elements of Management

According to Henri Fayol, "to manage is to forecast and plan, to organize, to command, to coordinate and to control". Fayol viewed these as the elements of management. He considered these five elements (planning, organisation, commanding, coordination and controlling) as functions of management. Planning is considered by Fayol as the most important managerial function, and failure to plan affected the organisation badly. In order to put plans into action, creation of organisaiton structure and commanding is necessary. Coordination helps to integrate working and control checks whether everything works according to plans. These functions according to Fayol are required at all levels of management and in every type of organisation.

Fayol's Principles of Management hold good even today, it was he who made the real beginning of development of management as a separate field of study. His aim was to improve and rationalise the system of management.

George Elton Mayo's contributions

George Elton mayo (1880 – 1949) was a pioneer of Human Behaviour School. He was a Professor of Industrial Psychology at the Harvard Business School and his remarkable contribution was his psychological approach to management. He published several papers and books. He led a team of researchers who carried out the famous Hawthorne experiments. The experiments were conducted in the Hawthorne plant of

Western Electric Company in Chicago (USA) from 1924 to 1932). It employed about 30,000 employees at the time of experiments. Thought the workers were given a number of material benefits, still there was a great deal of dissatisfaction among the workers. In order to find out the reasons for this problem, the Hawthorne experiments were conducted in four stages, each stage attempting to answer the questions raised at the previous stage:

1. Illumination experiments to determine the effect of changes in illumination on productivity.
2. Relay assembly test room experiment to determine the effects of change in hours and other working conditions on productivity.
3. Mass interview programme to determine workers attitude.
4. Bank wiring observation room experiment to determine social organization at work.

The conclusions drawn from the Hawthorne study were:

1. Workers behaviour and performance are not materially influenced by physical factors.
2. Significant influence on productivity and performance is exercised by social and psychological factors.
3. Pay is not the only means of motivation, it is the working environment that influences and motivates workers.
4. Workers react as members of a group and not as individuals. Informal groups and social norms determine the behaviour and efficiency of workers.
5. Workers attitude and performance are influenced greater by informal leaders.

The Hawthorne Studies brought about a remarkable change in the practice and teaching of management. Its findings were a source of information on individual and group behaviour. There was more stress on interpersonal relationship. Mayo's contribution brought about a complete change in the development of management thought, where he looked at the human element in a new way. That is why, he is called as one of the pioneers of the Human Relations approach to management.

Questions

1. Outline the contribution of F.W Taylor to Management thought.
2. What are the different functional areas of Management?
3. Assess Henri Fayol's contribution to management thought.
4. Write a note on Elton Mayo's contribution to Management thought.

UNIT – II Unit structure

Lesson 2.1 Planning

Lesson 2.2 Decision Making

Lesson 2.1 Planning and Decision Making

Learning objectives

After reading this lesson you must able to

- Understand Nature of Planning
- Know the Purpose and Importance of Planning
- Enumerate Planning Process
- Evaluate its limitations and identify means of effective planning
- Understand types of plan

Introduction

Planning is the most important and primary function of Management. It precedes all other functions. Al other functions of Management will be of no use without setting objectives. Therefore every organisation will have to specify in advance what it wants to achieve. It is this aspect with which planning is basically related. Planning helps in deciding the future course of action. Planning is a unique function of management in the sense that it establishes objectives for the organisation and lays down steps to accomplish them before the manager proceeds to perform other functions.

Definition of Planning

Planning is the determination of a course of action to achieve desired goals. It consists of two important elements – problem – solving and decision making. It helps to determine objectives and provides the way to reach them.

According to Koontz and O'Donnel, "Planning is deciding in advance what to do it, when to do, and who is to do it. It bridges the gap from where we are, to where we want to go. It makes it possible for things to occur which would not otherwise happen".

According to George R. Terry, "Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and formalization of proposed activities believed necessary to achieve desired results". In this definition, Tery defines planning in terms of future course of action. A manager while planning visualises and formulates necessary activities based on facts, constraints and reasonable premises and sees how they contribute to achieving desired results.

"Planning is, fundamentally, the choosing function and planning problems will arise only when an alternative course of action is discovered." – Bill E. Goetz.

From these definitions it is clear that planning involves two important aspects: (1) Determining the aims and objectives and (2) Selecting the best course of action on the basis of past experience, present facts and future possibilities to realise the objectives. Planning is considered as a very important aspect in the field of business because of growing competition and complexities in business operations.

Nature of Planning

The following features of planning clearly indicate its nature.

1. Planning is Goal Oriented: Accomplishment of goals is the major task of organizations and the entire planning activity starts form the formulation of objectives. It not only specifies the objectives to be attained in the future but also provides the steps necessary for proper planning. Thus planning is goal oriented.

2. Planning is all pervasive: Planning is a function that is carried out at all levels of management irrespective of the size and nature of organisation. It is the duty of every manager to plan effectively. At the top level policies are formulated, at the middle level departmental plans are laid down and at the lower lever, operational plans are laid down. The nature and scope of planning decreases as we go down the chain of command.

3. Planning is a basic management function: Planning is a primary function as it precedes all other managerial functions. Planning sets the goals and all other functions are designed to achieve the goal. Without planning no other function of management makes sense.

4. Planning is forward looking: Planning is future oriented. Its purpose is to achieve the goal in future. It involves forecasting of future activities. Plans cannot be prepared without any knowledge of future events, planning helps to see through the uncertain future.

5. Planning involves selection among alternatives: Choosing among alternative courses of action is the prime task of planning. Thus, an integral part of planning is decision making. But for alternative courses of action, there is no need for planning.

6. Planning is a continuous process: Planning is a continuous and ongoing process. It is a very dynamic process. Plans have to be revised or new ones have to be formulated whenever there is a change in the planning environment.

7. Planning is an intellectual activity: Planning involves foresight, imagination and sound judgment. It is mental process, which involves mental skills for the achievement of organiational goals. It makes it possible for things to happen, which might not otherwise happen.

8. Planning is an integrated process: Planning is an interdependent process which has to be initiated. Planning is a structured process in which different plans are interrelated and they constitute a hierarchy. Every other plan is dependent on the other plan and lower plans serve as a means to achieve higher plans.

Purpose and Importance of Planning

Planning is essential to accomplish goals; sound plans are required for effective management. In all types of organisations, planning has assumed great significance. The importance of planning to an organisation is described as follows:-

1. Planning focuses attention on objectives and results without allowing management to deviate from the broad objectives.
2. Planning helps an organisation to cope with change and uncertainty because these two elements are inevitable and cannot be eliminated by planning. Planning reduces risk and uncertainty.
3. Planning coordinates all the resources and activities of an organisation. It secures unity of direction towards organisational goals. Coordination is the essence of management and planning is the base for it.
4. Planning provides the basis for control. Plans provide a standard for evaluation of performance. The task of control is to ensure that the activities conform to the plans. Thus planning facilitates control.
5. Planning proves a sense of direction. It lays the path through which all activities are to be performed in order to accomplish the goals. It makes work more meaningful and purposeful.
6. Planning encourages creativity and innovation in an organisation. It is a thinking process which stimulates people of new ideas.
7. Planning helps to bring about efficiency in operation, through optimum utilisation of resources.
8. Planning helps in taking future – oriented decisions by predicting future. Sound planning helps in taking the right decision that is required to accomplishment. It thus acts as a guide for decision making.

Planning Process

It is difficult to lay down the steps that are involved in planning process for all types of organizations because of change in size and complexity. However, it is possible to suggest certain major steps involve in the planning process. Figure 3 clearly indicates the different steps involved in planning process.

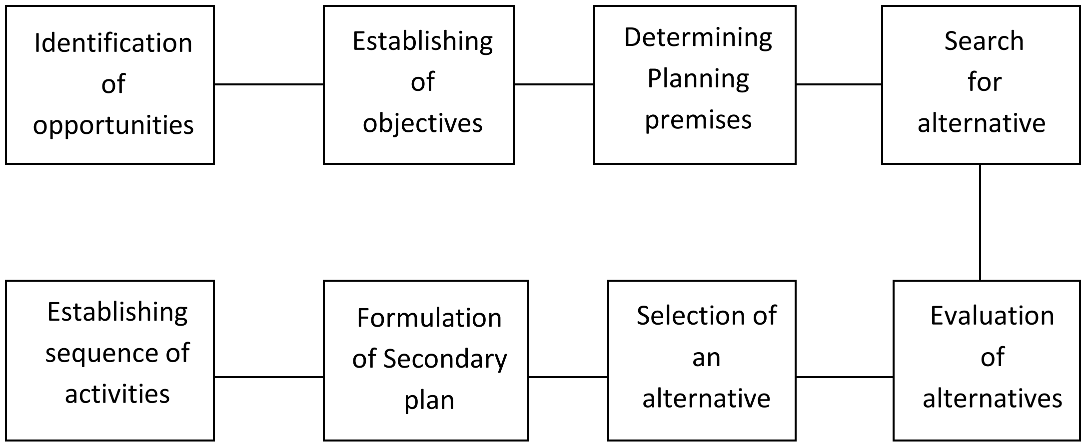


Figure 3: Planning Process

1. Identification of Opportunities: This is the beginning of the planning process though it is not part of it. However, this leads to formulation of plans by providing and insight as to whether opportunities exist for taking up particular plans. The purpose of identification of opportunities is to enable an organisation to adapt to its environment. This is a preliminary stage where analysis of environment is not done very elaborately but analysis relating to the determination of opportunities is carried out. Identification of opportunities involves a preliminary look at possible opportunities in order to ascertain whether these opportunities could be exploited by the organisation to its advantage.

2. Establishing of Objectives: It is here that the actual planning process starts. At this stage the organisational and unit objectives are established. Objectives indicate the end-result that are to be achieved and the task to be performed. Organisational objectives should be laid down in all key result areas. Key result areas help an organisation in achieving its objectives. Examples of key result areas for an organisation may be profitability, productivity, public responsibility and so on. Once the overall objective of an organisation is laid, objectives of lower units can be established. There will always be a hierarchy of objectives in an organisation.

3. Determining Planning Premises: Once the organisational objective is laid down, the next step is to determine the planning premises. Planning premises refer to the limits or conditions under which planning activities will be undertaken. They are assumptions based on Internal and expected environmental conditions. Internal premises include organisational policies and procedures, various resources etc., External premises include factors in task environment like social, political and technological, competitors' plans and actions, government regulations and policies etc., and Forecasting plays a very vital role in planning premises. Plans are formulated based on both internal and external factors. Planning premises vary at different level of planning. At the top levels it is more external in nature. At the lower level there is a change from external to internal.

4. Search for Alternatives: There are several ways through which an objective can be accomplished. The task of management is to search for these alternative ways. One problem with alternatives is not that of finding alternatives alone, but to reduce the number of alternatives so that the most prominent ones may be taken up for evaluation. Through preliminary examination and screening, unwanted alternatives can be eliminated.

5. Evaluation of Alternatives: At this stage feasible alternatives are evaluated in order to see how each alternative contributes to the organisational objectives in the light of its strength and constraints. Each alternative should be subjected to a close examination to determine its suitability. Many quantitative techniques are available to evaluate alternatives. Alternative are evaluated on basis of their cost, limited resources, expected returns risks and many intangible factors.

6. Selection of an Alternative: Once evaluation is over, the most appropriate alternative is selected. Sometimes two or more alternatives may be suitable. Under such a situation the planner may choose more than one alternative. The alternative selected should be the most optimum one under the present circumstances.

7. Formulation of Secondary Plans: Once the basic plan is determined, the secondary plans are formulated to support it. In an organisation there may be a number of secondary plans which are developed within the framework of the basic overall plans. Basic plans cannot be executed properly unless they are supported by secondary plans.

8. Establishing Sequence of Activities: In this step the sequence of activities are established after formulating the basic and secondary plan, in order to put the plan into action. This clearly lays down the pattern of work to be performed and the people who will have to perform it.

Limitations of Planning

Effective planning is not an easy task because there are a number of practical difficulties encountered in the planning process. There are a number of reasons for failure of planning in practice. Planning suffers from the following limitations:

1. Planning is quite a costly and time consuming process. Unlimited amount of time is spent on forecasting, evaluating alternatives etc. By the time a plan is established the environment might change and this requires a complete revision of the plan. Besides this, cost also increases.
2. Planning is future oriented activity which is based on forecast. As the period of planning increases the accuracy of forecasting diminishes. Planning loses its value if reliable and adequate data is not available.
3. Planning becomes rigid at times because of internal inflexibilities. This reduces individual initiative and freedom, and caused delay in decision making. Internal inflexibilities like rigid policies and procedures and limited resources affect planning process.
4. External factors beyond the control of an organisation affect the effectiveness of planning. These are very difficult to predict and this makes execution of plans very difficult. External factors like government control, technological change and trade unions affect the planning process.
5. Another important limitation of planning is resistance to change. The human elements in an organisation always resist change; they are more concerned about the present rather than the future, which is uncertain. Planning being forward looking is always affected by this resistance to change.
6. The entire planning process may fail, if people involved in it do not formulate correct plans. He reasons for failure of people in planning may be due to a number of reasons like, lack of commitment to planning, lack of delegation of authority, excessive reliance on past experience, tendency to overlook premises etc.

Making Planning Effective

In order to overcome the limitations of planning certain guidelines are given to make planning effective.

1. Objectives should be clearly and specifically laid down. They should be rationale in nature. The overall objectives of the enterprise should help in achieving specific unit objectives.
2. Planning should be flexible in nature. Modern business environment is always subject to change, planning process should be able to adapt to such changes.
3. Planning premises should be carefully determined. Planning premises lay the boundary within which planning activity is to be carried out. The assumptions

should be clearly specified taking into consideration past, present and future activities.

4. Planning should originate from the top level to be effective. It should always be supported by top management. The success or failure of planning depends upon the role played by top management. Effective planning should start from the top level and get support from lower level.
5. Participation in planning process by subordinates is essential for effective planning. This level makes them committed towards implementing the plan.
6. Long term and short term plans should be integrated with one another and the short term plans should contribute towards achievement of long term plans. An interrelated network of minor and major plans will lead to more effective planning.
7. A proper management information system should be installed to make planning effective. Availability of relevant facts and figures will help a manager to carry out the planning task effectively.

Types of Plans

Plans can be broadly classified into two categories depending on their nature and scope, namely: standing or repeated use plans (Multiuse plans) and single use plans (as shown in figure 4).

TYPES OF PLAN

Repeated – Use Plains

1. Objectives
2. Policies
3. Strategies
4. Procedures
5. Rules

Single – Use Plans

1. Programme
2. Budgets
3. Schedules

Figure 4: Types of plans

I. Standing Plans

Standing plans are designed by the organisation to serve as guidelines with respect to activities which will occur frequently over a time. They are used again and again. Standing plans help an organisaiton to achieve its organisational goals. They result in

uniformity and unity of action. They provide readymade answers to all problems and help in quick decisions. Standing plans save time and effort. They include objectives, policies, strategies, procedures and rules.

Each one of these standing or repeated used plan are discussed in detail:-

1. Objectives

Objectives are the ends towards which the activities of an enterprise are directed or aimed. They serve as a bench mark for measuring the efficiency of an organisation. Objectives are known by different names, like, goals, purposes, missions, aims, targets etc. Planning is carried out to achieve the objectives and they constitute the end point of planning. The different kinds of objectives that an organisation may have are market sanding, profitability, productivity, social responsibility etc. Objectives provide direction to thinking and effort.

An organisation should have both general and specific objectives. General objectives are related to the overall organization, whereas specific objectives are related to the different units and departments of the organisation. Objectives differ in time and some are long term in nature of the organisation. Objectives should be clear, so that every individual knows the extent to which he contributes towards the achievement of these objectives.

Merits of Objectives

i. Objectives provide targets for managerial action. They serve as guidelines to management and eliminate unwanted action.
ii. Objectives integrate different activities of an organisation in a meaningful manner. The act as a key to sound planning.
iii. Objectives provide a basis for effective decentralisation. By providing specific goals they reduce the need for guidance.
iv. Objectives help in evaluation of performance, they provide standards for control.

Limitations of Objectives

i. It is difficult to define non-economic objectives like high morale, better working conditions etc., in quantitative terms.
ii. Objectives if not properly defined, cannot accomplish desired results due to lack of proper resources.

iii. When an organisation lays down a number of objectives, there is a possibility of one objective adversely affecting the accomplishment of another objective and this will lead to conflicting objectives which will affect the overall growth of the organisaiton. For e.g., if an organisation wants to increase productivity it will ant its workers to contribute more by better performance, this would require server checking which may not be conducive to healthy worker – management relationship.

Essentials of a valid Objective

i. Objectives should not be vague and in general terms. They should be specific and clear.
ii. Objectives should focus on results rather than the activity to be performed.
iii. They should be laid down in all key result areas of a business like productivity, market sanding, profitability etc.,
iv. Objectives should be integrated with one another and they should form an hierarchy, whereby each one mutually supports the other.
v. Objectives should be realistic and attainable.

2. Policies

Policies are guidelines to thinking and action of those who are involved in the planning process. According to Koontz and O'Donnell "Policies are general statements or understandings which guide or channel thinking in decision-making of subordinates". They provide limits within which the members of an organisation act. They provide immediate answers to all problems aced in the running of an organisation. Policies are means to accomplishment of objectives. They provide the broad outline within which decisions are to be taken. It should be noted that they do not provide any decision as such. For e.g., if management has laid an objective of promoting its employees from within. It may follow the policy of promotion by seniority. Policies are formed at different levels of the organisaiton. They allow lower managers to handle situations without going to top level managers for a decision each time.

Characteristics of a Good Policy

A good policy should consist to the following characteristics:

i. Policies should contribute towards accomplishment of objectives. They should provide broad outlines within which decisions are to be taken to achieve the objectives.

ii. Policies should be simple and clear and should not give room for misinterpretation.
iii. Policies of an organisation should be consistent. An organisation may have a number of policies dealing with different subjects. It is necessary to ensure that they do not contradict with one another.
iv. Policies should be adequate and sufficient in number to deal with different fields of activities.
v. Policies should be flexible in nature, in order to adjust with the changing situations.
vi. Policies should be in writing in order to ensure uniformity in application.

Kinds of Policies

Policies can be classified into the following categories:

1. Organisational and Functional Policies: On the basis of scope, policies can be divided into organisational policies and functional policies. Organisational policies are designed by top management for the entire organisation (overall policies), whereas, functional or departmental policies are meant for specific functions or departments of an organisation policies are meant for specific functions or departments of an organisation (unit policies). E.g. Production policy, marketing policy etc. Departmental policies are formed on the basis of organisational policies.

2. Originated, Imposed and Appealed Policies: in terms of origin, policies may be classified as Originated, Imposed and Appealed policies. Originated policies are formulated by management at different levels in order to guide the actions of other members in the organisation. They are also called internal policies. Imposed or external policies are framed by outside agencies namely, the Government, trade association, etc. Appealed policies on the other hand are formulated on the basis of complaints or suggestions given by employees of the organisation. It might deal with a particular case, not covered by earlier policies.

3. Written and Implied Policies: Written policies are explicit policies which are in writing or in print and they form part of the records of an organisation. Mostly all major policies of an organisation are in writing. Implied policies are unstated policies that are inferred from the behaviour or conduct of members, particularly of top executives.

4. General and Specific Policies: On the basis of area of freedom, policies can be classified into general and specific policies. General policies are broad in nature and give more freedom to the different departments of an organisation. Whereas specific policies are defined intensively to restrict freedom of action and they are to be strictly followed.

Factors that Influence Policy Making

Policies of an organisation are normally formulated by top level management. While formulating these policies, a number of factors influence them. They are: -

i. The availability of finance with the organisation.
ii. The ambitions and foresight of the top management.
iii. The reaction of employees towards formulation of a particular policy.
iv. The influence of external environment, namely government control and regulation.
v. The reaction and activities of the competitors.
vi. Public response and attitude towards the policy.

Merits of Policies

i. Policies are guidelines to thinking and action, which provide managers with the framework within which decisions are to be taken.
ii. Policies provide uniformity of performance and consistency of action throughout the enterprise.
iii. Policies ensure promptness of action; they help managers to act confidently without the need for guidance from superiors.
iv. Policies facilitate, effective control, they provide rational means for evaluating the results.
v. Policies ensure integration and coordination of action in achieving the organizational goals.
vi. Policies help to build the confidence of managers, since they provide ready-made answers to all problems faced by the organisation.

Limitations of Policies

i. Policies provide no scope for initiative by individuals because they are preplanned and bring about rigidity in operation due to its continuous use.
ii. Policies cannot be treated as substitutes for human judgement. They only provide limits with which decisions are taken.
iii. Policies do not provide solutions to all problems because policies formulated under a particular situation may not remain the same and moreover to policy lasts forever.

3. Strategies

The word "strategy" is derived from the Greek word "Strategia" which means office of the general. It normally refers to the art of military leadership in the planning and execution of large scale army operations. The concept of strategy has been adopted from military science and sports where it aims to outwit the opponent. It has gained importance in modern business because of increasing competition and complexities of operation.

Strategies are framed to accomplish the objectives of an organisation in the context of external force beyond the control of the organisation. It is an overall plan designed to achieve success in the face of difficulties posed by the activities of competitors and other external forces. For example, if management anticipates the launching of a new product by its competitor, it may decide upon an advertising strategy to educate the customers about the superiority of its products. Thus strategies are primarily concerned with an enterprise's relationship to the competitive situation and external environment inherent therein.

Characteristics of a Strategy

The concept of strategy reveals the following characteristics of a Strategy:

i. Strategy is an overall and contingent plan that is designed to meet problems posed by external environment.
ii. Strategy provides the means through which physical and human resources are effectively used to accomplish enterprise goals in the face of external pressures.
iii. Strategies are always situational in nature. Strategic action depends on environment forces.
iv. Strategies are formed to interpret and give meaning to other plans under specific situations.

4. Procedures

Policies and objectives, however well-framed, cannot produce action by themselves. This is because they do not establish the means through which polices are to be put into effect and objectives are to be accomplished. It is for this purpose that procedures are required. According to George R. Terry, "a procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished".

It clearly specifies the task to be performed, the time at which it will have to be performed it. It gives a time-table for doing a particular activity. Procedures are generally laid down for repetitive work, so that it can be often used when the same activity is performed. Procedures can be adopted for a number of activities in an organisation, namely placement of orders, grievance handling, recruitment of personnel etc.

Merits of Procedures

i. Procedures ensure consistency and uniformity of action throughout an organisation.
ii. Procedures eliminate unnecessary and unwanted steps and leads to simplification of work.
iii. Procedures help managers to evaluate the performance of subordinates and thus act as a means of effective control.
iv. Procedures reduce the work of decision makers by providing them with standardised steps.
v. Procedures facilitate coordination among various units in the organisation.

Limitations of Procedures

i. A procedure fixes the standard way of doing a particular activity and a more effective way of doing it may not be given proper attention.
ii. Procedures to be effective must be reviewed and evaluated constantly, because they become obsolete when the nature of business activities change. But rarely do managers update them.

5. Rules

Rules are the most specific and simplest type of repeated – use plans. A rule refers to a managerial decision regarding what should be done and what should not done in given situation, they are rigid and definite plans. Rules do not provide any scope for decision-making, nor do they allow any deviation. Rules regulated behaviour and facilitate effective communication. A rules normally refers to the administrative area of a procedure, however it need not be part of procedure. For e.g., “No smoking” as a rule is not related to any procedure. Violation of a rule leads to penalty and disciplinary action.

II. Single use Plans

Single use plans are designed to handle non-recurring and novel problems which have limited scope. A single-use plan in order to fit a specific situation lays down a certain course of action. The plan loses its relevance once the course of action is completed. Single use plans are of a shorter duration and relate to specific of the organisation. Single use plans include programmes, budgets and schedules.

1. Programme: A programme is an established scheme of action designed to accomplish a given task. Thus, a programme is a combination of objectives, policies, procedures, budgets, task assignments, resources to be used and other elements necessary to carry out a given course of action. A programme plans for future activities and establishes a sequence of required actions. Programmes can be prepared for different activities namely, training of workers, new product development etc. a programme may be a major or a minor one.

Programmes ensure uniformity and economy in business activities. They are action based and provide practical guides to managerial actions. Another important aspect of a programme is that they provide greater motivation being result oriented.

2. Budgets: A budget is a plan of expected results expressed in numerical terms for a definite period of time. Since it establishes expected results it is used as a means of managerial control. It provides a base for evaluating actual performance in different fields and for correcting the deviations it any. Budgets express organisaiton objectives in financial and non-financial terms. Budgets are prepared for different activities in an organisation. They express a plan in precise quantitative terms. (A detailed discussion on Budgets is given in Unit IV).

3. Schedules: A schedule indicates the time framework within which activities are to be performed. They lay down a time table for activities and clearly specify the priority of work and the time for each work. Schedules ensure uniformity and continuity of action and thereby avoid delay. For example, a schedule might be laid down to complete the installation of machinery within six months. Schedules provide very clear instructions for performance of activities. Schedules lay down the starting and completing dates for different activities.

Management by Objectives (MBO)

The concept of Management by Objective has gained much importance during the past four decades. In 1954 Perter F.Drucker introduced the concept of MBO. MBO is otherwise called as Goals Management and Management by Results etc. Management by Objectives as a management philosophy is considered as the most dynamic and existing is thinking in the area of management.

Meaning of MBO

MBO is a process whereby superiors and subordinates jointly identify common objectives, set the results that should be achieved by the subordinates, assess the contribution of each individual in terms of the results expected of them, and integrate individuals with the organisaiton so as to make best use of organisaitonal resources.

John Humble has defined MBO, "as a dynamic system which integrates the company's need to achieve its goals for profit and growth with manager's need to contribute and develop himself". MBO affects the entire organisational culture, structure and style. It calls for regulating the entire managing process in terms of specific, verifiable and meaningful objectives at different levels of Management. It shapes controlling, directing and planning in a number of ways.

Features of MBO

The meaning of MBO clearly indicates the following features of MBO:-

1. MBO is philosophy and approach to management and not merely a technique. It provides a particular way of thinking about management.
2. MBO is a goal-oriented and not a work oriented process. It regulates management in terms of specific, verifiable and meaningful objectives.
3. Self-control and self-direction are important features of MBO. It is based on the fact that employee commitment and participation in goal setting leads to better motivation and involvement towards achieving the goals.
4. MBO creates a link between individual goals and organisational goals because based on individual performance, organisaiton goals are laid down.
5. MBO is a never ending and continuous process. It helps in modifying the goals to suit situations and thereby accomplish goals in an effective manner.
6. MBO facilitates periodic review of performance. This provides a basis for effective manner.

Process involved in MBO

MBO is a system for achieving organisational goals through employee participation and commitment. The process ensures sustained concentration of efforts towards accomplishment of organisational objectives. It involves the following steps:

1. Setting Purpose and Objectives of an Organisation: The first step in installing an MBO programme is the definition of organisational objectives and purpose. The purpose behind which an organisation has been set should be clearly laid down, questions like "what business we are in, why does our oranisation exist" provide the answer for its purpose. In order to determine the objectives of an organisaiotn a detailed assessment has to be made of the various resources available. The purpose of an organisaiton in combination with the external environment, determine the long-term strategic objectives of organization. Objectives are normally set at the top level of an organization and they move downwards to the lowest level. At each level they are set in verifiable units so that performance of every department and individual can be reviewed after the end of a particular period.

2. Determining Key Result Areas: Key result areas should be identified on the basis of organisaitonal objectives and planning premises. Key result areas provide the priorities for organisational performance. Top management's perspective for the future and organisational climate are clearly indicated through key result areas. Key result areas change according to new opportunities and needs. Examples of key result areas are profitability development of oranisation, innovation etc. Once the objectives for a particular key result area are accomplished, it paves way for setting new key result areas in future.

3. Setting Subordinate Objectives: The objectives of an organisation are accomplished through individuals. Therefore, each individual manager should know in advance what is really expected from him and what he will have to achieve. Every individual in the organisation is both a superior as well as a subordinate except the person at the top and lowest level. The actual process of objective setting begins when a superior expresses his view of what he can accomplish. The superior plays a supportive role in enabling the subordinate to develop feasible and consistent objectives. Through mutual negotiation between the superior and subordinate the final objective is set.

4. Matching Objectives with Resources: Once the objectives or goals to be achieved by the subordinate are laid down, there should be proper matching of resources with objectives, because only proper application of resources help to accomplish objectives effectively. Subordinate mangers should be involved when resources are allocated.

5. Conducting Periodic Review: Periodic review or appraisal is required to measure whether the subordinate manger is achieving his objective or not. Periodic review is normally carried out jointly by the superior and subordinates. In case of any deviation, measures are taken to rectify them. Periodic review is carried out not for any reward or punishment but to see that everything goes on according to plans and that the organisation is able to achieve its objectives without and difficulty.

6. Recycling: Periodic review acts as an input for recycling objective and other actions. In MBO, objectives re neither set at the top level nor are they communicated to the bottom. Here, it is a joint activity, where both the superiors and subordinate jointly lay down the objectives. Therefore what happens at one level may affect the other levels also. The outcome of appraisal at one level can be recycled to see that objectives have been set properly at other levels. Therefore, objective setting under MBO is not only a joint activity but also in interactive process that requires recycling of objectives.

Benefits of MBO

MBO is both an approach and philosophy to management which aims at integrating individual objectives with that of the organisation MBO provides the following benefits.

1. It provides for result-oriented planning wherein goals can be easily verified and translated into action plans.
2. It helps in better managing of the organisational activities and results, which contribute to improved productivity and better performance.
3. MBO provides for active co-operation and o-ordination in the achievement of objectives. Subordinates get positive guidance from their superiors' and superiors get willing cooperation from their subordinates in accomplishing the organisational objectives.
4. MBO motivates subordinates to a very great extent because of their participation in objective setting which makes them feel that they are part of organisaiton. This provides them personal satisfaction and makes them more committed towards accomplishment to the goals.
5. MBO leads to effective communication in the organisation through frequent interaction between the superiors and subordinates. This improves the work climate and helps to locate weak areas.
6. Through periodic review of performance, MBO helps in identifying the areas where managers need training and development.

Limitations of MBO

MBO has its own limitations and weaknesses. Some of the problems are inherent in the system itself, whereas others occur because of wrong analysis and implementation. Some of the limitations of MBO are:

1. Problem in Setting Objectives: In most cases, it is difficult to set quantitative objectives. For e.g. Objectives to staff function cannot be set in verifiable terms. In such situations, there is absence of basis for further course of action. When objectives are in the form of statements, rather than in quantitative terms, it becomes difficult to implement MBO effectively.

2. Emphasis on Short-Term Goals: Managers in order to be more precise in goal setting tend to emphasis on short term goals. They concentrate only on their immediate goals and do not worry about the long term goals because of periodic review of performance. This tendency on the part of managers affects the efficiency and effectiveness of the organisation.

3. Time and Cost: MBO as a process is time consuming and costly. In involves a lot of desk work in order to put the concept into practice. Frequent meetings are to be held, which may not allow top managers in concentrate on their normal work. When time is consumed naturally additional cost will also be involved.

4. Failure to Teach MBO Philosophy: Managers lack knowledge in implementing the MBO prgramme. They do not understand or appreciate the concept of MBO. This is because they lack training. They do not realise that MBO is an integral element of the management process, they feel that it is another means of control. When the concept if not properly understood, implementing it becomes a problem.

5. The Danger of Rigidity: managers normally hesitate to change objectives during a period of time, since goals are set normally for a year. This creates inflexibility in the organisation, particularly when objectives are to be changed in between. In a dynamic environment change is inevitable, but for fear of resistance, mangers hesitate to change objectives during a period of time. This affects the organisation to a very great extent.

6. Frustration: MBO creates frustration in a manager because of two reasons:

i. When MBO is not implemented properly there is utter confusion and management is not able to adapt even to the old system.

ii. Introduction of MBO increases the expectations for rapid changes among managers, but when the rate of change is slow due to "unavoidable reason", they get frustrated.

Measures for making MBO effective

Despite its limitations, MBO is a very dynamic way of managing an organisation. The following are the measures for making MBO effective.

1. The Purpose of MBO system should be clearly defined. MBO is a means rather than an end. It has three important purposes according to Howell, namely, management appraisal and development, long-range planning and improvement in productivity and profitability. The concept of MBO will differ according to the purpose in which it is used.
2. Top Management support is essential for the successful implementation of the MBO programme. If objectives are used as an instrument for planning by the top level, this practice will be followed down the organisation.

3. Proper training is to be provided for effective implementation of the MBO programme. Training should start with the concept, philosophy and need for MBO. Since MBO requires constant interaction, training in interpersonal relationship is also necessary.
4. Effective implementation of MBO requires active participation in goal setting by subordinates so that they will be committed towards accomplishment of goals. This can be done through an effective two way communication system.
5. MBO to be effective requires feedback for self-control and self-direction. MBO is a system where a person can direct and control his own performance for which he requires feedback. This can be in the form of periodic reports from his superior regarding his overall performance and also through periodic appraisal and counselling.
6. Besides these for effective implementation of MBO, a manager should periodically review goals and should alter them according to changing situations.

The concept of MBO, if applied properly and carefully would help an organisation to accomplish its purpose.

Questions

1. What is planning? What are its characteristics?
2. What steps are necessary for effective managerial planning?
3. What are limitations of planning?
4. Explain in detail the various types of plans.
5. Define policy. What factors would you take into account while formulating a policy? What are the kinds of policies?
6. Discuss the concept of MBO. What are its benefits and problems?

Lesson 2.2 Decision Making

Learning Objectives

After learning this lesson you should be able to

- Understand the meaning and definition of decision making
- Know the types of managerial decisions
- Analyse the techniques of decision making
- Evaluate the process of decision making
- Know guidelines for effective decision making

Introduction

Decision Making is an integral part of management which is at the core of planning and applied in every function of management. Peter F. Drucker has rightly said "Whatever a manager does he does through decision making". Managers at all levels are engaged in decision making of one kind or the other, Management and decision making go hand in hand. Every manager constantly makes decisions. Decision making is a combination of thinking, deciding and action.

Meaning and definition of decision making

Decision making involves the selection of particular course of action among alternative courses of action. It is a course of action deliberately and consciously chosen from two or more alternatives for accomplishing a desired result. Decision making involves understanding a problem collecting information, developing and analyzing alternatives, choosing the best alternative after evaluation and applying it to achieve the desired results. Decision making includes all the activities that must take place before a final choice is made. Thus, decision making is an act of projecting one's own mind upon an opinion or course of action.

According to Geroge R. Terry, "Decision making is the selecting of an alternative from two or more alternatives to determine an opinion or course of action".

Haynes and Massie have defined decision making as "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".

According to Henry Sisk and Cliffton Williams, "A decision is the selection of a course of action from two or more alternatives; the decision making process is a sequence of steps leading to that selection". From these definitions, it is quite clear that decisions take place prior to the actual performance of a course of action that has been chosen.

Characteristics of decision making

The following are the important characteristics of Decision Making:-

1. Decision making is a goal-oriented activity which aims at accomplishing certain specific goals of an enterprise.
2. It is a process of selecting a particular course of action from among the alternative courses of action.
3. It is a conscious and human process which involves the application of intellectual activities to a great extent.
4. It is a complex mental activity which involves careful thinking, analysis and verification.
5. Decision making is situational and related to the environment. A decision in one situation may not be suitable for another situation.
6. Decision making involves time dimension and time lag.
7. It is continuous and dynamic process which is carried out at all levels in the organisation.

Types of managerial decisions

Managerial decisions may be broadly classified into the following categories on different bases:

1. Personal and Organisational decisions: A personal decision is one which a manager takes in his individual capacity and not as a member of the organisation. These decisions have no binding on the organisation and cannot be delegated to others. Whereas, an organization decision is one which a manager takes in his official capacity and on behalf of the organization. Authority with regard to such decisions can be delegated to others.

2. Policy and Operating decisions: Policy decisions are of vital importance as they affect the entire organisation. They are normally taken by the top management. But, operating decisions are taken for implementing policy decisions. These decisions are taken by the lower level management. They are concerned with day to day operations of an oranisation.

3. Strategic and Routine decisions: Strategic decisions or basic decisions are important decisions taken by the top and middle level management. They normally involve long-term commitments. These decisions are related to the handling of the external environment which is uncontrollable. Example: development of a new product is a strategic decision which requires much thinking and deliberation. A mistake in such a decision will affect the entire organisation.

Whereas, routine decisions or tactical decisions are of a recurring nature which affect only a small part of the organisation. These decisions are taken by the lower and middle management. They are based upon well-established procedures, rules and policies which do not require any extra effort on the part of the manager who makes these decisions.

4. Programmed and Non-Programmed decisions" Programmed decisions are of a repetitive and routine nature for which specific procedures already exist in the enterprise. They do not require independent judgement on the part of the manager and they deal with only familiar problems. They are otherwise called as structured decisions.

Non-programmed or unstructured decisions have no standard procedure for handling problems because they arise from unstructured problems. They deal with unexpected situations which require a great deal of imagination and independent judgement.

5. Individual and Group decisions: When a decision is taken by a single person it is called an individual decision. These decisions are taken generally in a small enterprise and in those enterprises which have an autocratic style of management. Group decisions are taken by a group of persons. It is also called collective decision. Group decisions are considered better than individual decisions because two heads and always better than one.

The Process of decision making

Decision making is a complex mental activity which requires careful thinking, analysis and verification. It is a dynamic process which is influenced by multiple forces. It involves the entire process of establishing goals, defining he problem, searching for alternatives and developing plans in order to establish the best answer to the decision problem. The following are the different steps involved in the decision making process:-

1. Defining the problem: The first step in decision making is the definition of the problem. This involves clear recognition, identification and formulation of the problem. A problem is a question put forward for solution. In an oranisation a problem may arise due to unfulfilled goals or due to deviations from the desired state of affairs. In order to determine the urgency and importance of a problem, it is necessary to specify the magnitude and nature of the problem. Clear identification of the real problem depends upon how well a manager analyses the overall situation beyond the symptom. Mostly what managers consider as the problems are really symptoms of the problem. For example, if there is a fall in demand for a company's product this is only a symptom. The real problem may be faulty design, lack of promotion, inappropriate pricing policy etc.

therefore clear understanding of the problem is necessary because it helps in providing the right alternative for solving a problem.

2. Analysing the problem: Once the problem is clearly defined, the next step is analysis of the problem in order to determine its causes and scope. This is done through classification of the problem and collection of relevant information. Classification helps in determining as to who should take decision and who should be consulted. The problem should be classified taking into consideration certain factors like the nature of the decision, the impact of the decision, the periodicity of the decision, the futurity of the decision and the limiting or strategic factors relevant to the decision. All this requires collection of adequate and accurate information. Therefore, appropriate collection of data is very important in decision making. Data may be collected from different sources according to the requirement. A manager will have to be clear with regard to the nature of information he wants and also the time and money he can spend in gathering the information he needs. At times it is not possible to get all the information that is needed. In such situations, the decision maker has to judge the risk involved in the decision.

3. Developing alternatives: After defining and analysing the problem with the help of relevant and appropriate information, the next step in the decision making process is the development of alternative solutions for the problems. There are a number of ways through which a problem can be solved but all of them are not equally good. Developing alternative course of action is essential for effective decision making, this requires considerable amount of imagination and research so that the best alternatives are considered before selecting a course of action. Development of alternatives does not always provide the guarantee of finding the best possible decision, but it helps in weighing one alternative against others and thereby eliminates unwanted alternatives.

4. Evaluation of alternatives: After developing different alternatives the next step is to evaluate each of these alternatives in order to make the final choice. The pros and cons of each alternative are compared and scrutinized on the basis of risk involved, resources available, accomplishment of certain goals, economy of efforts, timings etc. There are various ways through which an alternative can be evaluated. Several types of quantitative and non-quantitative methods may be used to develop alternatives. (These methods are discussed in detail later in this lesson).

5. Choice of alternative: Once the various alternatives have been evaluated, a clear picture is presented as to how each one of them contributes towards solving the problem. On the basis of a comparison among the various alternatives the best one is chosen. The alternative that has been selected should be acceptable in the light of the organisational objective and it need not be the best one. In choosing an alternative, Koontz and O'Donnell have suggested three approaches, namely experience, experimentation, and research and analysis.

a. Experience:-If a manager has solved similar problems earlier he can choose an alternative on the basis of his past experience. Normally, most managers while taking decisions rely more on past experience. It is quite dangerous to give more importance to past experience because the choice of an alternative in one situation may not be suitable in a different situation. Past experience can be used more in routine decisions than in strategic decisions which require long term commitment.

b. Experimentation:-Experimentation involves the practical application of an alternative in actual conditions, where the results are observed and the alternative giving the best result is selected. The approach can be effectively used in test marketing of a new product. But this technique cannot be always put into practice because it is very time consuming and costly.

c. Research and Analysis:-this is considered to be the most effective approach of selecting among alternatives in case of major and crucial decisions. This approach involves a search for logical relationships among the more critical variables, constraints and premises that bear upon the desired goal. In order to make the choice of alternatives more objective and rational, it takes the help of computers and certain mathematical techniques. In the real sense, research and analysis is the right approach to decision making.

6. Implementing the decision: Once the alternative is selected, that is a decision is taken, it will have to be put into practice. A manager is not only concerned with taking a decision, but he will also have to implement it. Implementation of a decision involves several systematic steps.

i. All the concerned employees should be informed of the decision.
ii. In case of any resistance to the decision, it will have to be overcome: subordinates should know what is expected of them and what is expected of them and what benefits they will derive out of it. Participation in decision making makes the subordinates more committed to the decision.
iii. Proper procedures should be laid down for effective implementation of the decisions.
iv. Responsibility should be fixed for the execution of the decisions.

v. An effective follow-up mechanism should be designed to check the progress of implementation.

7. Follow Up: When a decision is implemented, it brings certain results, and these results should be compared with the expected results, in order to find out whether the decision taken is appropriate or not. In case of any deviation, corrective action should be taken and the decision should be modified. This is what we call follow-up. Hence, every decision-maker should take up follow-up action in the light of feedback received from the results. In order to achieve proper follow up, an effective management information system is necessary. This should provide adequate and relevant information regarding implementation of the decision.

Techniques of decision making

Decision making involves the selection of a particular course of action from among alternative courses of action. A decision maker should be very careful when he selects a particular alternative. A number of techniques both quantitative and non-quantitative are used in Decision Making. The technique to be adopted in a given situation depends upon the knowledge, competence and experience of the decision maker. The following are some of the important techniques involved in Decision Making:-

I. Non – Quantitative techniques

1. Intuition: Intuition is an insight without logical backing, where an individual does something without the aid of reasoning process. It takes place by means of the senses alone. It denotes a sixth sense on the part of the individual where he gains an insight into something which others lack.

Decision Making on the basis of intuition is marked by convictions and inner feelings of the manager. Without the support of facts and figures, the manager takes a decision which leads to the expected results. Decision Making based on intuition helps to take quick decisions, but if such decisions prove to be wrong, it will affect the organisation to a very great extent.

2. Experience: Past is useful guide to the future. If a manger had taken a decision to solve a particular problem earlier and if the same problem occurs presently based on his experience, the manager can apply the past decision to the present situation. Past experience helps a manager to have a clear understanding of the issues involved in the present situation. It is quite dangerous to give more importance to past experience because a decision applied in one situation may not be suitable in a different situation. Past experience can be used effectively only in routine decisions.

3. Experimentation: Experimentation involves practical application of each alternative in actual situation, where the results are observed and the alternative giving the best result is selected. It is a time consuming and costly process which would delay the choice of the best alternative. But, however if this method is adopted, it may be the best method of choosing the right alternative. It is a very scientific approach to decision making.

4. Patterned decisions or Follow the Leader decisions: Under this method of decision making, a subordinate follows the guideline laid down by his superiors for taking decision. This method does not leave any scope for creativity and can be applied in case of routine decisions only. Not only that, the decisions taken by superiors in the past may not be applicable in the past may not be applicable in the present situation.

5. Psychological analysis: in psychological analysis, decisions are made on the basis of personal feelings of the decision maker. Whatever he personally feels is fair, good and desirable in the right of the traditions, values and belief will be taken into consideration when he makes a decision. It is the mental attitude and outlook of a decision maker that counts most.

6. Brainstorming: This is a very effective technique in decision making where a small group of people are simulated to creative thinking. Decisions are arrived at through maximum group participation and minimum criticism. Here a particular problem is laid down and members of the group are asked to provide solutions for solving this problem. Later all the solutions are critically evaluated in order to arrive at the best solution. Such a technique helps decision makers to arrive at innovative solutions.

II. Quantitative Techniques

1. Operations Research: Operations research (commonly called OR) provides managers with quantitative bases for decision making. It enhances a manager's ability to make long-range plans and to solve everyday problems of running a business, a government unit or a private institution. It requires a manger to gather and interpret data, build and experiment with mathematical models, predict future operations and then make recommendations. It is a scientific method of analysing a business problem.

Operations research activities have grown rapidly in business, government units and private institutions. For instance, inventory models are used to control the level of inventory. Linear programming is useful for allocation of work among individuals in the organisaiton. In addition to this there are a number of important tools of operation research which can be used by management to analyse the problems and take decisions.

2. Linear Programming: Linear programming is a mathematical technique for finding the best uses for an organisaiton's resources. It is used to describe a relationship between two or more variables, a relationship which is directly and precisely proportional. For example, in a linear relationship between work hours and output, a 20 percent change in the number of productive hours used in some operations will cause a 20 percent change in output. Programming refers to the use of certain mathematical techniques to get the best possible solution to a problem involving limited resources. A linear programming problem should have four important characteristics. They are:

i. The firm should have an objective that it wants to achieve
ii. The problem should have alternative courses of action.
iii. Resources must be in limited supply and
iv. The firm's objective and its limitations should be capable of being expressed in mathematical equations or inequalities, and these must be linear equations or inequalities.

Linear programming is one of the most effectively and widely used techniques among all quantitative techniques. It has been extensively used in managerial decision-making for production planning, allocating machine capacities, warehouse location, determining transport routes etc. In this technique, equations are used to express inter-relationship between the variables.

3. Simulation: Simulation is a quantitative procedure which describes a process by developing a model of that process and then conducting a series of organised trial and error experiments to predict the behaviour of the process over time. Observing the experiments is very much like observing the process in operation. To find out how the real process would react to certain changes, we can produce these changes in our model and simulate the reaction of the real process to them.

Simulations are one of the most widely used quantitative techniques in corporate planning. Simulation technique is based on probability factor. Random numbers are assigned to each likely event depending upon the probability of its happening. This enables determination of the cost and benefit of such course of action. Simulation is used when it is not possible to develop a mathematical solution, actual creation of a system is too expensive, and when operation and observation of system is disruptive.

4. Programme Evaluation and Review Technique (PERT): PERT was developed in the 1950s by the Navy special project office in cooperation with Booz, Allen and Hamilton, a management consulting firm. It was specifically directed at planning and controlling the

Polaris missile program, a massive project which had 250 prime contractors and over 900 subcontractors. Nowadays it is widely and profitably used in a large number of engineering and construction activities. It provides a manger with alternative decisions in respect of the resources and time required to be put in for each activity.

PERT provides answers to questions like, when will the project be finished, when is each individual part of the project scheduled to start and finish, of all parts of the project, which ones must be finished on time and so on. Under this technique all the individual tasks to complete a given programme are clearly laid down. The events and activities are carefully sequenced. An even consists of a series of interrelated activities.

The time required to perform an activity is measured. Here in PERT we take into consideration not one but three time values – the most optimistic time (shortest time to perform an activity) the most likely time (the normal time required to perform the activity) and the pessimistic time (the longest time required to perform the same activity). The expected time is calculated on the basis of the following formula.

$$\text{Time expected} = \frac{O+4m+p}{6}$$

where O is optimistic time, m is most likely time and p is pessimistic time. After this the critical path is computed. This refers to the sequence of events which take the most time. Several critical paths are identified in order of importance. PERT is a useful and convenient tool in the hand of management, particularly for the top level managers who have the overall managerial responsibility of a project. It helps in solving problems of scheduling the activities of one time projects that is projects which are not taken on routine basis.

5. Marginal Analysis: In this technique there is a comparison of additional revenues from additional costs. It is also known as marginal costing in other words, the extra cost resulting from the addition of one more unit is compared with the benefit there from. Marginal analysis can also be used for comparing factors other than costs and revenues. Break-even analysis is the modification of this technique wherein it tells the management the point of production where there is no profit and no loss. Marginal analysis requires clear and complete information regarding the various factors.

6. Correlation: Correlation is another important quantitative technique used in decision making. It helps to study the degree of functional relationship between two or more variables. This method helps to make an estimate of one variable when the value of another variable is known. For example when demand is known, profit can be determined or a positive

Common problems in decision making

Decision Making is a very critical function of management. It is an integral part of every manager's job. The quality of managerial decision to a very great extent determines the success of an organisation. However in actual practice, decision making is a very complex activity which faces several problems. Some of the common problems in decision making are:-

1. Lack of adequate information: The quality of any decision depends upon the accuracy of information used. But in most cases adequate and timely information is not available. This is a very serious problem which affects the entire decision making process. In certain situations, a manager is not sure of the type of data required, nor is he able to locate its source. In such cases, the decision is either delayed or a wrong decision is taken, which affects the organisation to a very great extent.

2. Time pressures: In certain cases, on the spot decisions will have to be taken within a limited period of time, where there will be no scope for proper analysis. Under such circumstances sharp judgement and imagination is required on the part of the decision maker, but all managers may not possess these qualities. Hasty decisions taken under such situations affect the success of an organisation.

3. Indecisiveness on the part of the decision maker: A few managers tend to be indecisive. As a matter of habit or due to fear of the outcome of a decision, these managers never arrive at a conclusion easily. They postpone the process of decision making till the last moment. This leads to a lot of delay and confusion in the making process which amounts to loss of business opportunities.

4. Problem of evaluation: Another important problem in decision making is the failure to evaluate alternatives correctly according to situations. Managers while evaluating alternatives do not adopt appropriate techniques and thereby their choice of alternative is not suitable to solve the problems.

5. The problem of confusing symptoms with cause: As already mentioned managers provide solutions to the symptoms rather than the causes. This is a very serious problem in decision making. Effective decision making depends upon how well the causes of the problem have been analysed. Only when the actual causes are found out, a manager will be in a position to provide the right decision. Otherwise, whatever decision he takes will not provide the right answer for the problem.

6. Lack of proper Follow-Up: In most cases, managers feel that making a decision is the end of the decision making process, but in actual practice they will have to implement it and see that proper results have been accomplished. This is very essential for success in decision making. For this, an effective follow-up mechanism is required to check the results. But mostly managers feel that their job is over once they select a particular course of action.

Guidelines for effective decision making

A decision maker should adopt the following guidelines while making decisions:

1. He should be problem-oriented and should be in a position to solve the problem based on actual facts. He should not think about just one solution, but must take into consideration all possible solutions.
2. Decisions taken by a manager should always have a direct impact on the organisational goals.
3. He should carefully think about the potential impact of a decision, while selecting an alternative. He should not be afraid to develop innovative alternatives.
4. He should gain commitment for a decision from subordinates through effective participation and involvement in the decision making process itself.
5. He should be flexible while selecting a particular course of action.
6. He should always verify the accuracy and validity of information provided to him to take a decision.
7. Decisions that are implemented should be properly followed up in order to see whether they have obtained the desired result. For this a manager should develop an effective follow-up mechanism to check the progress of implementation.

Questions

1. Discuss the important features of Decision Making
2. Explain the different types of managerial decisions.
3. "Decision making is the primary task of management". Discuss
4. Explain the different techniques of decision making.
5. What are the problems in decision making?
6. What are guidelines to effective decision making?

UNIT III

Unit structure

Lesson 3.1 Organisation

Learning Objectives

After reading this lesson you must be able to

- Understand the meaning and definition of organisation
- Know the purpose of organisation
- Identify the principles of organisation
- Differentiate Formal and Informal Organisation
- Exhibit forms of Organisation Structure

Introduction

Organisation is considered as one of the most important functions of management. In fact, it is the backbone of management. No management can perform its functions smoothly without efficient organisation. The success and continuity of a business unit to a very great extent depends upon sound organisation. A business unit is a group of people who cooperate together to achieve their personal goal. Group activity can be productive only when there is some kind of organisation. A business unit should develop a sound organisaiton which is just and objective. The organisation should have the capacity to unite workers to act with confidence and zeal so as to achieve the objectives of the enterprise in an effective and efficient way. A sound organisation facilitates optimum use of resources and new technological development which helps in growth and diversification. It also facilitates effective communication goal. Group activity can be productive only when there is some kind of organisation. A business unit should develop a sound organisaiton which is just and objective. The organisation should have the capacity to unite workers to act with confidence and zeal so as to achieve the objectives of the enterprise in an effective and efficient way. A sound organisation facilitates optimum use of resources and new technological development which helps in growth and diversification. It also facilitates effective communication which encourages better human relationship and increases employee morale and satisfaction. Therefore, sound organisation is a must for effective attainment of the goals of an enterprise.

Meaning and definition of organisation

The term ‘organisation’ is derived from the word ‘organism’ which refers to a structure with its part so integrated that their relation to each other is governed by their relation to the whole. It also refers to a system where parts work together or a system with parts dependent upon each other. However the term ‘organisation’ is a loosely used word with many management experts viewing it in different ways. According to Sociologists, organisaiton is a study of the interactions of the people or the hierarchy of an enterprise. To the psychologists, organisation is an attempt to predict, explain and influence the behaviour of individuals in a business unit. But in management, the term ‘organisation’ is used in two different senses, namely 1) organisation as a structure and, 2) organisation as a process. We will analyse each one of these separately in order to have a clear meaning of the term organisaiton.

1. Organisaiton as a Structure: Organisaiton as a structure is a set of planned relationships, between physical factors and personnel, and between groups of related functions required for the effective accomplishment of an enterprise’s goals. It is a framework through which people work together for the accomplishment of desired results. It consists of vertical and horizontal authority relationships. In fact, organisation as a structure is composed of people who develop formal relationship among themselves in order to accomplish a distinct purpose.

According to Koontz and O’Donnel, “organising involves the establishment of an intentional structure of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it; the grouping of these activities required to achieve the goals of an enterprise and each part of it; the grouping of these activities, the assignment of such groups of activities to the manager, the delegation of authority to carry them out, and provision for coordination of authority and informational relationship, horizontally and vertically, in the organisation structure. “Organisation structure is designed to classify who is to do what and when, and who is responsible for which result.

2. Organisation as a process: Organisation as a process is referred as the dynamic concept of organisaiton. It is a constant managerial function with the object of arranging the tasks into manageable units and defining the formal relationship among people who are assigned the various tasks.

According to Louis A.Allen, “Organisaitonis the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing organisational objectives". According to this concept, organisation is the process of arranging or structuring the different parts of which a business unit is composed, namely, work, people and the system. As a process, the organising function includes division of work, grouping of activities, assignment of duties, delegation of authority and defining relationship.

Nature (or) Characteristics of organisation

The following are the important characteristics of an Organisation:

1. Division of Labour: The entire work of an organisation is divided into functions and sub functions. Division of labour leads to specialisation because men acquire greater skill and knowledge when they perform a single operation again and again. Division of labour helps to overcome wastage of efforts and duplication of work. Effective and proper division of labour leads to increase in quality and quantity of output.

2. Common Purpose: The basis of any organisation is to achieve some common goal. The structure is bound together by the pursuit of specific and well-defined objectives. An objective cannot be achieved without an organisation, likewise an organisation cannot exist for long without goals and objectives. The structure of an organisation should reflect these objectives so as to make the entire organisation bound by common purpose.

3. Communication: Effective communication is vital for success in management. Every organisation has its own methods and channels of communication. These channels are necessary for mutual cooperation and understanding among the members of an organisation. The channels are communication may be upward, downward, vertical, formal or informal.

4. Authority- Responsibility Structure: In an organisation there is a proper arrangement of position into a graded series. There is clear definition of authority to each position. It specifies who is to direct whom and who is responsible for what result. The structure helps an individual in the organisation to know what his role is and how he is related to other roles.

5. People: An organiation is made up of a group of people who constitute the dynamic human element of an organisation. Therefore, authority provisions and grouping of activities must take into account the customs and limitations of people.

6. Environment: An enterprise functions in a very dynamic environment which comprises social, political, economic and legal factors. Thus, the structure is designed to adapt itself to the changing environment.

7. Coordination: An organisation structure provides for effective coordination of different activities and parts of an organisation so that it functions as an integrated whole. People in an organisation perform different functions but all of them have only one aim i.e. to accomplish the enterprise's objectives for which the organisation provides a suitable method to ensure that there is proper coordination of different activities.

8. Rules and Regulations: Rules and regulations are provided for orderly functioning of people in every organisation. These may be in writing or implied from customary behaviour.

Purpose of organisation

Organisation is the backbone of management. The success and continuity of every enterprise depends upon sound organisation. The purpose and importance of an organisation are as follows:

1. Organisation is an aid to management which helps in effective accomplishment of enterprise objectives.
2. An organisation encourages and facilitates growth by providing the framework within which an enterprise functions. If this framework is flexible it will help in meeting challenges and thereby create better opportunities for growth.
3. A sound organisation structure ensures optimum and effective use of resources by avoiding duplication of work and wastage of efforts. It also makes best possible use of latest technology.
4. A good organisation stimulates creative thinking and initiative among its members by providing them with proper authority.
5. A sound organisation structure helps to improve job satisfaction and morale of the workers because an opportunity is provided for team work and recognition.
6. Continuity and certainty in work performance are ensured by providing for training and development of employees at all levels.
7. A sound organisation provides for effective coordination and control of workers and work.

Principles of organisation

The principles are guidelines for planning an efficient and sound organisation structure. Therefore, for good organisation, a clear understanding of these principles is essential. The important principles of organisation are:

1. Unity of Objectives: The objectives of an enterprise should be stated in clear and precise terms, because it is the objectives of an enterprise which help in determining the type of organisation structure. In other words, only after the objectives have been laid, an organisation structure should be developed to achieve them.

2. Division of Work and Specialisation: The organisation structure should be designed in such a way, that as far as possible every individual should perform only a single function according to his aptitude and ability. This is also called the principle of specialisation. The performance of work will be better when a person performs it continuously.

3. Span of Supervision: According to this principle, no individual should be allowed to supervise more subordinates than he can effectively manage. For effective decision making and communication, the number of levels of authority should be as few as possible.

4. Chain of Command: The line of authority-should be clear and unbroken. It should run from top to bottom of the organisation. Every individual in the organisation should know to whom he will have to report and who will have to report to him.

5. Unity of Command: According to this principle, every individual in the organisation should have only one superior to whom he will have to report. If a subordinate report to two or more superiors, then there will be confusion in the organisation and this will lead to indiscipline.

6. Principle of Exception: Every manager according to this principle is given authority to make routine decisions. Only in exceptional cases where it is beyond the scope of his authority, he should seek the help of higher authorities.

7. Clear Definition of Authority and Responsibility: The authority and responsibility of each individual in the organisation should be clearly defined, so that each one knows what is expected to him. This will help in removing any overlapping of authority and gaps between responsibility.

8. Unity of Direction: According to this principle, each group of activity with the same objective should have one head and one plan. This provides for better coordination among various activities to be undertaken by an organisation.

9. Balance between authority and Responsibility: There should be proper balance between authority and responsibility. Responsibility should always be coupled with corresponding authority. Each individual should have sufficient authority to discharge the responsibility entrusted to him. This is otherwise called parity of authority and responsibility.

10. Absoluteness of Responsibility: In an organisation an individual cannot pass on his responsibility to others. Only authority can be delegated whereas responsibility cannot be delegated. Even when a manager has delegated his authority to a subordinate, he is held responsible for the work performed by his subordinate.

11. Flexibility: The organisation structure should always be flexible in order to adapt and adjust itself to any environmental change. There should always be scope for expansion.

12. Simplicity: The organisation structure should be clear and simple with a few levels of authority. This helps in free and effective communication and proper coordination.

13. Efficiency: The organisation structure design should help the business unit to function effectively and efficiently to achieve its objectives with minimum effort and cost.

14. Continuity: This is another important principle of organisation. Continuity of the business unit for a long period is essential to help people gain experience in positions of responsibility. It also helps in growth and expansion of a business unit.

These principles are considered as the essential requirements of a sound organisation and knowledge of these principles is the first prerequisite for sound organising.

Formal and Informal organisation

Formal organisation alone is not capable of achieving organisational objectives. It requires the support of informal organisation for this purpose. The working of informal groups is not as simple as it may appear to be. Thus, it is essential for every manager to carefully study the working pattern of informal organisation and make the best use of it to accomplish enterprise goals. A clear analysis of formal and informal organisation is provided here.

Formal Organisation

Formal organisations consciously and deliberately created by management to achieve certain specific requirements. According to Chester I. Barnard, “an organisation is formal when the activities of two or more persons are consciously coordinated towards common objective”. A formal organisation refers to the planned structure of well-defined jobs and positions with clear and definite measures of authority, responsibility and accountability. It provides a systematic framework for the performance of jobs and tends to be predictable and stable, and is clearly represented in the organisation chart and manual of the business unit.

The formal organisation consists of four important elements, namely 1) Division of labour 2) Structure 3) Scalar and functional processes and 4) Span of control. These elements are also called the principles of formal organisation. The basic principle of formal organisation is division of labour. The structure of the organisation indicates overall arrangement, which provides for effective balance between various parts of organisation. The scalar and functional processes indicate the growth of the organisation horizontally and vertically. Span of control refers to the number of subordinates who can be effectively managed by a supervisor.

Features of Formal organisation

1. Top management designs the organisational structure to accomplish enterprise goals.
2. The organisation structure concentrates on the work to be performed and not on the individual who performs it.
3. The sentiments and values of the members of organisation are ignored.
4. Specialisation and division of work are the bases for designing the organisational structure which help in achieving efficiency in operations.
5. Authority and responsibility relationship established by the organisation structure is honoured by everyone.

Informal Organisation

An informal organisation is created because of the operation of the psychological and social factors at the work place. Members on their own create such organisation to overcome the limitations of interaction patterns provided by formal relationship. According to Chester I. Barnard, "An informal organisation is a joint personal activity without conscious common purpose though contributing to joint results". It is influenced by personal attitudes, emotions, likes and dislikes. Normally, an informal group is part of a large formal group or organisation. The informal groups are not preplanned, but develop spontaneously within the organisation according to its environment. Informal organisation or groups are formed for a number of reasons, namely, companionship, identification, job satisfaction and protection of membership.

Features of Informal Organisation

1. Informal organisation arises spontaneously and is not preplanned.
2. Informal organisation arises from the social and personal relations of people. It is a natural process which reflects human relationships.
3. It is based on common taste, language, problem, religion, culture etc.,
4. In an informal organisation the membership is voluntary.

Benefits and Problems of Informal Organisation

The following are the benefits of informal organisation:

1. It provides organisation with a useful channel of communication which is faster than the formal channel.
2. The informal leaders reduce the burden of the formal manager and fill the gaps in the manager's ability.
3. It provides adequate support to the formal organisation in achieving its objectives.
4. Psychological satisfaction is provided to the members of an informal organisation because an opportunity is given to them to express their feelings.
5. Informal organisations supplement and support the formal organisation.

It helps a manager to plan and act effectively.

The presence of an informal organisation creates problems to a formal organisation at times. They conform to old methods and practices and resist change. However, both formal and informal organisations are necessary for any group action just as two blades are essential to make a pair of scissors workable. Thus, management should not ignore or look down on informal organisation. It should effectively make use of informal organisation to achieve the goals of a formal organisation, because informal organisation helps to fill gaps in manager's abilities. Therefore, management should adopt a positive attitude towards informal organisation.

Difference between Formal and Informal Organisation

The formal and informal organisation differs from one another in the following respects:

1. Origin: A formal organisation is created consciously and deliberately by the action of top management, in order to overcome the shortcomings of an organisation structure. A formal organisation is need-based from the organisation's point of view, whereas an informal organisation arises naturally within the formal organisation when members are not satisfied by the pattern of relationships prescribed by the organisation. Management has no role either in creation or in abolition of an informal organisation. An informal organisation is need-based from the member's point of view.

2. Purpose: Formal organisations are formed to achieve certain well-defined objectives of a business unit, whereas, informal organisations or groups are created in order to satisfy psychological and social needs of its members. There is normally a clash of interest between the goals of a formal and informal organisation.

3. Authority Structure: The structure of authority in both formal and informal organisation is quite different. In a formal organisation an individual derives authority through delegation and re- delegation. Authority is generally delegated from a superior to a subordinate and the flow of authority is always downwards. But in an informal organisation all members are equal and they derive authority from interpersonal relationships. An individual derives authority because of his personal qualities.

4. Behaviour of Members: Rules and regulation govern and guide the behaviour of members in a formal organisation. These rules and regulations help to bring about efficiency in operations. In an informal organisation the behaviour of members depends upon group norms, values and beliefs. These specify the behaviour expected from every member.

5. Nature of the Organisation: Continuity and stability are two important features of a formal organisation. But an informal organisation is quite unstable, because they are formed to meet certain specific requirements of its members. Once they are achieved or when its members change, the organisation may disappear.

6. Size of the Organisation: The size of a formal organisation is quite large and may vary according to the requirements of a business unit. Formal organisations are created to give representation to various interest groups, whereas, the size of an informal organisation is quite small because an informal organisation forms part of formal organisation. An informal organisation is small in nature, in order to provide proper interaction among members.

7. Communication Pattern: In a formal organisation, communication flows through a formal channel which is clearly laid down in the organisation structure. But in an informal organisation there is no prescribed channel for the flow of information. Any person capable of maximum interaction is allowed to pass on information.

8. Abolition: A formal organisation is consciously and deliberately created by the action of management and, hence, it can be abolished by a similar action. Many formal organisations are created for a specific purpose and when the purpose is over, it is abolished. An informal organisation is created by the members on their own in order to satisfy their personal and social requirements and management cannot abolish it, though it might affect the working of the business unit badly. Any efforts by management to abolish it will only strengthen the informal organisation.

Hence, an informal organisation is an integral part of formal organisation and management should make the best use of it to accomplish its goals in a more effective and efficient manner.

Forms of organisation structure

In order to accomplish the goals of a business unit effectively, management should create a structural relationship among different departments and individuals working therein. The organisation structure represents the hierarchical arrangement of various positions in a business unit. Developing a sound organisation structure is essential for success in management. There are several forms of organisation structures, and an enterprise can select any of these to suit its requirement. The form of organisation structure is based upon the nature and size of the business unit. The following are the various form of organisation structure:

1. Line Organisation
2. Functional Organisation
3. Line and Staff Organisation
4. Committee Organisation
5. Project Organisation
6. Matrix Organisation and
7. Free-form Organisation

The following is an analysis of the nature, merits and demerits of these structures.

Line Organisation

This is otherwise called as scalar or military form of organisation and is the oldest type of organisation in which authority flows in a vertical manner from top to bottom. The persons with the highest authority are placed to the top and those with the lease authority are placed at the bottom. Line executives are directly involved in the performance of the activities of an enterprise and are called the doers. Each position in the organisation structure has general authority over a lower position and is in the direct chain of command as shown in Fig 5.

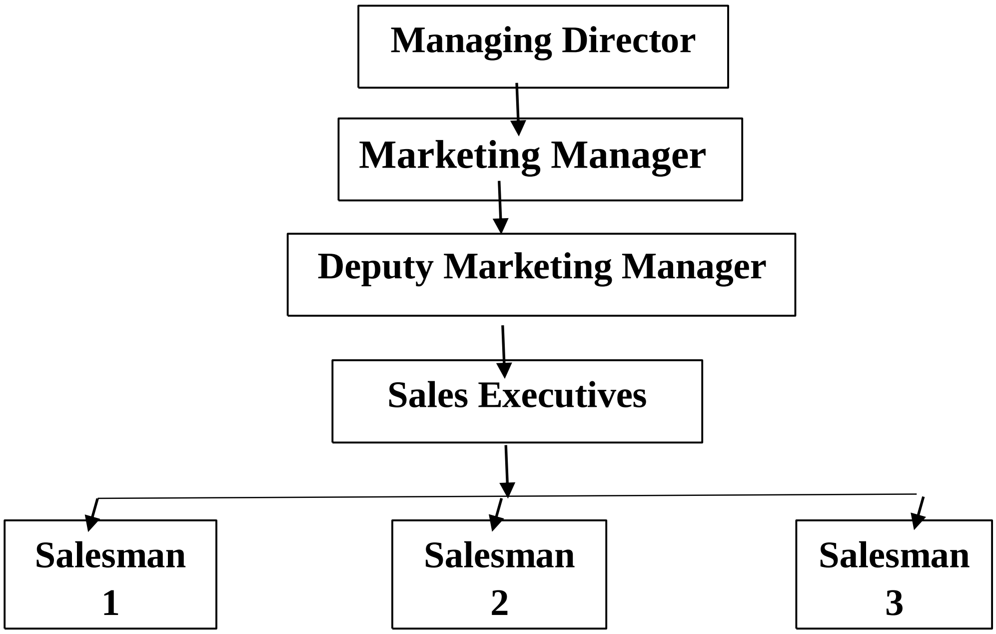


Figure 5: Line Organisation

Line organisations are of two types – pure line organisations and departmental line organisations. In pure line organisation, all individuals perform the same type of work at any given level, whereas in departmental line organisation, there are a number of departments and each department performs different types of work.

Merits of Line Organisation

i. A line organisation is simple and easy to establish and it can be easily understood by workers.

ii. There is a clear division of authority and responsibility and each individual knows to whom he is responsible.

iii. It provides unity of command, which in turn facilitates effective control and supervision.

iv. It helps in taking quick and effective decisions because there is definite authority at each level.

v. It ensures proper discipline because each manager is in close contact with his subordinates.

Demerits of Line Organisation

i. With growth and development, a line organisation over-burdens the top executive with administrative work and he is unable to perform his job properly and effectively.

ii. Line organisation leads to lack of specialisation because a line manager is responsible for both planning and execution of work.

iii. In a line organisation, communication flows only from top, in case of wrong decisions, subordinates carry out the decision without pointing out the defects because they lack courage.

iv. In a line organisation there is concentration of authority at the top and this might lead to autocratic control which affects the enterprise adversely if the top executives are not efficient.

In spite of these limitations, a line organisation is suitable for small concerns employing a few people and carrying on routine work, where there are fewer levels of authority.

2. Functional Organisation

The concept of functional organisation is based on the principles of specialisation and was devised by F.W.Taylor (Functional foremanship). In functional organisation, each specialist conveys his instructions direct to the personnel, rather than through the chain of command. Functional authority remains confined to functional guidance of different departments.

Under this type organisation, the activities of an enterprise are classified into a number of functional areas. Each functional area is managed by a functional specialist who has full control over that function throughout the organisation as shown in Figure 6.

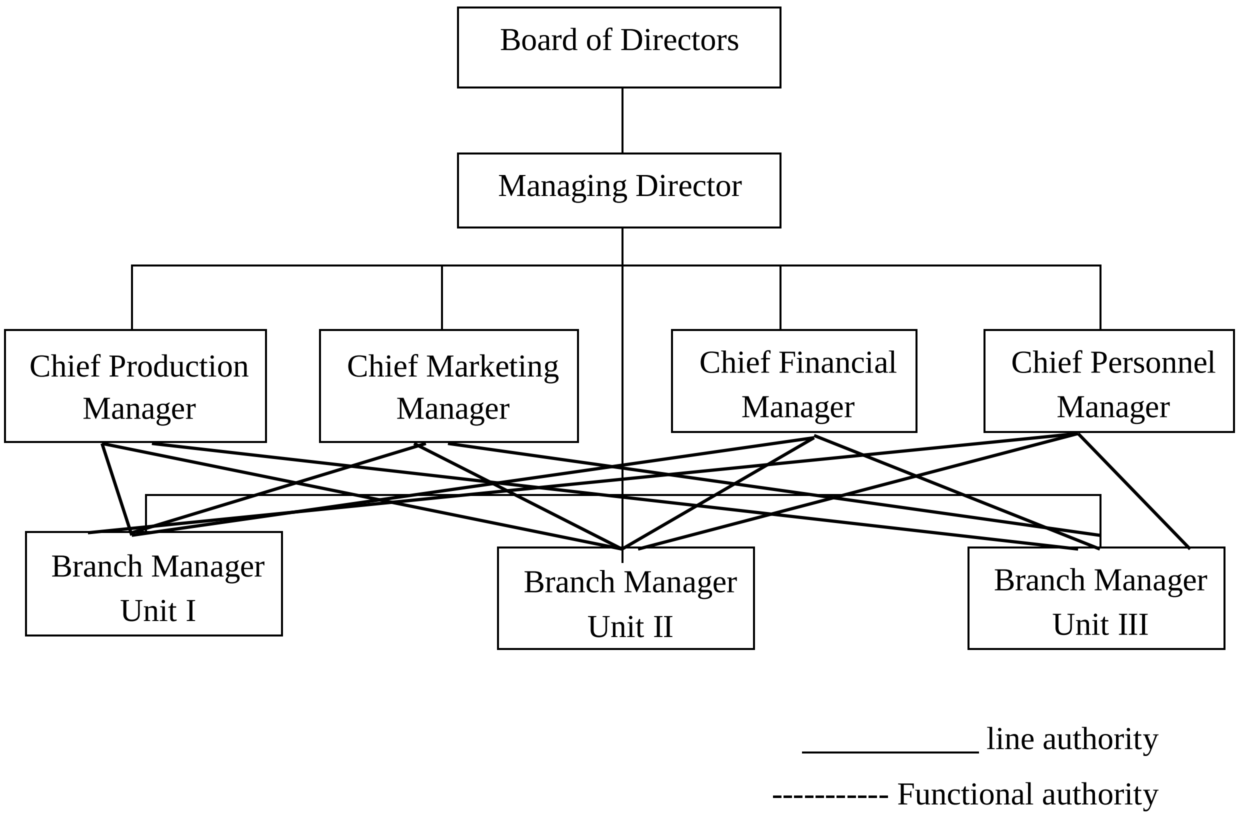


Figure 6: Functional Organisation

From the figure, it is clear that each chief manager is in charge of that particular activity in which he is specialised for all the three units. For example, the chief marketing manager who is a specialist in marketing is in charge of the marketing function in all three units. These functional experts enjoy functional authority over subordinates in other departments.

Merits of Functional Organisation

i. Functional organisation helps to reap the benefits of specialisation. Every functional head is an expert in that particular function and helps subordinates to effectively accomplish results in his area.

ii. The burden of top executives is reduced in functional organisation because a functional manager looks after only one function.

iii. In a functional organisation there is effective and better control, because of the expert knowledge of the functional managers. Moreover, in a functional organisation there is joint supervision by different functional heads.

iv. When compared to line organisation, functional organisation provides better scope for expansion and diversification.

v. Functional organisation leads to higher efficiency in operational because every individual carries out only one function and seeks guidance for the same from a specialist.

Demerits of Functional Organisation

i. Functional organisation is against the principle of unity of command, since a subordinate is responsible to a large number of superiors.

ii. Functional organisation faces the problem of succession. Lower level executives are not provided with an opportunity for all round experience and hence they do not fit into top level positions.

iii. Functional organisation is very complex in nature with a number of cross relationships which create confusion among workers.

iv. The decision making process in a functional organisation is very slow because certain decisions require the involvement of several functional heads.

v. Functional organisation leads to lack of coordination because a functional head thinks of only his function in the enterprise and ignores other functions.

Functional organisation is suitable for all kinds of enterprise. But is should be applied only at higher levels because at lower levels, too many cross relationships are established and this creates confusion throughout the enterprise.

3. Line and Staff Organisation

Line and staff organisation is a combination of functional and line structure. In this, line authority flows from top to bottom and the line executive is directly concerned with the accomplishment of primary objectives. They are the actual doers. Line managers are generalists and to not possess specialised knowledge to tackle complex problems. In order to provide specialised assistance to line managers, staff positions are created in the organisation. The dictionary meaning to staff is a stick carried in the hand for support. This means that a staff executive helps and aids line executives in their work. They play the role of an advisory.

In line and staff organisation, the line authority remains the same as in line organisation. The only difference is that staff executives are attached along with the line executive who help them by providing necessary advice on important matters. The staff executives who are specialists do not have any power to command subordinates in other department. They only play a supportive role as shown in Figure 7.

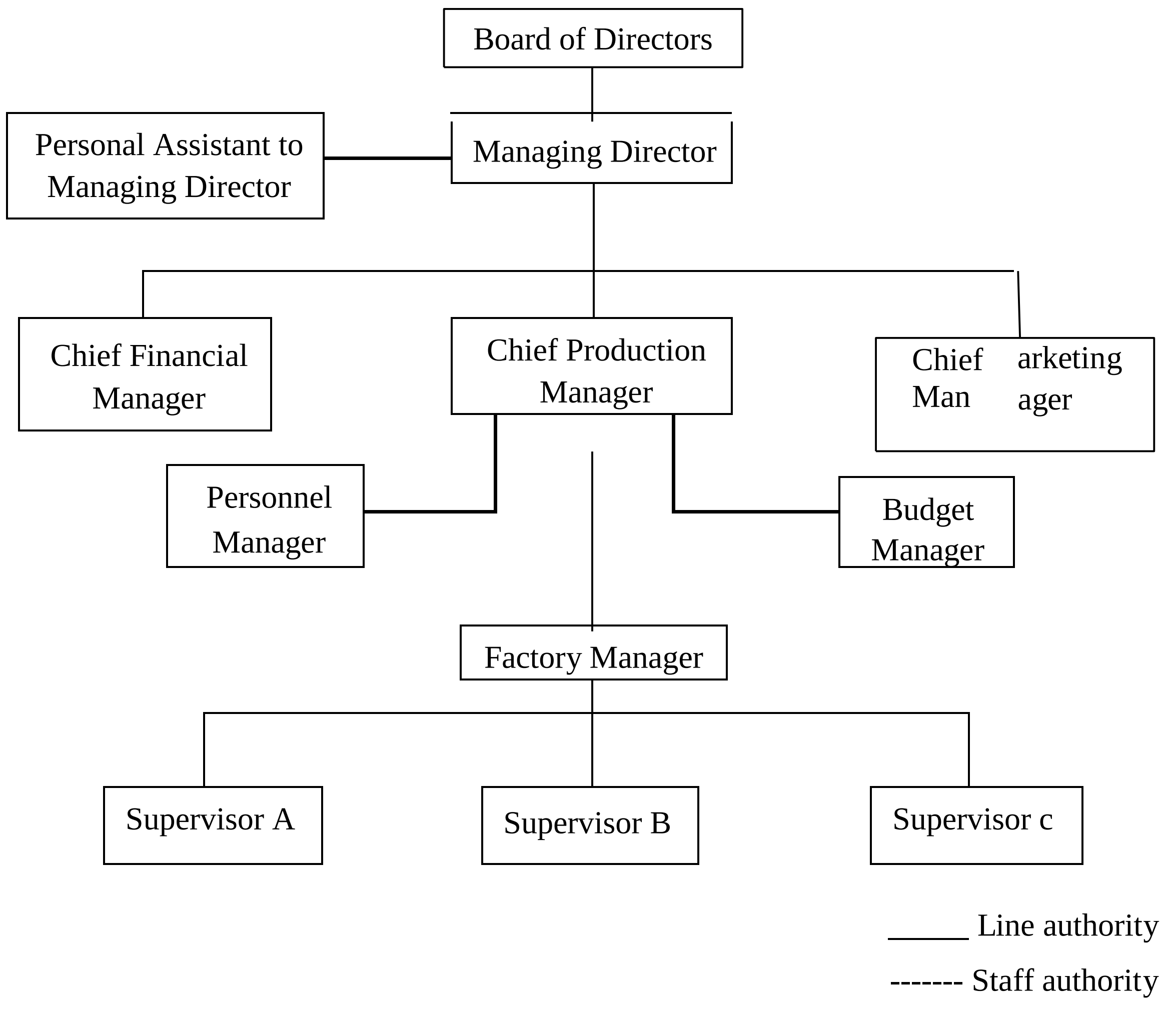


Figure 7: Line and Staff Organisation

From the figure, it is clear that the Personnel Manager, Budget Manager and Assistant to the Managing Director play the role of advisors. They are the staff executives who help the line executives, namely the Managing Director and Chief Production Manager to perform their work effectively. In most business units, staff executives are used for collecting data required for taking decisions and to provide expert advice to line managers.

Merits of Line and Staff Organisation

i. Line and staff organisations provide for specialised knowledge, where the staff executives guide and advise the action of line executives.

ii. It reduces the burden of top executives because staff executives carry on detailed investigation of each and every activity.

iii. Staff specialists provide apt and relevant information for decision making and hence better decisions are taken.

iv. It is more flexible when compared to line organisation. As the business unit grows, staff can be added to help the line executives.

Demerits of Line and Staff Organisation

i. The concept of line and staff organisation always creates confusion because it is very difficult do define the authority relationship between line and staff.

ii. Staff executives do not take the task seriously because they are not accountable for the result. This affects an organisation to a very great extent.

iii. Another serious problem of line and staff organisation is the constant conflict between line and staff executives because of the different functions performed by each.

Line and Staff Conflict

Line and staff relationship is based on the fact that both support each other and work together to accomplish organisation goals. But, since they perform different functions there is bound to be conflict and friction between line and staff executives. Al this causes delay and affects organisational effectiveness. Therefore, it is necessary to analyse the reasons for conflict between line and staff executives and provide measures to overcome these conflicts. The different factors that lead to conflict between line and staff executives can be viewed from three angles, which are as follows.

I. From the Viewpoint of Line Executives

Line executives are the actual doers who are responsible for the effective accomplishment of organisational goals. According to them staff executives create conflicts in the following ways:

1. Lack of Responsibility: Line managers feel that staff personnel lack responsibility and enjoy only authority. They are not accountable for achievement of results, because of this they do not think about the overall objective of the organisation. Another important aspect is that if anything goes wrong the blame line executives, but they assume credit for success. This imbalance between authority and responsibility leads to conflict between line and staff.

2. Encroachment of Line Authority: Another reason for conflict between line and staff managers is he encroachment of line authority. Instead of providing guidance and advice, they interfere with the work of line managers and try to force their recommendations on them, leading to conflicts.

3. Dilution of Authority: The introduction of a staff executive makes a line executive feel insecure because line managers feel that their responsibility will be reduced and their authority will be diluted. In fact, staff authority arises out of dilution of line authority. This fear of insecurity creates conflict between line and staff executives.

4. Theoretical Bias: Staff executives are academicians and their recommendations suffer from theoretical bias. They provide ideas and suggestions which may not have practical application. Another important aspect is that they are away from the actual operational scene. This once again leads to conflict in acceptance of recommendations.

II. From the View point of Staff Executives

Staff executives are specialised people who advise the line executives. In most cases they feel that is the line executives who are responsible for conflicts. The reasons for conflict between line and staff executives are as follows:

1. Lack of Proper Authority: Staff executives lack proper authority to get their useful ideas implemented. Though they contribute to the accomplishment of organisational objectives, they do not enjoy any authority. It is left to the line manager either to accept or reject the advice given by staff managers. They don't even consult staff executive while taking decisions. All this created frustration and leads to conflict.

2. No Proper use of Staff: Another important reason for conflict between line and staff executives is that line executives do not make proper use of staff executives. Mostly line managers ignore the advice of staff managers while taking decisions and just communicate it to them after it is implemented. A line manager has the power to accept or reject the idea of a staff manager irrespective of its quality. Normally line mangers consult them only as a last resort.

3. Resistance To New Ideas: Line executives always resist new ideas, they do not like change and moreover they feel that new ideas are meant to find defects in their existing operations. This creates frustration among staff executives and leads to conflict.

III. On the Basis of Nature of Line and Staff Relationship

The nature of line and staff relationship is such that it leads to conflict between them. The following defects in the organisation structure lead to conflict between line and staff.

1. Lack of Demarcation between Line and Staff: The authority relationship between line and staff is not clearly defined in most cases. This leads to overlapping of activities and creates gaps in authority and responsibility. Lack of proper demarcation between line and staff relationship leads to conflict.

2. Different Background: Another reason for conflict between line and staff managers is their different backgrounds. Staff executives are younger and better qualified when compared to line executives. They often look down at line executives. This creates an environment of mistrust and hatred between them.

3. Lack of Proper Understanding of Authority: Normally people fail to understand the nature of line and staff authority in practice. As a result, this may lead to encroachment of authority either by the line or staff executives. Besides this, staff executives in order to get their suggestions accepted approach their common superior at a higher level which frustrates line executives and puts undue pressure on them. Al this creates a very hostile environment and leads to conflict.

Measures to Overcome Line and Staff Conflict

The successful functioning of an organisation to a very great extent depends upon line and staff executives. Hence, it is necessary that they should work together, to effectively and efficiently accomplish organisational objectives. Normally conflicts arise because of misunderstanding or because of the working situations. Therefore, measures should be taken in order to overcome these conflicts. The following are the important measures to overcome line and staff conflict:

i. Effective Use of Staff: Staff executives play a very crucial role in trying to solve problems of line executives by using their expertise and knowledge. The efficiency of line executives depends how well they make use of staff executives. Line executives can make proper use of staff executives in the following ways.

i. Staff executives should be given work according to their specialisation, they should not be engaged in unimportant work.
ii. Proper education and information should be provided to line managers so as to enable them to make the best use of staff specialists.
iii. In case of emergencies, if line executives take a decision that affect staff executives without consulting them, they should immediately inform them of such action. This will help in smooth flow of work.
iv. Staff executive should be involved in decision making right from the initial stage rather than when the problem becomes crucial.

ii. Adequate Staff Work: In order to resolve conflict between line and staff executives it is necessary to provide for ideal staff arrangement which should result in adequate and completed staff work. Accordingly, a staff executive should study the problem and provide solutions to it in such a manner that the line executive should either accept or reject it. This concept is required because when the nature of a problem is complex, there is a tendency on the part of the staff executives to provide solution in a piecemeal manner. This creates a lot of confusion and affects the decision making process of line executives.

When staff executives provide solutions, they should provide all alternatives capable of solving a problem. The recommendations and suggestions should be adequate and clear, so that a line executive can easily adopt them.

iii. Proper Understanding of Authority Relationships: Proper understanding of authority relationship, to a very great extent helps to resolve most of the conflicts between line and staff executives. The following guidelines if adopted properly help to understand the authority relationship between line and staff executives and help to reduce conflict.

i. Line executives should be provided authority for making operational decisions because they are directly involved in the actual accomplishment of organisational objectives.
ii. Staff executives provide advice and guidance to line executives, hence, they should be granted functional authority in order to see that their recommendations are put into force.
iii. Line executives as far as possible should consult staff executives when they make decisions.

iv. By virtue of their competence and knowledge staff executive should be able to impress line executives. They should not be worried about authority of position but should be concerned about authority of knowledge and competence.

iv. Establishing Conducive Organisational Climate: Line and staff conflict can be resolved by establishing a conductive organisational climate which is full of mutual trust and confidence. An organisational climate which is conducive can be established under two situations – a) when line and staff executives mutually recognise the importance of each other, and b) when line executives recognise the need for change and accept new ideas. This is possible only through mutual trust and respect where each one appreciates the efforts of others.

Line and staff organisation is more suitable for large organisations. It provides adequate scope for specialisation and its success depends upon the harmonious relationship that exists between line and staff executives.

4. Committee Organisation

A committee is a group of persons who are consciously and deliberately formed to discuss a problem and provide solutions to overcome it. They are formed for a specific or state purpose and the scope it its activities are limited. Thus, a committee is a group of persons to whom some matter is committed and they meet on an organised basis to discuss and deal with the matter placed before it.:

The following are the characteristics of a committee:

i. A committee consists of a group of people, with a minimum of at least two people and there is no limit for the maximum number of people.

ii. The scope of a committee is limited to extent of work that has been assigned to it. It cannot deal with matters not specifically assigned it.

iii. The members of a committee arrive at decisions on the basis of one member one-vote, provided they have authority to go into the problem assigned to them.

iv. Committees may be either executive or non-executive in nature. A executive committee takes decisions and implements them, whereas a non-executive committee only provides suggestions and recommendations.

Types of Committees

The following are the different types of committees on the basis their nature and function:

1. Standing or Ad-hoc Committee: A standing committee or a permanent committee is one which continues for an indefinite period of time and is always present in the organisation. An ad-hoc or temporary Committee is formed for a specific and definite purpose. It is a special purpose committee that is dissolved as soon as the task is completed.

2. Executive or Advisory Committee: An executive committee is one which has full authority to take decisions and implement them, whereas an advisory committee has authority only to provide suggestions and recommendations which may or may not be accepted.

3. Line of Staff Committee: A line committee has executive authority over its subordinates and it coordinates and controls their activities. Whereas, a staff committee only acts as a advisory body having no authority, it only provides advice and assistance to line managers.

4. Formal or Informal Committee: Formal committees are duly constituted by management on the basis of organisational rules and policies and are meant to accomplish the objectives of an organisation. They are represented in the organisational structure, whereas informal committees are not constituted by management. They arise because of personal relationship among employees who join together in order to solve common problems.

Merits of Committees

The following merits of committees clearly highlight their use in management.

i. Pooling of Knowledge and Experience: The most important merit of using committee is group judgement where knowledge and experience are pooled together. Decisions are arrived in a joint manner. A committee works on the principle that tow heads are better than one. There is exchange of ideas and opinions before a conclusion is arrived at. Hence, decisions taken by a committee are more logical and objective when compared to those taken by a single individual.

ii. Motivation through Participation: In a committee, the members are allowed to participate in the decision making process. This motivates them positively and makes them more committed to the decision. Their involvement in decision making helps them to effectively and efficiently implement the decision. Thus, committees help in effective motivation of its members through participation.

iii. Effective and Proper Coordination: Committees provide for effective coordination by bringing together managers from different departments. Normally decision making in a committee is a joint effort where members share information and express diverse viewpoints. Through coordination a number of organisational problems are solved by committees.

iv. A Tool for Management Development: Committees provide an opportunity for management development through participation and involvement. By being a member in different groups, a manager gains a lot of experience which helps him to a great extent in performing his job. A committee being a group of persons, helps one another to learn from the experience and mistake of others. Thus, committee's act as tools for management development.

v. Representation of Diverse Interest Groups: Through committees, an organisation can provide representation to various interest groups, whereby conflicting views can very easily be settled through motivation and participation. When different interest groups are represented in a committee, there is involvement and commitment in the decision making process.

vi. Effective Communication: Since committees involve representation of diverse interest groups, information can be effectively and quickly transmitted throughout the organisation. By convening a committee meeting any information can very easily be passed on to all members of the organisation.

vii. Consolidation of Authority: Committees enable management to consolidate authority that is splintered over several departments. In certain cases, an individual manager may have limited authority and he cannot solve the problem without simultaneous exercise of authority by other manger related to the problem. Under such a situation a committee might be formed, where splintered authority is consolidated, in order to solve special problems. The committee includes all managers related with the problem.

viii. Fear of Too Much Authority in a Single Person: At times committees are formed to avoid concentration of too much authority in a single person. The line authority for certain actions is delegated to a committee rather than to an individual, in order to control and check the excessive use of authority by a single person.

ix. Avoidance of Action: Committees can be formed in order to delay and avoid action. Management makes use of committees to cool off agitation and temper on part of the affected people. Committees help management to buy time and to avoid individual responsibility.

Demerits of Committees

The excessive use or lack of proper utilisation of committees creates a server problem to management. A committee is one made of the unfit, selected by the unwilling to do the unnecessary. The following are the problems with committees:

i. Formation of a committee is a very costly and time consuming activity. The cost incurred in formation of a committee is far below its benefits.

ii. Decisions taken by a committee are arrived at only slowly after a lot of discussion and debate. Therefore committees do not help to take quick and on the spot decisions.

iii. Normally, in order to arrive at a unanimous decision, agreements are reached on the basis of a compromise which may not be really helpful to management. Compromise decisions only postpone a problem and they do not solve it.

iv. In certain cases, committees are dominated by few persons and their views are accepted by the majority of the members when a unanimous decision is to be taken because of undue pressure put on them.

v. Committees provide for group responsibility where it is difficult to fix individual responsibility and as such, members feel unaccountable. This leads to inefficiency.

vi. Committees are often misused to delay, avoid or to take unpleasant decisions.

Measures for Making Committees Effective

The following measures if implemented effectively will go a long way in making committees effective.

i. Right Size: A committee to be effective should have a right size and should be represented by different interest groups. It should not be too large or small. Its size will depend upon its purpose and requirement. Where more representation is required sub-committees can be formed.

ii. Selection of Member: The members of a committee should be carefully and properly selected taking into consideration their personal characteristics and functional background. A member should not be a misfit in a committee.

iii. Well Defined Authority and Scope: The authority and scope of a committee should be well-defined and clearly specified. The responsibility function and organisation of a committee should be specified in clear cut terms. Everything should be in writing so that there is no scope for ambiguity.

iv. Effective Leadership: The success of a committee depends upon effective Leadership. The Chairman of a committee should be able to guide and direct the group towards accomplishment of specific and stated goals. He should be a friend, guide and philosopher to other members. He should follow logical procedures and guidelines for orderly and meaningful conduct of meetings.

V. Follow – Up: Committees are formed to allow its members to participate in the discussion or to provide solutions to a problem and the result of its simultaneously informed to them. Yet members may walk away from meetings with different interpretations as to what was accomplished. In order to avoid this, the minutes of a meeting should be carefully prepared and the draft should be circulated among members for modification and correction before the final copy is approved by the committee. This procedure has the advantage of compelling committee members to agree or disagree with the results of the meeting.

When recommendations are made, actions taken in this regard should be communicated to the members. Checking of conclusions provide an effective means for follow-up and help to determine the effectiveness of a committee.

5. Project Organisation

Project organisation is of recent origin developed after World War II. It is directed towards completion of a big project or a small number of big projects. Project organisation appears very much like a functional structure. But a project organisation disappears as soon as the project task is over, whereas a functional structure is created on a permanent basis. Moreover project organisation has been designed with a view to overcome the problems of the functional organisation namely, delay in decision making and lack of coordination.

The project organisation is led by a project manager who is responsible for the completion of the project. He coordinates all activities of the project. Functional managers are drawn from different functional departments and they remain in the project organisation till their task is over. A project manager does not have proper authority over functional managers. As a result he will have to convince the functional people to help him, to successfully complete the project. Project organisation structure can be presented as shown in Figure 8.

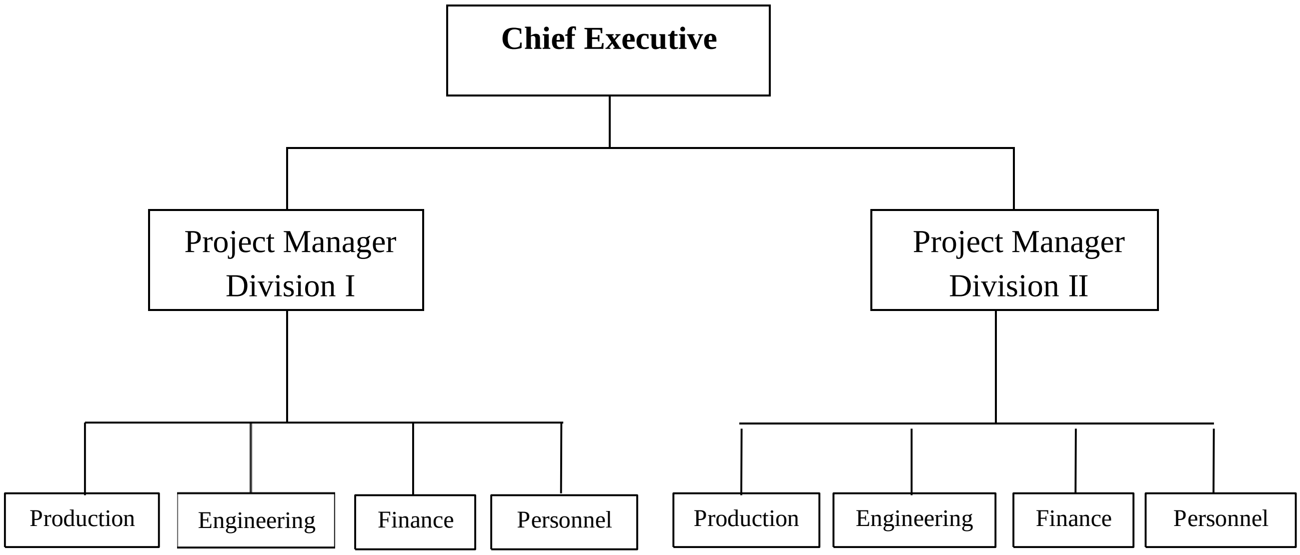


Figure 8: Project Organisation

Project organisation is most suitable under the following situations.

i. The activity is unique and unfamiliar to the present organisation.
ii. It has well defined and clear specifications and goals.
iii. It is complex in nature with interdependent tasks.
iv. Its successful completion is crucial to the organisation.
v. The task is to be completed is crucial to the organisation.

Merits of Project Organisation

i. Project organisation allows maximum utilisation of specialised skill and knowledge.
ii. It is tailor-made to meet specific needs of a particular project by concentrating attention on a complex project.
iii. It provides more flexibility in handling resources by allocating them to the projects when they are needed.

Demerits of Project Organisation

i. Normally, project organisation has a limited time and this creates a feeling of uncertainty and insecurity among people in the organisation.
ii. Lack of proper vertical authority makes the job of a project manager very difficult. He has responsibility for completion of the project without direct authority over people in the project.
iii. Decision making is very difficult in a project organisation because of undue influence and pressures from specialists of diverse fields.

iv. Project organisation may lead to conflicts among the specialists because of their different orientation. Thus, motivation of specialists poses another problem to the project manager.

6. Matrix Organisation

Just like project organisation, matrix organisation is also recent origin developed after World War. II. It provides a flexible structure to achieve a series of project objectives. It is created by merging two complementary organisations. It has a hybrid grid structure where pure project organisation is superimposed on a functional structure. Matrix Organisation is a combination of project organisation and functional organisation. In order to meet problems of growing size and complexity of undertaking Matrix organisation has been formed. It is more technically oriented and flexible than the traditional line and staff organisation.

Paul R. Lawrence and Stanely M. Davis have defined matrix organisation as "any organisation that employs a multiple command system that includes not only multiple command structure but also related support mechanism and an associated organisation culture and behzaviour pattern". From the definition it is clear that matrix organisation leads to an overlapping of command, control and behaviour pattern.

A Matrix organisation is different from a project organisation in the sense, that matrix organisation involves a large number of small projects, whereas, a project organisation is suitable in case of accomplishment of a small number of large projects. Another important difference is that in a project manager has full responsibility for completion of the project because separate divisions or departments are created and each manager is provided resources which he can independently use. But in matrix organisation the project manager does not have complete authority, he will have to share resources with the rest of the enterprise. Matrix organisation consists of permanent functional departments. Besides, this temporary project groups are established to handle unique short term projects. Personnel required are taken from the functional department. The project manager controls and coordinates their activities. Once the project task is completed they go back to their respective functional departments. Thus, an individual in a matrix organisation has two superiors. One is his permanent functional head and the other his project manager. A matrix organisation structure is clearly presented in Figure 9.

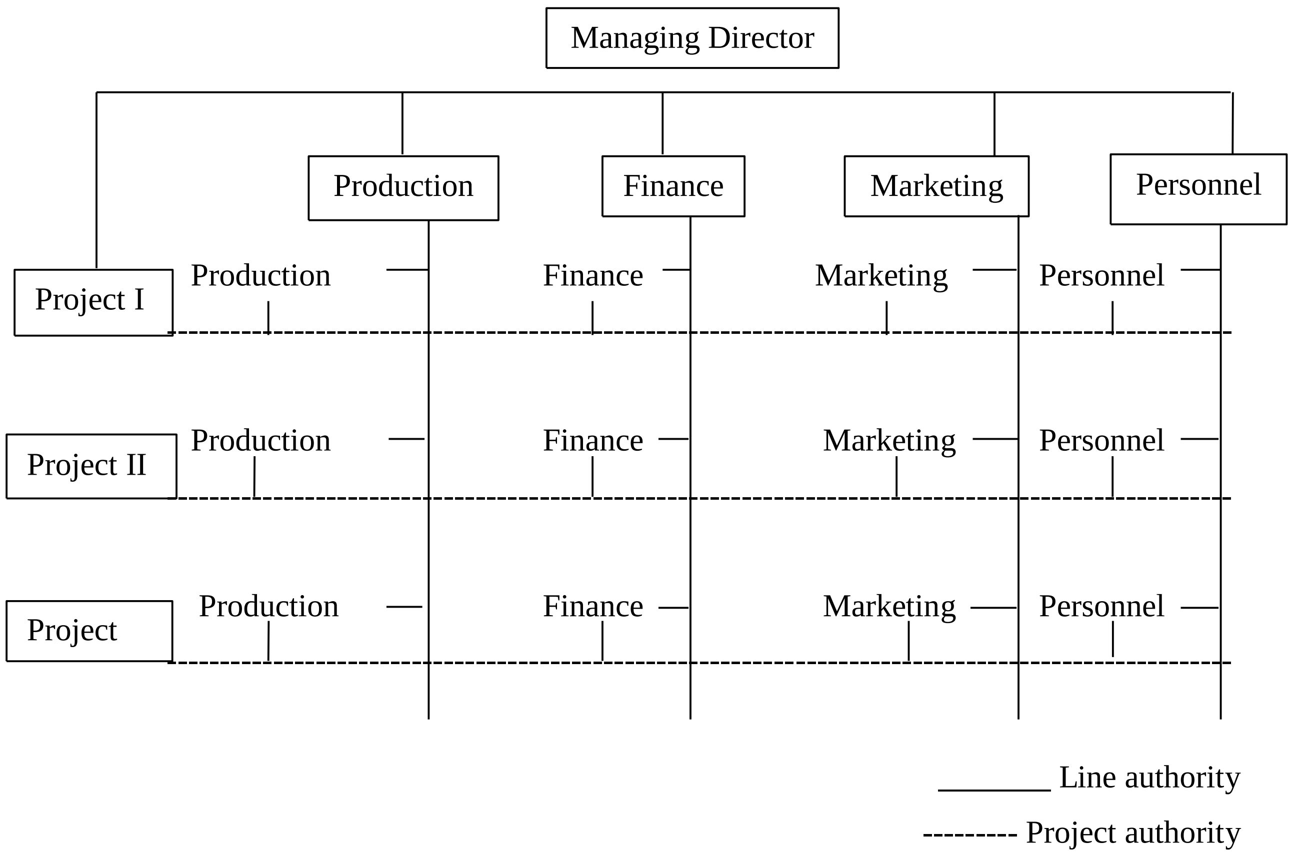


Figure 9: Matrix Organisation

Merits of Matrix Organisation

i. It facilitates better control and planning because it focuses attention and resources on a single project.

ii. Matrix organisation is more flexible than the traditional functional organisation.

iii. It provides for effective coordination and communication by facilitating direct contact between the functional group and project manager. This provides positive motivation to people engaged in a project.

iv. It emphasises authority of knowledge rather than position and thereby it leads to better utilisation of professional services.

Demerits of Matrix Organisation

i. Matrix organisation leads to overlapping of command, thus violating the principle of unity of command. People receive instructions and orders from both functional and project managers.

ii. The relationship in a matrix organisation is very complex this leads to a lot of confusion. Coordination of efforts becomes very difficult because subordinates are not in a position to identify their superior as there are both formal and informal relationships.

iii. Matrix organisation involves sharing of resources and joint decision making. In the absence of mutual trust and undertaking, conflicts arise. This affects the organisation and delays completion of the project.

iv. The morale of people in a matrix organisation is very low, because people are drawn temporarily from various departments and the project manager has no line authority over them. This at times leads to lack of commitment and involvement in the project.

Matrix organisation will be successful only when there is mutual trust and understanding between key executives in an organisation. They should be willing to share authority and resources. Proper implementation and a systematic approach will result in maximum gains in the areas where matrix organisation is applied.

7. Free-Form Organisation

A free form organisation is closely related to project and matrix organisation. It is also called as organic, naturalistic or ad-hoc form of organisation. It is based on the logic that the organisation is an open system and the basic task of a manger is to ensure and facilitate change in the organisation which requires flexibility and adaptability. The following are some of the important features of free form organisation.

i. It is formed in order to meet challenges posed by the external environment which is very unstable and dynamic.

ii. The objectives of a free-form organisation are development oriented and long-term in nature.

iii. In a free form organisation any individual who is complete and suitable, is given the power to make decisions.

iv. In a free form organisation authority is based to competence and knowledge, and not on status.

v. The structure of a free form organisation will differ from situation to situation depending upon the dynamic environment.

vi. There is no fixed channel for the flow of communication in a free-form organisation.

vii. A free form organisations is very flexible and adapts itself to the highly dynamic environment.

Thus, free-form organisations are suitable for those business units which work in a highly dynamic environment, which are ever changing and highly flexible.

Organisation Charts and Manuals

Organisation charts and manuals provide vital information about organizational relationship. They clearly provide information about authority relationship and the pattern of work that is carried out in a business unit. Preparation of Organisation Charts and manuals is not necessary. But they are required for efficient management, because they provide clarity in action.

I. Organisation Charts

An organisation chart is a diagrammatical representation of various positions in a business unit and the formal relationship among them. It clearly indicates the major functions and their relationship along with the formal authority of each manager who is in charge of the respective function. It enables each individual to understand his position in the organisation and to know to whom he is accountable. According to George R.Terry, "an organisational chart is a diagrammatical form, which shows important aspects of an organisation including the major functions and their respective relationship, the channels of supervision, and the relative authority of each employee who is in charge of each respective function". Thus, it provides a bird's-eye view of the authority in an organisation as well as the relationship between departments or units of an enterprise.

The following are the distinct features of an organisational chart.

i. It is diagrammatical representation of different positions in an organisation.
ii. The formal organisation structure is provided in an organisational chart.
iii. It shows the principal line of authority in the organisation.
iv. In indicates inter-play of various functions and relationship.
v. It provides the formal channel of communication for the organisation.
vi. It clearly indicates the pattern of supervision.

Organisation charts can be divided into a) Master Charts b) Supplementary Charts. Master charts show the whole formal structure of an organisation with all positions and relationships. Supplementary charts are used to show separately department-wise structures of an organisation with positions and relationships of each department. Supplementary charts are used in big enterprises where all necessary information cannot be provided in the master chart.

Types of Organisational Charts

Organisation charts can be broadly classified into three different categories:

1. Vertical Charts: Many organisations use this type of chart, which provides information in the form of a pyramid about different levels in the organisation. This chart flows vertically from top to bottom and therefore it is otherwise called as top-to-down chart. In this chart, the highest position is shown at the top level followed by other positions according to the hierarchy. Thus, line of command proceeds from top to bottom in a vertical manner as shown in Figure 10.

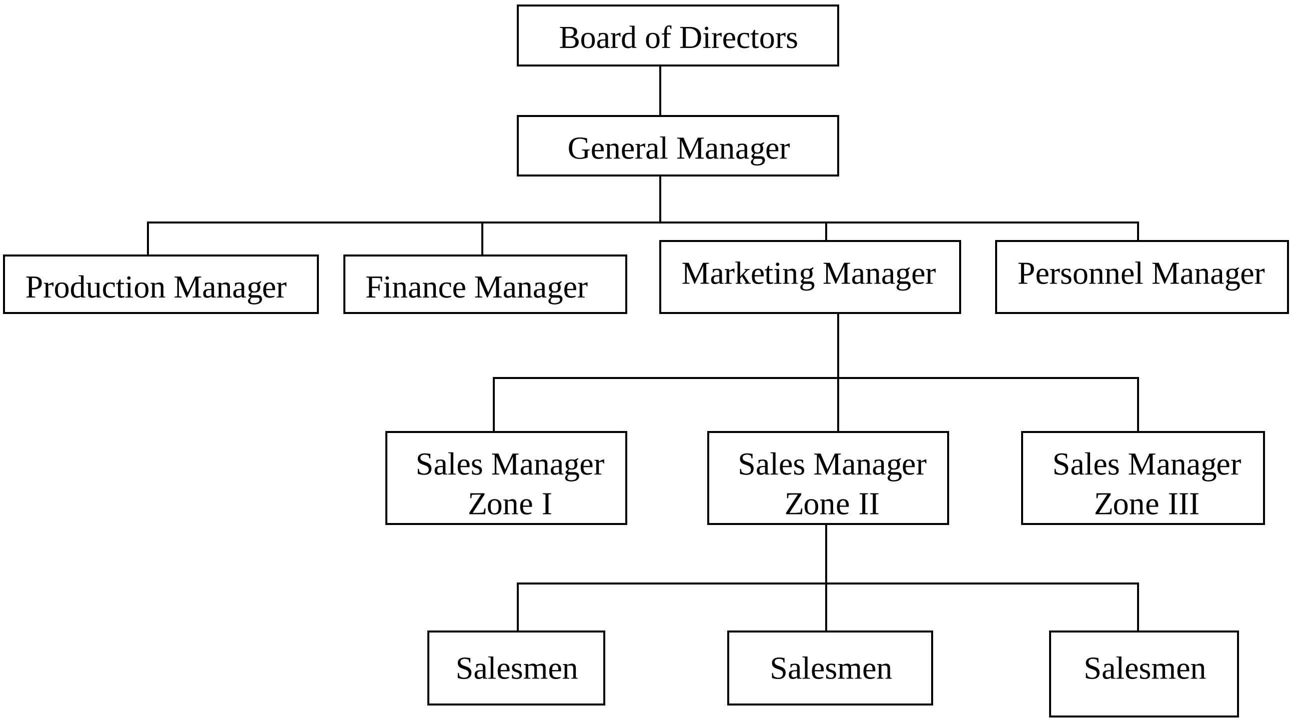


Figure 10: Vertical Chart

2. Horizontal Charts: A Horizontal chart is also called a left to right chart which shows the highest to lower level from left to right to horizontally as shown in Figure 11. In a horizontal chart, organisational levels are represented by vertical columns, whereas the flow of authority is represented by movements from left to right. These charts are occasionally used.

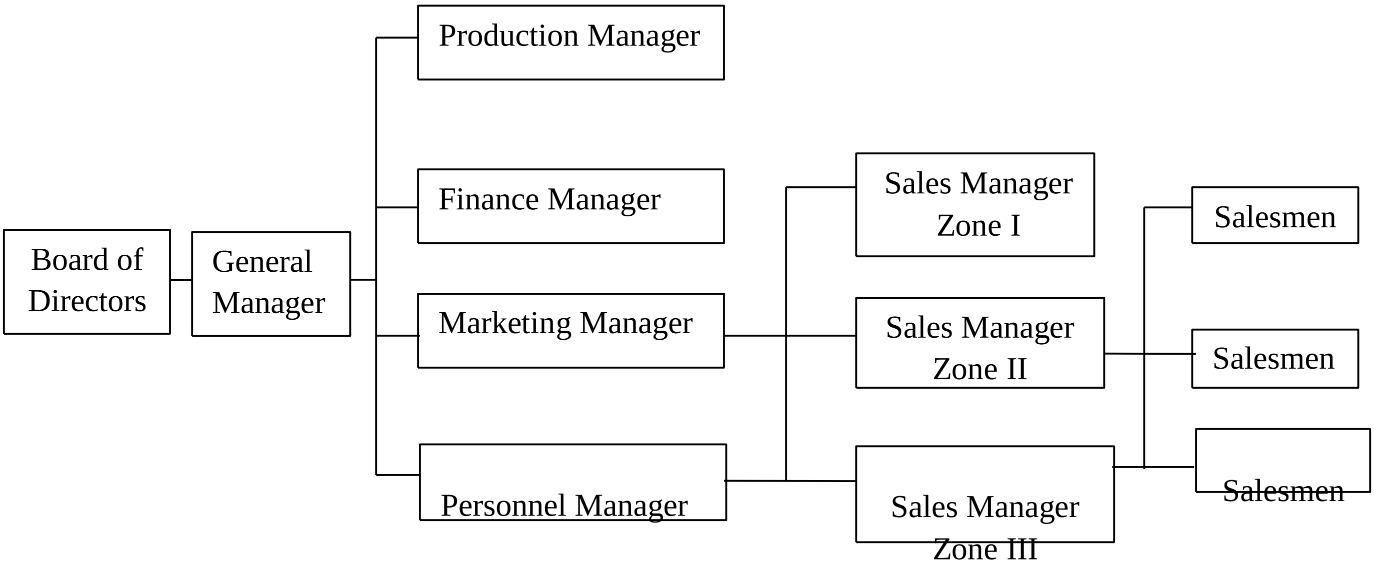


Figure 11: Horizontal Chart

3. Circular Charts: Circular Charts present the various positions or functions of an organisation in a circular manner. Top positions having supreme authority are placed in the centre of the circle and the lowest position is placed at the outermost circle. Positions of equal status are located at the same distance from the centre. Distance of position from the centre clearly indicates the degree of closeness to the top position as shown in Figure 12.

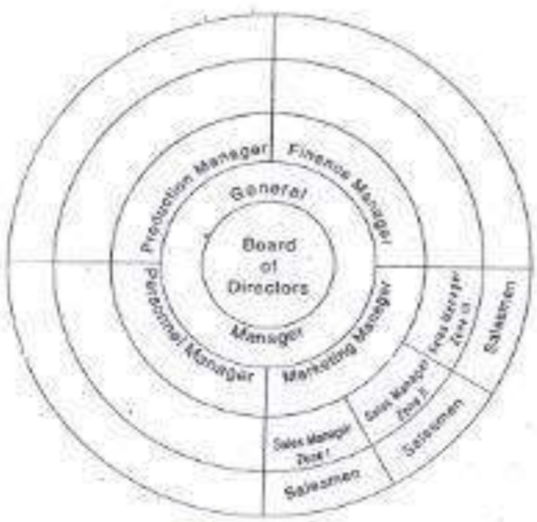


Figure 12 : Circular Chart

Advantages and uses of organisation charts

i. An organisation chart is a vial management tool that clearly indicates the various positions and relationships in the organisation.

ii. At a glance it shows the line of authority and responsibility in an organisation, and this helps individuals to determine the limits of their authority.

iii. It provides a framework for classification and evaluation of personnel. It helps an individual to determine his line of promotion.

iv. It is very useful guide to new personnel, because it helps them easily understand their position in the organisation.

v. Organisational charts help to overcome deficiencies and inconsistencies in organisation relationship. They help to identify overlapping authority and unintended relationships.

Limitations of organisation charts

i. Formal relationship is only shown in the organisation chart, whereas it ignores informal relationship. But informal relationship plays an important role in the functioning of the organisation.

ii. An organisation chart only indicates in line of authority, it does not indicate the limits of authority or the extent to which an individual accountable.

iii. An organisation chart provides only formal structure of an organisation at a given time. Thus, it shows only a static state of affairs of the organisation and does not represent flexibility which is required in a dynamic organisation.

iv. Organisation chats may lead to conflicts and misunderstanding among members in an organisation because they create feelings of superiority and inferiority.

v. Organisation charts do not give a true picture of relationships that exist in the organisation, but show only the 'supposed to' relationship.

In spite of all these limitations, organisation chart serves an effective tool of management. It provides a blue print of the company's organisation structure. It helps employees to identify their positions and relationship with others in the organisation.

II. Organisation Manual

An organisation manual is a booklet containing information about the organisational objectives, authority and responsibility of different positions and the procedures and methods followed. It supplements and provides more details about the information shown in the organisational chart. An organisation chart only indicates the line of authority; it does not indicate the limits of authority or the duties that each individual in the organisation should perform. In order to provide detailed information, large business units prepare manuals that include job descriptions and other information in addition to the organisation charts. Organisation manuals help to control and guide the activities of employees.

An organisation manual can be divided into three parts, namely a) Introductory; b) Administrative; and c) Procedural. In the introductory, part information relating to the nature, purpose and objectives are provided. Whereas, in the administrative part, details regarding organisation structure, policies of the management, job descriptions and regulations are given. The procedural part consists of specimen forms to be used, general office procedures and practices, instructions relating to the performance of standardised and non-standardised jobs. An organisation manual can be prepared for the entire organisation or part of it. Thus, an organisation can have many manuals depending upon its size and functioning.

Types of Organisation Manuals

1. Company Organisation Manuals: It provides the entire set-up of a company. It explains the duties and responsibilities of different departments and their respective executives. It clearly lays the formal line of command which helps in smooth functioning of the organisation.

2. Policy Manual: It indicates the general policies of an organisation. It acts as guide to thinking and action of those involved indecision making. Policy manuals provide a broad outline within which actions are to be taken.

3. Operational Manual: Operational Manuals provide employees with information regarding procedures, standards and established methods of doing the various kinds of work. It clearly indicates the different steps to be taken while doing a particular job and supplements them with figures, charts, sketches etc.,

4. Departmental Practice Manual: Information and procedures relating to a particular department are provided in this Manual. It provides detailed information about internal policies and procedures of a single department. Inter-departmental relationships are also shown with the help of charts and figures.

5. Rules and Regulations Manual: it contains detailed and precise information about the operating rules and employment regulations of an organisation. It provides information about working hours, leave, recreation etc. It also explains the various employee benefit plans like group insurance, housing, medical benefits etc. In fact, it is a booklet of employment rules.

Advantages of Manuals

1. All important decisions relating to the internal organisation of an enterprise are provided in written form in the manual.
2. All rules and regulations as well as instructions are in the written form and hence they need not by explained time and again to the employees.
3. It ensures quick decisions, as policies and procedures are stated in clear and definite words.
4. A manual clearly indicates the line of authority and its limits, and thereby avoid jurisdictional conflict.
5. It enables new employees to know their responsibility and their relationship with others in the shortest possible time.

Disadvantages of Manuals

1. Preparation of manuals is a time consuming and costly process. Hence, small organisations cannot afford to have manuals.
2. Manuals leave little scope for individual initiative and discretion because it creates rigidity in an organisation by putting standard procedures and practice in writing.
3. Relationships which should not be exposed may be put on record through manuals.

Despite these limitations, manuals serve as an effective instrument for directing and controlling the activities of employees in an organisation. It is also an useful supplement to organisation charts.

Questions

1. Briefly explain the different principles of organisation.
2. Differentiate between formal and informal organisation.
3. Explain the different types of organisation.
4. What are the reasons for conflict between line and staff organisation? How will you resolve these conflicts?
5. Write a note an organisation charts.
6. What are the advantages and disadvantages or organisation manuals?

Lesson 3.2 Departmentation and Span of Management

Learning Objectives

After reading this lesson you should be able to

- Know the need and importance of Departmentaion
- Understand bases of Departmentation
- Understand the meaning of Span of Management
- Differentiate Narrow and Wide span

Departmentation

Departmentation or departmentalisation is an integral part of the organisation process. The most important task in developing and organisation structure is the identification and grouping of activities. Departmentation refers to the process of grouping the activities. It is a means of dividing the large and complex organisation into smaller and flexible administration units. The terms used to designate departments are a result of departmentation vary according to their nature and scope. In business units, terms such as branch, division, section are used, in the army these are referred to as group, regiment, battalion, company etc. whereas, in the government they are called as branch, department, section and bureau. Therefore, Departmentation refers to the process of grouping activities and employees of a business into work units (departments) so as to effectively accomplish organisation objectives.

Need and Importance of Departmentation

Departmentation is required in an organisation to provide for specialisation of work and to overcome the limitation on the number of persons that a supervisor can directly control. UT for departmentation, expansion of an organisation will not be possible.
Not only that, it also helps to bring about overall efficiency in the organisation. The following points highlight the need and importance of departmentation:

1. Advantage of specialisation: Departmentaiton helps on organisaiton to take advantage of specialisation which provides for efficiency in work. Departmentation enables division of work, which leads to more and better work with the same effort.

2. Expansion: Deapartmentation provides an opportunity for expansion. It overcomes the limitation on the size of the organisation. Grouping of personnel and activities into departments makes it possible to expand an organisation to any extent.

3. Fixation of responsibility: Departmentation divides the work into small units, where it clearly and precisely defines the work and fixes the responsibility relating to it. Thus, an individual knows what is expected of him and to whom he is responsible. Proper fixation of responsibility leads to commitment and involvement in the accomplishment of organisational objectives.

4. Management Development: Departmentation helps in the development of mangers. By grouping of activities into different departments, it provides them an opportunity to take initiative and since their attention is focused on specific activities, they are provided with effective on-the-job training. Moreover, as their field of operation is restricted it is easy to identify the areas where they require development.

5. Effective appraisal: Departmentation helps in effective performance appraisal, because it not only specifies the activities to be performed but also clearly lays down the standards of performance. Thereby, fixing of responsibility and evaluation of work can be very easily done.

6. Feeling of autonomy: Departmentation creates a feeling of autonomy and this motivates mangers to a very great extent. By dividing work into small units, the manager incharge of each unit is given adequate freedom to take independent decisions with regards to his unit. This feeling of autonomy motivates managers positively and acts as a source of better performance among managers and simultaneously leads to efficiency in operations.

Bases of Departmentation

Departmentation is a process by which activities of an enterprise are grouped into various divisions for the purpose of efficient management. There are several bases for departmentation which are as follows:

1. Departmentation by function
2. Departmentation by product
3. Departmentation by territory
4. Departmentation by process or equipment
5. Departmentation by customer
6. Departmentation by numbers and time

1. Departmentation by Function

It is one of the most widely used method of grouping the activities of an enterprise. Here departments are created on the basis of certain specified functions that are to be performed at various levels in the organisation. Normally the functions are divided into basic and secondary functions. A basic function is one which is essential for the survival of the organisation and it contributes to the organisational efficiency. For example, in a manufacturing organisation, production, finance, personnel and marketing are basic functions. A basic or major function may be divided into sub-functions in order to ensure proper control and to take advantage of specialisation. These sub-functions are called secondary function. For example, activities in the marketing department may be classified into marketing research, and planning, promotion, sales administration. Figure 13 clearly indicates departmentation by function.

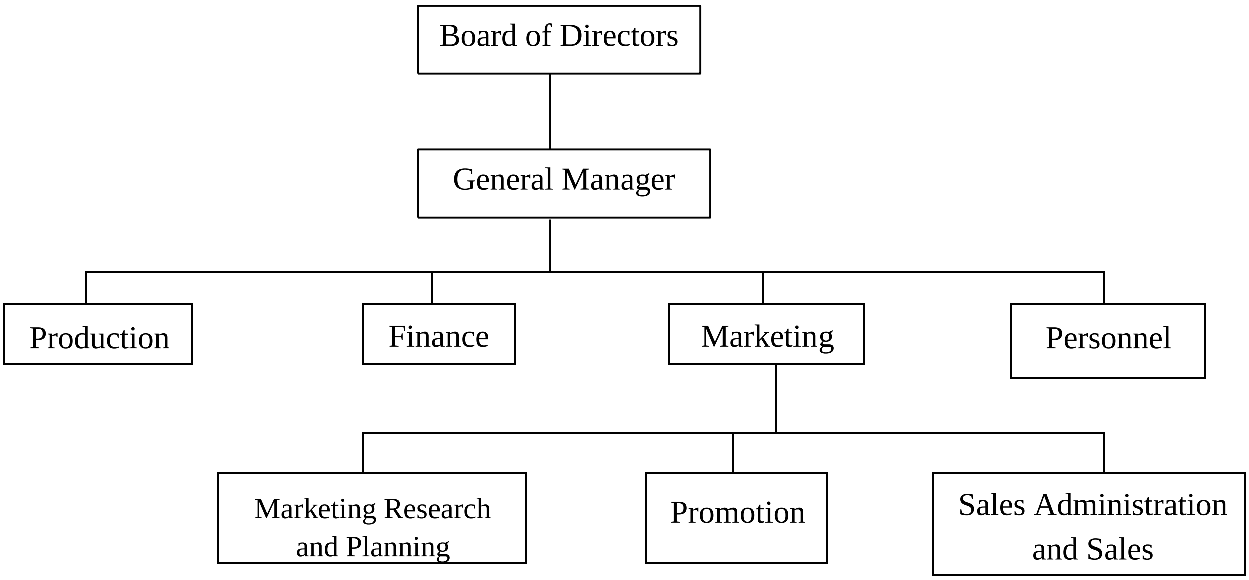


Figure 13: Departmentation by Function

Advantages

i. It is most logical form of departmentation which reflects on the functions of an organisation.
ii. It follows the principle of specialisation.
iii. It acts as a means of tight control at the top.
iv. It facilitates effective delegation of authority.
v. Duplication of effort is eliminated in functional departmentaion.

Disadvantages

i. Deparmental heads are overburdened with work and responsibilities.
ii. Coordination of activities among different departments may be difficult because of the empire-building tendency of functional heads which may lead to conflicts.
iii. Organisations operating over a large geographical area cannot adopt this type of departmentation.
iv. It narrows the viewpoints of key personnel by over-specialisation.

2. Departmentation by Product

Departmentation by product involves the grouping of activities necessary to manufacture a product. There is a separate department that looks into all the activities related to the manufacturing of a major product. An organisation adopts this method of departmentation when it grows in size because it becomes difficult to coordinate the activities of the expanding product line. This form of deprtmentation helps in product expansion and diversification and is generally used when the product is relatively complex and it requires huge capital investment for plant and other facilities. A typical departmentation by product is given in figure 14.

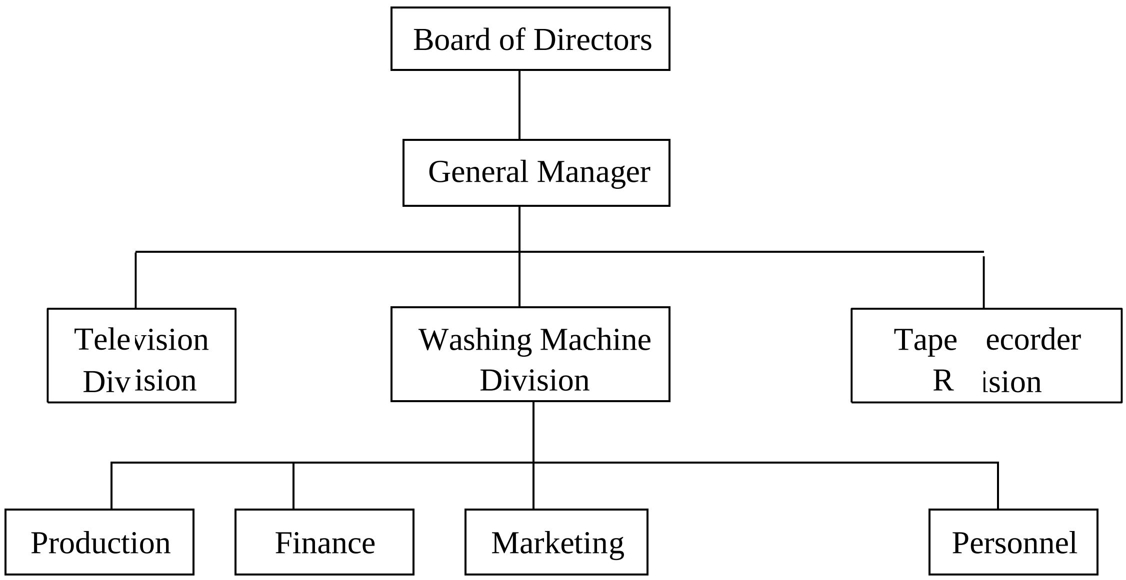


Figure 14: Departmentation by Product

Advantages

i. It places attention and efforts on each product line.

ii. It facilitates product expansion and diversification.

iii. It is more flexible and adaptable to change.

iv. It provides effective coordination because all functions concerning a particular product line are coordinated together.

v. Comparison and evaluation of performance of different product divisions can be easily done.

Disadvantages

i. It requires more persons with general managerial abilities.

ii. It leads to duplication of activities which increases cost.

iii. It makes control work difficult at top management.

iv. When the demand for a particular product is low, there may be underutilisation of plant capacity.

3. Departmentaion by Territory

Territorial or geographical departmentation is highly suitable to large sized organisations whose activities are physically or geographically spread over a large area, such as insurance, transportation, etc. Under this all activities in a given area or territory are grouped together into branches, divisions, zones etc. Business firms adopt this method when similar operations are undertaken in different geographic areas. A typical departmentation by territory is given in Figure 15.

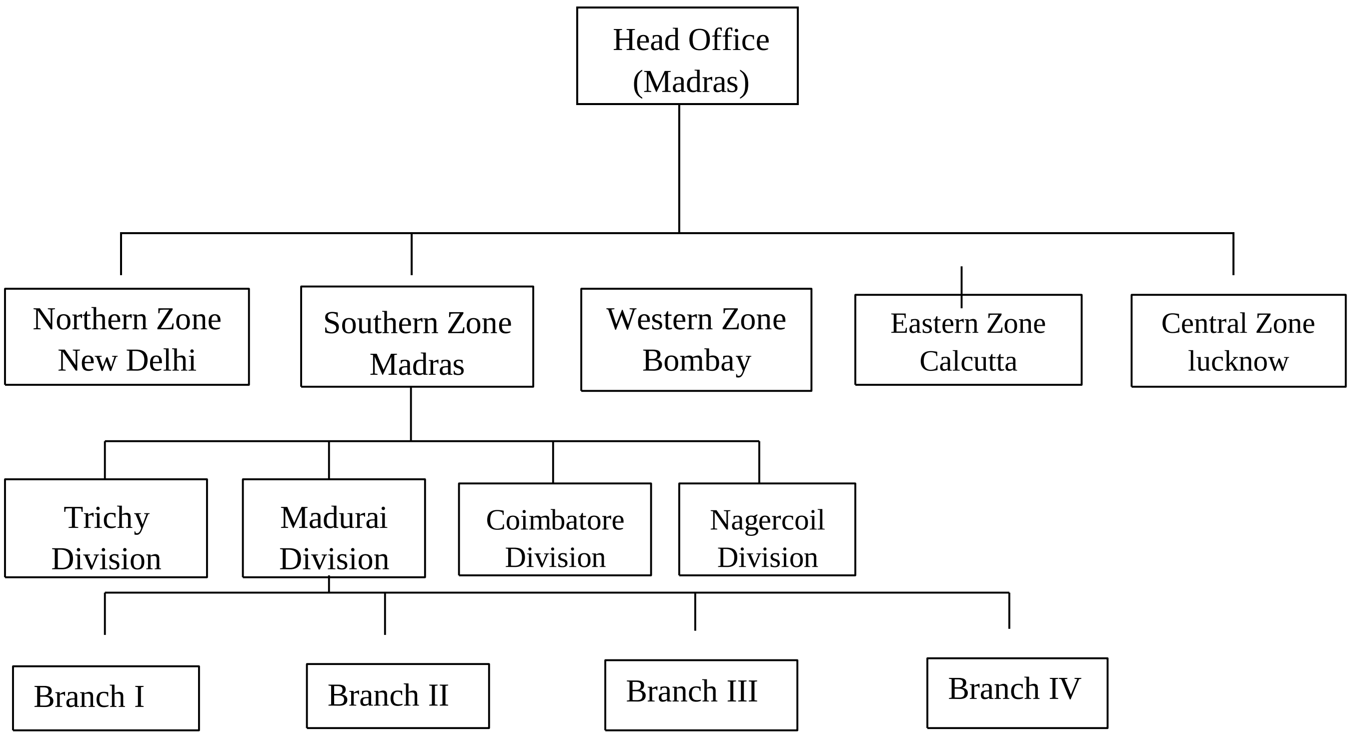


Figure 15: Departmentation by Territory

Advantages

i. It facilitates decentralisation of authority and places more responsibility at lower levels.

ii. It enables the organisation to obtain better knowledge of customers in the local market.

iii. It provides for better face-to-face communication with local interest.

iv. It facilitates the expansion of business operations to various regions.

v. It facilitates necessary training ground for general managers as they look after complete operations of unit.

Disadvantages

i. Top management control and coordination becomes very difficult due to geographical distance.

ii. It requires the employment of more persons with general managerial abilities.

iii. It results in duplication of activities which leads to high cost of operations.

4. Departmentaion by Process:

Under this method, grouping of activities is done on the basis of production processes or equipment used. In order to carry out a particular operation, materials and manpower are brought together in such a department. Such departmentation may be used in textile mills, oil industries, printing press etc. A type example of departmentation by process of a printing press is given in Figure 16.

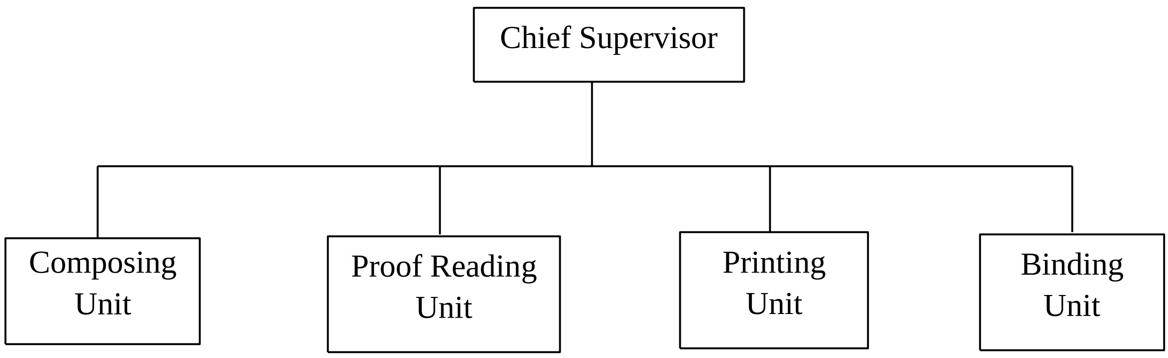


Figure 16: Departmentation by Process

Advantages

i. It facilitates proper and effective utilisation of specialised skill and equipment.

ii. Process departmentation helps to achieve economic advantages because it sets processes in such a way that a series of operations are made feasible.

Disadvantages

i. It leads to the problem of coordination because the work of each process is fully dependent on the previous process.

ii. It may lead to conflict among managers of different units.

5. Departmentation by Customer

Departmentation by customers takes into account the various needs of customers, where activities are grouped according to the various types of customers. Business organisations frequently arrange activities on this basis to cater to the requirements of clearly defined customer groups. This method is also followed by may educational institutions where they offer full-time courses, part-time courses and distant learning courses to meet the requirements of different type of students. In this method, each department specializes in serving a particular class of customers as shown in Figure 17.

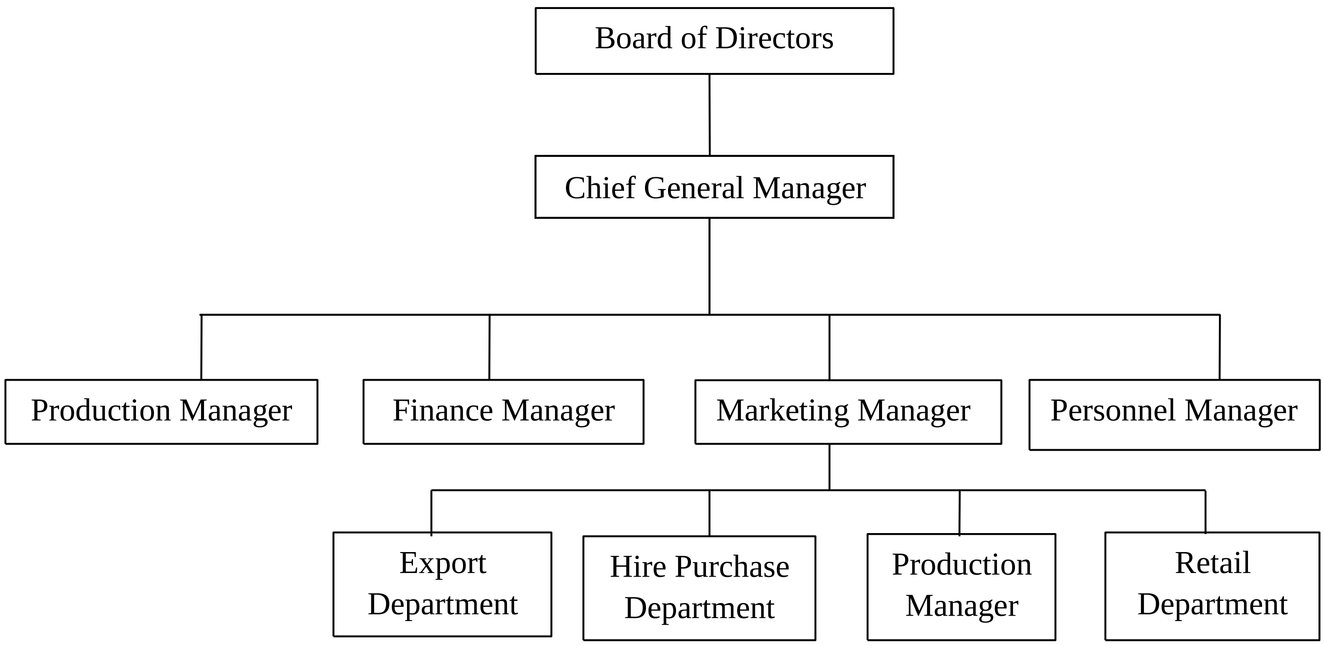


Figure 17: Departmentation by Customer

Advantages

i. In this type of departmentation the need of each class of customers is taken into consideration.

ii. It facilitates specialisation which enhances the goodwill of the enterprise among the public.

Disadvantages

i. Coordination becomes a problem in this type of departmentation because it is applied only to the sales function.

ii. At time duplication of activities is inevitable which might lead to increase in cost.

iii. During periods of recession there may be under-utlisaiton of facilities and manpower.

6. Departmentation by Number and Time

In departmentation by numbers, the activities are grouped on the basis of a certain number of people required to perform an activity. The success of such departments depends upon the manpower. This method is normally used at the lower-level. For example, in the army, troops are divided on the basis of numbers.

Departmentation by time is one of the oldest forms of departmentation which is used at lower levels. Here activities are grouped on the basis of time. The sue of shifts for a factory twenty-four hours is a good example of departmentation by time, where they may have three shifts (departments), morning, afternoon and night.

Choice of basis for Departmentation

Based on the different methods of departmentation, it is clear that each form of departmentation has its own nature and scope. Therefore, whatever be the form of departmentation, it should facilitate the performance of organisational functions effectively and efficiently to achieve the overall organisational objectives. It should provide for effective specialisation moreover in large organisations no single method of departmentation is applied, often a combination of various basis is adopted. Therefore, there are a number of factors affecting the choice of a particular form of departmentation, which are as follows:

1. Degree of specialisation: Specialisation helps to improve efficiency in an organisation. It directly contributes to proper accomplishment of organisational goals. Therefore, the basis of departmentation which provides for a higher degree of specialisation should be selected and top management should create departments on the basis of those methods which facilitate specialisation.

2. Control: The choice of a particular basis of departmentation should provide for effective measurement of performance and timely corrective action. Therefore activities whose immediate contributions are similar should be grouped together into departments so that top management can hold people accountable for results. Effective control helps to accomplish organisational goals effectively and efficiently.

3. Coordination: Coordination is the essence of management wherein all related activities are performed in a way that their performance is synchronised or integrated so that each activity contributes to others. Therefore, the basis of departmentation should ensure that closely related operations are brought together because the best result can be obtained only when all activities are performed in a coordinated manner.

4. Economy: Another important factor that involves the choice of a particular form of departmentation is cost consideration. The cost of creating a department and its contribution should be balanced. Therefore when a particular form of departmentation is selected, it should provide for maximum economy in the utilisation of personnel and physical facilities. Its contribution should be more that its cost.

5. Focus on Results: Departmentaion should ensure that all activities are grouped in such a way that they should directly focus on results of an organisation. The final results of an organisation are accomplished through the achievement of subordinate results. Thus, all activities that contributes to achievement of subordinate results. Thus, all activities that contribute to achievement of subordinate results should be given proper attention. This will ensure that all activities are performed properly without any duplication of activities.

6. Local Conditions: The requirements of local conditions should be taken into consideration while creating departments. This is important especially when an organisation operates in different areas, because the nature of work varies, when the location is different.

7. Human Consideration: The choice of a particular basis of departmentation should not only take into consideration the technical aspect alone, but should also take into consideration the human element will make departmentation more efficient and effective. The availability of personnel, their value and beliefs, the working of informal groups and their attitude should be considered while creating departments.

Span of Management

Span of management also known as span of control or span of supervision refers to the number of subordinates who can be effectively managed by a superior. However, the term span of management is more appropriate because supervision and control are elements of management. Span of management is an important principle of sound organisation. The number of subordinates who report to a superior has two important implications.

a) It helps to determine the complexity of a manager's job and

b) It determines the shape of the organisation.

When the numbers of subordinates are few, the number of managers required is more. Therefore, it is essential to determine the number of subordinates who can be placed below a superior and this should not exceed a certain limit. Different management experts have provided different approaches to determine the number of subordinates who can be effectively managed by superior. Classical writers on management have suggested three to eight subordinates as the optimum span. Lyndall F. Urwick, a prominent British consultant has suggested that a supervisor in general can effectively manage only five or six subordinates whose work is interlocked. Hamilton pointed out that at the level three subordinates is the right number and at the lower level six subordinates is the most appropriate one. He related span of management to the degree of responsibility. Smaller the degree of responsibility, greater will be the span of management.

Factors affecting Span of Management

The concept of span of management is to enable a superior to manage his subordinates effectively. Thus, the span of management will differ from one individual to another; time to time and place to place. There are a number of factors affecting span of management and a consideration of these factors will help management to fix a suitable span of management. The following are such factors:

1. Ability of the Superior: Every manager has his own skill and ability to instruct, guide and inspire his subordinates. This ability varies from one manager to another. The span may be wider, when a manager has more of these skills and abilities. Moreover, his personality and attitude also help in determining his span of management.

2. Capacity of the Subordinate: Another important factor affecting span of management is the capacity of the subordinate. If the subordinates are efficient and well trained, they would require less supervision. In such a situation, more number of subordinates can be placed under a superior making his span wide.

3. Nature of Work: Span of management is also affected by the nature of work. When the subordinates perform routine and similar functions, they require less supervision and the span of management can be wider. But, when the nature of work is complex and not identical the span has to be narrow. Thus, different types of work require different patterns of management which affects the span of management.

4. Time Available for Supervision: At the top level managers have less time for supervision and hence their span should be narrow because most of their time is used for planning and organising. At the lower level span can be wide.

5. Degree of Planning: When standing plains, like policies, rules and procedures are clearly defined, the span of management can be wide, because subordinates can very easily perform their work by directly applying the standing plans. This relieves mangers of their burden and helps them to supervise more subordinates. But, when plans are not properly laid down, span has to be narrow, because subordinates require more guidance and assistance from superiors.

6. Degree of Decentraliation: The degree of decentralization also affects span of management. Higher the degree of decentralization, higher is the degree of span. When a superior delegates proper authority to subordinates, they by themselves take decisions without disturbing the superior and he can effectively supervise more subordinates. But, when authority is not delegated, the span is narrow because more consultation and guidance is required and the manager has to take many decisions by himself.

7. Communication Techniques: The communication technique in an organisation also affects span of management. When there is direct and face-to-face communication, the span is small because this involves more time. But, if modern communication techniques are adopted, it will save time and span can be increased.

8. Staff Assistance: When staff assistants are used, it reduces the work-load of a manager and therefore, he can manage more number of subordinates effectively because most of the routine work of the manger is looked after by the staff personnel on behalf of the manager.

9. Control Mechanism: The control mechanism adopted by an organisaiton also helps to determine the span of management. Control may be either through reporting or through personal supervision. The former favours a wide span and the latter a narrow span.

Thus, while deciding the span of management, an organisation should take into consideration all these factors and then decide upon the most suitable span which will vary according to situations and circumstances. Therefore, it is not possible to determine span of management based on just numbers or a given set of rules.

Narrow and Wide Span

There is a controversy regarding whether an organisation should opt for a narrow or wide span of management. A narrow span is one in which few subordinates are supervised directly by a manager. Whereas, in a wide span more number of subordinates are managed by a superior, while the classical writes have suggested narrow span, modern management experts have suggested a wide span of management. Choice of a wide or narrow span has a significant effect on the shape and size of the organisation structure. If the span is narrow, there would be different levels of authority and the structure will be tall or vertical in nature. Whereas, when the span is wide, the number of levels is restricted and the structure is flat or wide in nature.

A tall organisation structure with several levels of authority and fewer numbers of subordinates helps in effective coordination and control. The scope for promotion is greater because of many positions. But, the cost involved is very high and communication is also not effective due to blocks. In a tall structure due to routine and specialised jobs the morale of the workers is low.

A flat structure is one which reduces the levels of management, and is decentralised, giving more opportunity to employees. The degree of job satisfaction is high. Communication is very effective and cost involved is not also high. Subordinates are positively motivated, as they are allowed to participate in decision making. Flat structure created problems of control and coordinates. They also do not adapt to change.

In modern day management, it is beneficial to adopt a wide span of management because of the following reasons:

i. Increasing size of organisation
ii. Tendency towards decentralisation
iii. Need for quick decisions
iv. Better and improved communication pattern.
v. More emphasis on democratic styles and the new pattern of leadership.

However, while selecting a narrow or wide span of management, it is also essential to take into consideration the different factors affecting span of management, besides its advantage and limitations. This will help and organisation to decide upon the optimum span in a given situation.

Questions

1. Explain the term "Departmentation" What is the need for it?
2. What are the different bases of departmentation?
3. What is span of management? What are the factors determining effective span?

UNIT IV

Unit structure

Lesson 4.1 Authority

Lesson 4.2 Delegation of authority

Lesson 4.1 Authority

Learning Objectives

After learning this unit you must be able to

- Understand the meaning and features of authority
- Distinguish power and authority
- Know the sources of authority
- Analyse responsibility

Introduction

Management is the art of getting things done through the efforts of others. From this it is clear that managers do not perform the actual jobs but they get it done through the efforts of others. Therefore, the organisation structure provides a manager with some right to get things done. This right that a manager gets through his position in the organisation structure is generally known as authority and this authority helps him to perform his task effectively and efficiently. Management requires a means by which it can affect the behaviour of employees such that they perform work in a desired direction. This is possible when mangers make use of this authority that is vested on them by virtue of their position in the organisation.

Meaning of Authority

The meaning of authority varies, because of the different sources through which one acquires authority in the organisation. It may arise because of the official position that a person enjoys in the organisation, or because of his personal competence, or by virtue of the nature of his subordinates. Generally, authority refers to positional authority.

According to Henri Fayol, "Authority is the right to give orders and the power to exact obedience".

According to Herbert A. Simon, "Authority may be defined as the power to make decisions which guide the action of another. It is a relationship between two individuals, line superior, and the other subordinate. The superior frames and transmits decisions with the expectation that these will be accepted by subordinates. The subordinates executes such decisions and his conduct is determined by them". Here it should be clearly noted that only power relationship existing between superior and subordinates is termed as authority and that all types of power may not be authority.

Features of Authority

The following are the features of authority:

1. Authority is legitimised by certain rules, laws, regulations and practices.
2. The extent and scope of authority of a position is limited. It is clearly defined in advance. No individual in an organisation enjoys unlimited authority.
3. It refers to the relationship between the superior and subordinate. The superior frames decisions and the subordinate executes them.
4. Authority used to influence the behaviour of the subordinates so that they perform work in a desired manner which helps to accomplish organisational objectives.
5. Authority confers the right of decision making on a superior, because he can give orders only when he decides what his subordinates should do.
6. Authority is influenced by personality factors of the manger and the group of subordinates with reference to whom it is to be exercised. Therefore, though it is objective in nature, its exercise is influenced by subjective factors.

Distinction between Power and Authority

Normally the two terms ‘power’ and ‘authority’ are used as synonyms because they both influence the behaviour of people on whom these are exercised. But there is a clear distinction between these two terms. Power is the capacity to command or the ability to exercise influence whereas, authority is the right to command. Power is exercised by a person, whereas authority is derived from one’s position in the organisational structure. The difference between authority and power are as follows:

1. Authority is legitimate, as it is based on certain rules and regulations whereas power has no such legitimisation.
2. Authority arises because of one’s position in the organisational structure, but power is based upon personal factors which vary from one individual to another.
3. Authority flows downwards in an organisation whereas poser flows in an directions.
4. As one goes up the organisational structure, his authority increases. But power need not accompany authority.
5. Authority relationship is clearly shown in the formal organisation through superior-subordinate relationships. Whereas, power relationship may exist between any two persons.

Source of Authority

Management experts have different views about the sources of authority. Opinions differ with regard to the flow of authority. Some suggest that authority flows from top to bottom, whereas others point out that authority originates at the bottom and flows upwards as a kind of consent of the subordinate. We can classify these views into three different theories, which help to explain the sources of authority.

1. Formal Authority Theory: According to this theory, authority originates at the top of an organisation and flows downward through the process of delegation. The ultimate source of authority in a company lies with the shareholders who are its owners. They in turn through delegation entrust their authority to the Board of Directors and this process is carried out through all levels in an organisation. That is why we call it as formal authority. A subordinate derives authority from his immediate a superior is restricted to the extent to which it has been delegated to him. Such authority is also called as traditional and legitimates authority which is legal and rational. This is also called as top-down authority theory.

2. Acceptance Theory: The acceptance authority theory is also called bottom-up authority theory and is quite contrary to the formal theory. According to this theory, authority ultimately depends upon the acceptance or consent of the subordinates. Formal authority has no meaning if it is not accepted by subordinates. The degree of effective authority possessed by a superior is measured by the willingness of subordinates to accept it. According to Chester I. Barnad, "an individual will accept the exercise of authority if the advantages accruing to him from accepting plus the disadvantages accruing to him from not accepting exceed the advantages accruing to him from not accepting plus the disadvantages accruing to him from accepting; and conversely, he will not accept the exercise of authority if the latter factors exceed the former". Thus, acceptance of an order will depend upon relative consequences, both positive and negative. Chester I. Barnard points out that a subordinate will accept an order if he understands it well, if he believes it to be consistent with the overall objectives and compatible with his personal interests and if he is able both physically and mentally to comply with it.

This theory has certain limitations. It states that a manager has authority if he gets obedience from the subordinates. But he will not be able to know whether his order will be obeyed, unless the order is carried out.

3. Competence Authority Theory: this theory is based on the fact, that a person derives authority because of his personal skill and competence. According to Lyndall F. Urwick, formal authority is conferred by the organisation, technical authority is implicit in a special knowledge or skill and personal authority is conferred by popularity or seniority. Therefore, a person might get his orders or advice accepted because of his personal qualities and not because he is having any formal authority. These qualities may be technical competence and social prestige in the organisation.

All these three theories have their own use and authority is generated from all these sources. The formal authority theory deals with the authority that mangers should possess, whereas, the acceptance theory and the competence theory are concerned with the role behaviour and the products of leadership.

Limits of Authority

The authority of any position in an organisation is not absolute. It is subject to various social, legal, economic and political factors. The authority of a manager is also restricted by various factors, which are as follows:

1. Physical Limitations: Managerial authority is restricted to a great extent by physical laws, climate, geographical factors, etc. Therefore, a manager cannot order workers to make gold from copper.

2. Biological Limitations: Any work that a manger cannot do, he cannot ask his subordinates to do. For example, a manager cannot ask his subordinate to type 200 words in a minute.

3. Social Constraints: Social constraints also impose a restriction on the exercise of authority by a manager. Thus, the work assigned to employees must conform to the group's fundamental social beliefs, habits and codes of ethics.

4. Economic Constraints: Economic conditions and other market forces restrict managerial authority. A Sales Executive cannot ask his salesmen to sell products at a higher price in a highly competitive market situation.

5. Legal Constraints: Various rules and regulations of the central and state government also impose restrictions on eh exercise of authority by a manager. For example, a managing director cannot ask the other managers of the organisation to refrain from paying taxes.

6. Organisational or Internal Constraints: The organisational objectives and policies laid down by the top management also restrict the authority of mangers. A manager cannot work against the internal policies and rules of the organisation.

Responsibility

Responsibility has not been defined precisely in management literature. Management experts have viewed the concept of responsibility in two different senses. According to some, authority refers to the duty or activity assigned to an individual in an organisation. Accordingly, Morris B. Hurley has defined responsibility as "the duty to which a person is bound by reason of his status or task. Such responsibility implies compliance with directives of the person making the initial delegation.

Whereas, others consider responsibility as the obligation of an individual to perform activities which are assigned to him. Accordingly, Keith Davis defines responsibility as "an obligation of the individual to perform assigned duties to the best of his ability under the direction of his executive leader". Even George R. Terry has defined responsibility in the same line. According to him, "responsibility is the obligation of an individual to carry out assigned activities or duties to the best of his ability". Therefore, responsibility does not only refer to duty that is assigned to an individual but also includes an obligation to perform it properly. A person having authority cannot by himself perform the entire work, he requires the assistance or help of others and delegates his authority to others, thereby making them responsible to him. Thus, responsibility is the obligation of a subordinate to perform his duty as required by his superior.

Features of Responsibility

The following are the features of responsibility:

1. It arises out of superior subordinate relationship in an organisation.
2. It always flows upwards because it is derived from authority.
3. It is the obligation of a subordinate to perform the assigned duty to the best of his ability.
4. Responsibility cannot be delegated, it is absolute.
5. There should be parity of authority and responsibility. Responsibility without authority has no meaning and vice versa.

Accountability

Accountability is the liability for the proper discharge of duties. Thus, accountability is the obligation to carry out responsibility and exercise authority in terms of performance standard established by the superior. Accountability is something more than duty or activity and comes into existence when a person accepts the obligation to perform the assigned task. Morris B. Hurley has defined accountability as, "liability for reckoning of the responsibilities received by delegation of authority". Therefore, when a subordinate is assigned a duty and given authority to complete it, he becomes answerable for the results. Subordinates are responsible for the completion of tasks assigned to them and are accountable to their superiors for the satisfactory performance of that work.

Thus, authority is the right to act; responsibility the obligation to carry out delegated authority; and accountability establishes reliability for the proper discharge of the duties delegated to the subordinates. In other words, accountability is the answerability for the performance of an assigned work.

Questions

1. Define authority. Explain the different sources of authority.
2. Differentiate between authority and power.
3. Distinguish between authority, responsibility and accountability.

Lesson 4.2 Delegation of Authority

Learning Objectives

After learning this lesson you must be able to

- Define the characteristics of Delegation
- Understand principles of Delegation
- Enumerate the process of Delegation
- Analyse the obstacles and guidelines to effective Delegation

Delegation of Authority

It is not possible for an individual to perform all the activities by himself. It is for this reason that the total work is divided in an organisation among different people. Each individual is given some authority in order to perform his task effectively. Since a manager cannot exercise his authority all by himself, he shares his authority with his subordinates. After assigning duty and granting authority to subordinates, a manager holds them accountable for proper discharge of duty. This part of the organising process is known as delegation of authority. It is essential for the existence of a formal organisation. Delegation refers to the conferring to accomplish particular assignments. Delegation helps a manager to extend his area of operation, for without it, his actions are confined to what he himself can perform.

Definition and Characteristics of Delegation

According to Louis A. Allen, "Delegation is the dynamic function of management; it is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively, and so that he can get others to help him with what remains". Thus, delegation is the ability of a manger to share his burden with others.

According to Koontz and O'Donnel, "The entire process of delegation involves the determination of results expected, the assignment of tasks, the delegation of authority for accomplishment of these tasks, and the exaction of responsibility for their accomplishment".

In simple terms, delegation refers to entrustment of authority to a subordinate. It provides the right to take decisions in certain areas and makes the subordinate responsible for effective accomplishment of the assigned tasks. The following are the characteristics of delegation:

1. Delegation occurs when a superior grants some discretion to his subordinate. The degree of delegation prescribes the limits within which a subordinate will have to decide things.
2. A manager delegate authority out of the authority granted to him. He cannot delegate authority which he himself does not possess. Moreover he does not delegate his entire authority because if he does so, he passes his position to the subordinate and he cannot work.
3. Authority delegated does not refer to reduction in the authority of a superior. He can always reduce, enhance or withdraw the delegated authority.
4. A manger delegates authority to subordinates for routine decisions and for execution of policies and he retains the authority to exercise control over the subordinate and to take policy decisions.
5. Authority is always delegated to the position created through the process of organisation. An individual can exercise authority so long as he holds the position.
6. Delegation may be specific or general, written or implied, formal or informal. It may also be downward, upward or sideward. Normally in an organisation, delegation is downwards.

Principles of Delegation

Delegation of authority to be effective must be governed by certain principles. Therefore while delegating authority; a manager should observe the following principles:

1. Delegation by Results Expected: This is one of the most important principles of delegation, where a manager should delegate his authority to his subordinates only after he has decided upon the results that are to be achieved by his subordinates. This means that delegation should be given only after the superior has determined his objectives, policies, plans, and also the specific tasks to be performed for the accomplishment of the objectives. This will help a subordinate to know how his performance is measured.

2. Functional Definition: Closely related to the previous principle is the principle of functional definition. According to this principle, a superior should clearly define the functions that are to be performed by his subordinates and should clearly state as to what is expected to whom. He superior will have to precisely define the objectives of the job, the activities involved in in and its relationship with other jobs.

3. Well Defined Limits of Authority: The limits of authority of each manager should be well defined, because if he does not know his own authority, he cannot delegate properly. This will avoid overlapping of authority and help a manger to perform his job properly.

The limits of authority and the area of operation of each manager can be clearly indicated in the organisation manual to avoid confusion.

4. Parity of Authority and Responsibility: There should be proper matching of authority and responsibility, hen only delegation will be effective. Authority without responsibility will make a subordinate irresponsible. Likewise, responsibility without authority will make a subordinate ineffective. Therefore there should always be a balance between the two and they should be co-extensive because they both relate to the same assignment.

5. Absoluteness of Responsibility: Responsibility cannot be delegated. It is always absolute, because it is an obligation to get the assigned work done. Managers cannot avoid responsibility by delegating their authority to subordinates. His ultimate responsibility for the performance of duties and exercise of delegated authority remains with the manger.

6. Unity of Command: Another important principle for effective delegation is unity of command, where every subordinate in the organisaiton should have only one superior. If a person gets instructions and orders from many superiors, there would be confusion and conflict. In order to overcome this, dual subordination should be avoided. Thus a subordinate should be assigned duties and delegated authority by only one superior and he should be held accountable only to the same superior.

Steps Involved in the Delegation Process

The following are the different steps involved in the process of delegation:

1. Determination of Results Expected: The first task of a manger is to determine the results that he expects from his subordinates according to the respective positions. Thus, it will help in effective accomplishment of organisational objectives.

2. Assignment of Duties: Once a manger determines the results expected of his subordinates, he assigns specific duties to each one of his subordinates and clearly defines the functions of his subordinates. He must ensure that the subordinates understand and accept their duties. Assignment of duties should be according to the qualification, aptitude and experience of the subordinates.

3. Granting of Authority: The third step involved in the delegation process is the granting of authority for performance of duty assigned. Here the scope of authority to be delegated to each subordinate is determined. By delegating authority subordinates are permitted to use resource, to take decisions and to exercise discretion. Here, the manager confers upon a subordinate the right to act in a specified way or to decide within limited boundaries.

4. Creation of Obligation: This is the last step involved in the delegation process, where a subordinate is held accountable for performance of duty and exercise of authority to his superior. The extent of accountability depends upon the extent of authority delegated to him. No individual can be held accountable for the acts not assigned to him by his superior.

Thus delegation involves assignment of duties and responsibilities, granting of authority, and creating of accountability for the performance of duties and responsibilities, and the exercise of authority.

Advantages of Delegation

The following advantages of delegation clearly highlight its importance:

i. It reduces the burden of the top executives in tackling routine problems and enables them to concentrate on more important policy matters.

ii. It ensures taking of quick decisions throughout the organisation within the limits provided by the top level executives.

iii. It helps in maintaining healthy relationships between superior and their subordinates by clearly defining their authority and responsibility.

iv. It enables the manger to benefit from the specialised knowledge and expertise of persons at lower levels and thereby improves work efficiency.

v. It helps in developing managerial personnel for its future.

vi. It helps to improve the morale and the level of job satisfaction of subordinates. It motivates them to contribute their best, for effective accomplishment of organisational objectives.

vii. It provides the basis for effective functioning of an organisation. It establishes relationships through the organisation and helps in achieving enterprise objectives.

Problems in Delegation / Blocks or Obstacles to Effective Delegation

Delegation is vital for effective functioning of an organisational because a manger cannot perform all the work by himself, he delegates part of it to his subordinates. In most cases, the concept of delegation is not applied properly because either mangers do not delegate or subordinates do not accept delegation, and in certain cases the organisation as such does not permit for effective delegation. There are a number of reasons that block effective delegation and these are broadly classified into categories:

1. On the part of the Superior
2. On the part of the Subordinate
3. On the part of the Organisation

1. On the part of the Superior: Superiors may not delegate their authority to subordinates because of the following reasons:

i. A superior will not delegate his authority if he is an autocrat because delegation will lead to reducing his influence in the organisation. He will frequently want subordinates to get their decisions approved by him.
ii. Some managers feel that they can only perform the job well, so they do not delegate their work to subordinates.
iii. For fear of exposure certain managers do not delegate their authority. They might be incompetent and their work method and procedures may be defective. They are afraid that if they allow subordinates to take decisions they might outshine them.
iv. When a manger lacks confidence in his subordinates that they will not perform the job properly, he will not delegate authority to them. The lack of ability of a manger to correctly plan and issue suitable directions in guiding the subordinates creates hurdles in effective delegation, though he is willing to delegate.
v. Effective delegation requires a manager to find means of assuring himself that the authority is being used to accomplish the given assignment. But a manager will hesitate to delegate authority if he does not set up adequate controls or is being properly used by subordinates.

2. On the part of the Subordinates: Subordinates may not like to accept delegation because of the following reasons:

i. When subordinates are overburdened with duties they may not like additional responsibility through delegation.
ii. When a subordinate lacks self-confidence, he may refuse to accept delegation.
iii. Subordinates do not accept delegation for fear of criticism. Sometimes, a subordinate may fear that even for minor mistakes in decision-making his superior may take him to task.
iv. When a subordinate is accustomed to decision-making by his superior, he may not like to decide for himself. They have a love for spoon-feeding.
v. When a subordinate is not provided with adequate authority, information and working facilities to perform his duties, he will not accept delegation.
vi. When proper incentives are not provided to subordinates, they will not come forwards to accept delegation.

3. On the part of the Organisation: Although personal factors affect the delegation of authority to a very great extent, there are also other organisational factors which affect it, but they are beyond the control of individual managers and they will have to work within the limits of these factors. Some of these organisational factors which affect delegation are:

i. Defective organisational structure and non-clarity of authority responsibility relationship.
ii. Insufficient and inadequate planning.
iii. Infringement of the principles of unity of command.
iv. Splintered authority.
v. Lack of effective control techniques.
vi. Non-availability of competent managerial personnel.

Guidelines to make Delegation more effective

We have discussed the general problems involved in delegation. An organisation should analyse these problems carefully in order to overcome it. Thus, to make delegation more effective the following guidelines should be given due consideration.

1. Establishment of Definite Goals: For meaningful delegation, the objectives of an organisation should be clearly defined, because delegation is a means for efficient accomplishment of organisational objectives. Normally, subordinates do not accept delegation when they are not clear of what is expected to them. When goals are clearly laid down a subordinate knows the work to be performed by him and the authority required to achieve the goal.

2. Clear Definition of Authority and Responsibility: The subordinate authority and responsibility should be defined in clear terms. Every subordinate should know the extent of his authority and to whom he is responsible. This helps to prevent duplication of authority, avoids gaps in responsibility and avoids confusion. The superior should know what authority is to be delegated and within what limits.

3. Effective Training: Effective training should be provided to the subordinates for proper use of delegated authority. This helps to develop their morale and self-confidence. The manager should carefully select the subordinate to whom he is going to delegate.

4. Proper Motivation: For effective delegation, positive incentives should be provided to subordinates for accepting responsibility. One of the important incentives for some subordinates is to allow them to function independently. Even managers who have delegated their authority should be properly rewarded and the feeling of insecurity should be removed by providing them proper status in the organisation.

5. Establishing Conducive Organisational Climate: An organisational environment fee from fear and frustration goes a long way in making delegation effective. In a conducive environment, managers feel confident that delegation of prober authority will be rewarded. Moreover, for delegation to be effective it should enjoy top management support.

6. Effective Communication: For delegation to be meaningful, te lines of communication should be open and free. This helps subordinates to seek proper guidance and clarification from the superior and enables them to discharge their duties effectively. Sound communication will also enable a superior to pass on information to the subordinates promptly.

7. Developing Appropriate Control Techniques: A superior always remains responsible for the tasks he has delegated to his subordinates; he must ensure proper performance of the task. Therefore, appropriate control and monitoring techniques be developed to follow through the performance of subordinates. The control system should not interfere with day-to-day functioning of subordinates and should only focus attention on major deviations from the plans. Brozad based control techniques and periodic reviewing in respect of the use of authority by the subordinates to perform their duties make delegation of authority more effective.

Questions

1. What is delegation? Discuss the basic principles of delegation of authority.
2. Explain the different steps involved in the delegation process.
3. What are the obstacles to successful delegation? What steps would you take to make delegation effective?

UNIT V

Unit structure

Lesson 5. Centralisation and Decentralisation

Lesson 5 Centralisation and Decentralisation

Learning Objectives

After learning this unit you must be able to

- Understand the meaning of centralization and decentralization
- Examine the factors determining the degree of decentralization
- Identify Delegation and Decentralisation
- Differentiate Centralisation and Decentralisation

Meaning of Centralisation

Centralisation of authority refers to the concentration of decision making power at the top hierarchy of management. Therefore, in centralisation all important decision is taken by top executives and operative decisions and actions at lower levels in the organisation and these are subject to close supervision of the top executives.

According to Louis A. Allen, "Centralisation is the systematic and consistent reservation of authority at central points within the organisation". Thus, centralisation denotes that most of the decisions are taken not at the point where work is being performed, but at higher levels in the organisation. Henry Fayol has rightly said "Everything which goes to reduce the importance of the subordinate's role in the organisation is called Centralisation". Centralisation denotes concentration of authority at top levels.

Importance and advantages of Centralisation

Centralisation is the systematic and consistent reservation of authority at central pints within the organisation. It represents certain attitudes and approaches which the management follows. Top management of an organisation may prefer to reserve maximum authority with itself because of certain benefits, which are as follows:

i. Centralisation facilitates greater uniformly of action throughout the organisation.

ii. Centralisation provides better opportunities for development of personal leadership because it provides more authority to executives at the top.

iii. Centralisation facilitates integration of efforts, which help in effective coordination. Centralisation of authority unites and integrates the total operations of the enterprise.

iv. Centralisation helps in quick decision making which in turn facilitates effective handling of emergency situations.

v. It helps in reducing wastage of efforts by avoiding duplication which results in enormous savings.

vi. It makes communication and control easier in the organisation.

vii. It permits flexibility and rapidity of adjustments to changing business conditions.

Disadvantages of Centralisation

The following are the disadvantages of centralisation of authority:

i. It increases the burden of top executives with routine functions and hampers their development.

ii. If affects the morale, initiative, interest and enthusiasm of the lower levels of management.

iii. It does not provide scope for a subordinate's participation or involvement in management decisions.

iv. In centralisation there is no scope for specialisation because an individual will have to look after many things at the same time.

v. The problem of effective communication is complicated as decisions are not taken by lower level mangers because certain decisions may adversely affect the subordinate's ability for prompt action.

Centralisation is suitable for smaller organisations, producing single or homogenous products and operating in limited geographical areas. But, when an organisation diversifies or increases in size, the advantages of centralisation turn into disadvantages and this affects its operational efficiency. Decision making thus becomes quite complex and quick decisions cannot be taken in a centralised set up. Therefore, its alternative, decentralisation is preferable.

Decentralisation

Decentralisation of authority is the opposite of centralisation. If centralisation is one extreme, decentralisation is the other. Decentralisation refers to the dispersal of decision making power to the lower levels of the organisation. According to Louis A. Allen, "Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercise at central point's". According to George R. Terry, "When authority is dispersed, decentralisation is present". Thus, decentralisation means reservation of some authority at the top level and delegation of the rest to lower levels. Decentralisation in a business organisation may take the form of

i) Departmentaion,

ii) Arrangement of activities in terms of places where these are performed, or

iii) Dispersal of decision making powers among executives at various levels.

In large organisaitons, it is not possible for all activities to be organised from the centre, hence, a certain amount of decentralisation becomes necessary.

Factors Determining the Degree of Decentralisation

In every organisation there is a lesser or greater degree of decentralisation and it does not just refer to physical dispersal of activities. Even a small organisation may have a greater degree of decentralisation. There are a number of factors affecting the degree of decentralisation, which are as follows:

i Size and Complexity of the Organisation: One important factor which affects the degree of decentralisation is the size of the organisation. The larger the size of the organisation, the more urgent is the need for decentralisation because in a large organisation many complex decisions are to be made at more places and different managers are to be consulted at various levels. Thus, for taking quick decisions and for reducing cost, authority should be delegated whenever feasible.

ii. History of the Organisation: The history of the organisation also determines the degree of decentralisation. Normally organisation which have grown internally are likely to retain their original structures to some extent, that is, they show a marked tendency to keep authority centralised whereas, those organisations which have diversified through amalgamation or absorption show a definite tendency to retain decentralised authority.

iii. Availability of Competent Mangers: Availability of competent managers directly affects the degree of decentralisation. If competent mangers are available, the scope for decentralisation is more, because exercise of authority requires competence on the part of those who exercise authority. Competent managers can handle the problem of decentralised units effectively.

iv. Top Management Outlook: the outlook of top management also determines the degree of decentralisation. In fact, decentralisation is considered as a management philosophy to regulate organisational process including decision making. When top management believes in individual freedom and initiative, there will be high degree of decentralisation. On the other hand, if top management is conservative and wants to maintain strict control it is likely to centralise authority

v. Control Techniques: Degree of decentralisation is also affected by the development and use of control techniques. Higher the degree of development and use of control techniques better is the scope for decentralisation. These control techniques help in ensuring whether performance is in accordance with plans already established. In the absence of these techniques the chances for decentralisation is very less.

vi. Planning Pattern: The pattern of planning is another important factor that affects the degree of decentralisation. In organisations where he standing plans have been properly laid down, the chance for decentralisation is high because mangers can take decisions within the limits of those plans without referring them to their superior. This is an effective system of planning helps in better decentralisation of authority.

vii. Rate of Change in the Organisation: Another important factor that affects the degree of decentralisation is the rate of change in the organisation. If a business organisation is fast developing and is facing the problem of expansion and diversification, then there is more scope for decentralisation. Here top executives in order to reduce their burden will opt for decentralisation. But organisations which are old and where there is no scope for expansion, the concept of centralisation will be applied.

viii. Environment Influence: Besides, the internal factors discussed so far there are external or environmental factors which determine the degree of decentralisation. One of the most important environmental forces is the government regulations over the private business. For example, government policies such as price control may sometimes make it impossible to decentralise authority and this affects the degree of decentralisation.

Importance and Advantage of Decentralisation

In large organisations, decentralisation has become the prevailing philosophy for organising activities. Most of the organisations today are changing towards decentralisation because of the many benefits it offers. The following advantages of decentralisation clearly point out its importance:

i. Decentralisation is a good philosophy to motivate mangers. It results in better job satisfaction and morale of lower level mangers by satisfying their need for participation and independence.

ii. Decentralisation reduces the burden of top executives and enables them to concentrate on more important issues. It helps them to pass on routine mattes to their subordinates.

iii. Decentralisation facilitates growth and diversification in the organisation and helps to meet the challenges and complexities of big enterprises.

iv. It promotes quick decision-making and avoids confusion.

v. It provides training for future managers, by providing them and opportunity for exercising their own judgement when they are subordinates. This helps them to develop managerial skills.

vi. Decentralisation facilitates effective communication, because in a decentralised set up span of management is wider, with few levels of organisation. Intimate relationships between superior and subordinates can be developed.

vii. Decentralisation ensures effective control and supervision because operations can be coordinated at the unit or divisional level. A manager at the lower level has complete authority to make changes in work assignment to change production schedules, to take disciplinary action and to recommend promotions.

Disadvantages of Decentralisation

The following are the disadvantages of Decentralisation.

i. It increases the administrative expenses because it requires the employment of trained personnel to accept authority. Each division in the organisation will have to be self-sufficient.

ii. Decentralisation mazy lead to inconsistencies, when uniform procedures are not adopted. In decentralisation there is a tendency for every executive to adopt his own procedures and practices.

iii. In a decentralised creates the problem of coordination among the various units and departments of business because of wide dispersal of authority.

iv. In adecentralised set-up, there is a need for good and able managers. Unless these managers are available, decentralisation may not be practiced effectively.

v. Decentralisation may not be possible because of external constructions like market uncertainties, government intervention etc.

Decentralisation is suitable for large organisations operating in different geographical areas or dealing with multiple products. Further, decentralisation is the best philosophy to achieve positive results in a rapidly growing organisation which works in a dynamic environment.

Delegation and Decentralisation

Delegation and decentralisation are two different concepts in the organising process. Though these two terms are closely related, there is a lot of difference between the two. Decentralisation is more than delegation and it is a more comprehensive term when compared to delegation. Decentralisation is the result of delegation and it is a management philosophy whereby the centers of decision making are dispersed at various levels in the organisation, whereas, delegation refers to the transfer of authority from one individual to another. It is an act or process which is compulsory, if an executive wants to get the help of others in getting things done. For example, if the Managing Director of a company authorises the chief marketing manager to make appointments to all those positions in his department where the salary does not exceed Rs.3,500, it refers to delegation of authority. But, if the same authority is given to all departmental heads (Production, Finance and Personnel), it would be decentralisation of authority. The main points of distinction between delegation and decentralisation are shown in the following table:

Delegation		**Decentralisation**	
i.	Delegation is a technique of management, where authority and responsibility are entrusted from one person to another.	i.	Decentralisation is a philosophy of management, which refers to the systematic delegation of authority throughout the organisation. It is the end result of delegation.
ii.	Delegation refers to the relationship between a superior and his immediate subordinate.	ii.	Decentralisation refers to the relationship between the top management and various departments as divisions. It is an effort towards creation of semi-autonomous units.
iii.	The power to control the performance of subordinates is exercised by the superior who delegates authority.	iii.	Control is exercised in a general manner. The power to control may also be delegated to the departmental heads.
iv.	Delegation is essential and vital to management process. Without delegating authority, a manager cannot get things done through others.	iv	Decentralisation is optional, as top management may or may not favour a general dispersal of authority.

Centralization versus Decentralisation

Another important problem in organising is the extent to which authority is centralised in a formal organisation. As already discussed, centralisation is the systematic and consistent reservation of authority at central points within an organisation. Whereas, decentralization refers to the systematic delegation of authority in an organisation is to the lowest level. Complete decentralisation or complete centralization cannot be practiced for neither is a feasible or practical proposition for creating an effective organisation structure. Whether to centralise or decentralize depends upon the requirements and circumstances of a particular organisation. In a large sized organisation, complete centralization is not possible not be possible for them to manage the organisation properly. Further, it would involve considerable cost and cause delays in decision making and work performance. Complete decentralisation is also not possible, because, if the entire decision making authority is delegated to lower levels of management, then the top level executives will have much less authority than required. This may create a lot confusion in the organisation to maintain a balance between the two. Management must determine the extent to which it should centralize or decentralize the decision making authority and should decide an appropriate mix for achieving the organisation objectives. Thus, the concepts of centralisation and decentralisation are two extreme points in the matter of distribution of authority in the organisation structure, and in between these two extreme points, there may be continuum of authority distribution.

Questions

1. Discuss the need for centralisation in a business organisation.
2. What are the advantages and disadvantages of centralisation and decentralisation?
3. Outline the factors that determine the degree of decentralisation of authority.
4. Distinguish between delegation and decentralisation.

UNIT VI

CO-ORDINATION

Unit structure

Lesson 6: Co-Ordination

Lesson 6: Co-ordination

Learning Objectives

After learning this lesson you must be able to

- Define Co-ordination
- Differentiate Co-ordination and Co-operation Meaning
- Examine the principles of Co-ordination
- Discuss advantages and techniques of Co-ordination

Introduction

Management is the rt of getting things done through the efforts of other people in order to accomplish the objectives of an enterprise. Co-ordination as the essence of management function, achieves the objectives of an enterprise by directing and unifying group efforts. In every field of human activity, planned co-ordination plays a very important role. For example, an orchestra conductor, who has to achieve harmony in music, must necessarily co-ordinate the activities of his group members. Likewise, the co-coordinator of an enterprise must also direct and co-ordinate the activities of various personnel so as to bring unified actions to achieve the common goals. Co-ordination is, thus, an integral element in the task of managing and must be effected through the various functions of management.

Meaning

Co-ordination refers to balancing, timing and integrating activities in an organisation. Business involves multiple operations, manifold policies, varied skills, administrative processes and actions, wherein different managers display their talents in different roles. All these business activities, carried on by different departments should contribute to the achievement of the common objectives of an enterprise. In order to harmonise the activities of the firm, it is quite indispensable to see that everybody in the business understands the main objective of the business and works towards their achievement in active co-operation with others. This can be achieved through co-ordination, which means integrating all activities in an enterprise. The manager must, therefore, prove to be an effective leader and develop an orderly pattern of group effort among his subordinates to achieve the objectives. Hence, co-ordination is the managerial function of correlating and integrating the diverse goals, activities and approaches be bring about commonality of goals and unity of efforts.

Definition of Co-Ordination

The purpose of co-ordination is to bring about unity of efforts and harmonious implementation of plans for the pursuit of organisational goals. This central theme of co-ordination has been the main drive of various definitions which are as follows:

1. James D. Mooney and A .C. Railey define co-ordination as. "The orderly arrangement of group effort to provide unity of action in pursuit of a common purpose".
2. In the words of Terry, "Co-ordination deals with the task of blending efforts in order to ensure a successful attainment of an objective".
3. Dzalton E. McFarland states, "Co-ordination is 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 purpose".

Characteristics of Co-Ordination

It is easier to understand the features of co-ordination by analysing its definition.

1. Co-ordination Secures Unity of Action: Co-ordination can be secured in an enterprise by unity of action which forms the heart of co-ordination process. To units all activities of business and to provide unity of action in pursuit of a common purpose, effective leadership is an indispensable function, because the concept of co-ordination is very closely related to the concept of leadership.

2. Co-ordination Controls Conflict: In an enterprise, as people with different backgrounds, points of view, values, needs, and personalities interact, a variety of conflicts often develop. The result is that conflict becomes an inevitable part of organisational life. Interpersonal conflicts are serious problems to many people because they deeply affect a person's emotions. Similarly, intergroup conflicts between different departments also cause problems. Each group set out to undermine their other, gain may want new and more efficient machinery, while the sales department wants to expand its sales force, but there are only enough resources to supply the needs of one group. Hence, to control conflict, and to pull together all the diverse elements into a functioning system, organisation must focus attention on co-ordination as a continuous and never ending process in the field of management to bring about balance, stability and harmony.

3. Co-ordination Identifies Individual Effort Towards Group Effort: Managers have to exercise their authority to co-ordinate group effort. Though co-ordination applies to group effort and not to individual effort, it involves a sense of identification of individual effort towards group efforts because co-ordination includes co-operation plus something i.e., synchronised efforts.

Co-Ordination vs. Co-Operation

Co-ordination is an orderly arrangement of group efforts to provide unity of action in the pursuit of common objectives. Co-operation denotes the collective efforts by the persons working in the enterprise, voluntarily for accomplishing a particular purpose. Though these two terms differ in certain respects, co-operation of the group members is essential to achieve effective co-ordination because both are inter-related and essential accomplishments in sound management. For example, an orchestra conductor must co-ordinate the activities of his group members to achieve harmony in music. This is possible only when the individuals in the group have a strong desire to co-operate with one another. Moreover, the managers of the enterprise must play an important role as coordinators and must try to achieve both co-ordination and co-operation simultaneously. Thus, without co-operation there cannot be any co-ordination.

The following are the distinction and interrelation between co-operation and co-ordination.

1. Co-operation is the collective action of one person with another or others contributed voluntarily to accomplish a particular objective. Co-ordination deals with the task of blending group efforts to provide unity of action in the pursuit of common objectives. Thus, co-ordination is a deliberate effort by a manager and co-operation is a voluntary attitude of organisational members.
2. Co-ordination is absolutely necessary where a group of people work together for a common objective. On the other hand, co-operation is voluntary in nature and is the willingness of the individuals to help each other.
3. Co-operation arises out of informal relations whereas co-ordination can be achieved through both formal and informal relations of the organisation.
4. Co-operation and Co-ordination go hand in hand and both are interrelated. Co-operation is the pillar on which the edifice of co-ordination is built.
5. Co-operation identifies individual efforts and brings about co-ordination off all activities in an enterprise.
6. Co-operation without co-ordination has no fruit and co-ordination without co-operation has no root. This should be kept in mind by every successful manager

and he should try to achieve both simultaneously because co-operation is a valuable element in co-ordination.

Co-Ordination as the essence of management

Co-ordination is the managerial function of correlating and integrating the activities of an enterprise and involves unification of group effort in a systematic manner. Henry Fayol and others emphasised co-ordination as a separate function of management but it is now regarded as the substance of the management action. Every managerial function is an exercise in co-ordination because co-ordination is not something which can be ordered by a manager, but it is something which the manager attempts to achieve while performing his functions of planning, organising, staffing, directing and controlling. Co-ordination is the essence of managership because management achieves co-ordination through the following management functions:

1. Planning: Planning is deciding in advance what is to be done how it is to be done, why it is to be done, where it is to be done and who will be responsible for doing it. It also provides the basis for mobilising resources and converting them into products and services. It involves formulation of policies, programmes, procedures, rules, strategies, budgets. Etc. To integrate all these business activities and various plans of the departments, planning stage is the ideal time to bring about co-ordination through mutual co-operation, discussion, exchange of ideas, etc.

2. Organising: Money considers co-ordination as an essential part of organisation. Organising is concerned with structuring the enterprise activities in a systematic manner. As a structure, organisation refers to the structure of relationships among positions and jobs, which is built for the realisation of business objectives. Such a structure must define the relationship and co-ordination among various positions, jobs and departments. In order to obtain adequate co-ordination while organising, the manager must assign the various activities to subordinates and must clearly delegate authority and responsibility.

3. Staffing: Staffing involves identifying, assessing, placing, evaluating and developing individuals at work. The objective of staffing is to obtain the best available people for the organisation. The determination of manpower requirements, training and development and appraisal of managerial personnel are in integral part of staffing. All these sub-functions are performed and possible with effective co-ordination in an enterprise by hiring right people, in the right place and at the right time.

4. Directing: Directing is the managerial function of guiding and leading people by issuing orders and instructions by a superior to his subordinates. Direction is the complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently. Besides co-ordination, directing includes the functions of communication, leadership, supervision and motivation. Thus in order to achieve the necessary co-ordination in an enterprise, subordinates must be oriented by way of free and open discussion and group decision-making techniques, which lead them to better work performance and motivate them to work with zeal and enthusiasm.

5. Controlling: The very nature of controlling function brings about co-ordination. Each of the managerial functions including control is an exercise in co-ordination. Control regulates the direction of the enterprise in accordance with predetermined goals by comparing the actual results with expected results as set by the planning process. The basic purpose of control will be lost if control does not aim at achieving co-ordination. Both control and co-ordination are rational concepts and twins of management because they seek to relate organisational means with organisational ends or goals. There are many other devices such as personal contact, written communication, reports, and mechanical devices to achieve proper co-ordination in an enterprise. Thus, with the above points in view, co-ordination is considered as the essence of management that as a separate function of management.

Classification of Co-Ordination

Co-ordination is the combination of all efforts, activities and forces that operate and interact within and without the enterprise. No business is run without scope. Besides making profits, a business has several objectives to accomplish. On the basis of scope, co-ordination can be internal or external.

Internal and External Co-ordinates

Internal Co-ordination: Internal co-ordination exists inside the enterprise between the different units of an organisation. Co-ordination is necessary among individuals of a group, among groups of a department, among departments of the enterprise, among branch offices, plants, sections and other parts of an enterprise because different departments are assigned with different managerial functions such as planning, organising, staffing, directing and controlling.

To attain internal co-ordination, every function of management must in itself be coordinated and the plans of all the departments must be integrated within an enterprise. Similarly, organising of people would prove to be dissatisfactory and poor, involving inadequate co-ordination and resulting in inter-personal conflict. Procurement of personnel is mainly concerned with the hiring of right people, in the right place at the right time. The determination of manpower requirements and their recruitment, selection and placement would be successful if there is adequate co-ordination within an enterprise. Directing of people and activities involves co-ordination to effectuate the plan and attain the objectives. Co-ordination can also be ensured through proper motivation of the workers towards organised efforts in terms of organisational objectives and personal objectives. Finally, the control function which regulates the direction of the enterprise, involves measuring performance, correcting negative deviations and assuring the accomplishment of plans. It also indicates where further co-ordination is required to correct the plans and make suitable changes in the process and structure of organisation. As stated above, the management functions of planning, organising, staffing, directing and controlling serve as important devices and approach towards the achievement of internal co-ordination.

External Co-ordination: An enterprise, as a social institution, should aim at meeting the needs of the community. To accomplish the social objectives of an enterprise, adequate and effective co-ordination is indispensable outside the organisaiton because the external forces affect the working and existence of the enterprise. These forces must be recognised at the right time and must be prevented to create a conducive atmosphere for the smooth running of the enterprise. The following are some of the external forces that affect an enterprise by social influence, and the dynamic political and economic environment in which the enterprise as to work.

(a) **Customers, employees and owners:** The social objectives of business include supply of goods at reasonable price, fair deal to customers, fair returns to investors and fair deal to customers, fair returns to investors and fair dealing with suppliers of materials. The demands of the customers and employees have to be satisfied by manages of any enterprise. Employees demand fair wages, conducive working conditions, job security, recognition, satisfaction from the work as well as protection against risk of accident. If these claims are not viewed in time by the managers, disintegration will be the result leading to adverse functioning of an enterprise.

(b) **Supplier of materials and other enterprises affect the customer buyer relationship:** Business involves purchase of materials from one enterprise and transfer sale or exchange of goods and services to satisfy the needs of other enterprises. In this regard many enterprises come into contact with each other by their customer buyer relationship. Non-availability of materials may lead to forced stoppage of production on the part of manufacturing enterprises, in turn affecting the activities of the dependent enterprises, particularly those in the same line of business. In this juncture, the manger has to carefully study the demand and supply of materials, the extent and intensity of competition and take necessary steps to maintain the relationship with other enterprises. These external constraints have a serious repercussion on any business if not timely checked.

(c) **Government Policies:** On one side Government regulations help the businessman with necessary incentives and regulatory measures and on the other hand they also restrict the business scope. Managers must eliminate the Government regulations which restrict the business scope. This can be done only by the managers who have profound knowledge of various laws relating to subsides, tariffs, import-export policy, the fiscal and monetary policy of the Government, the monopoly and restrictive trade practices, the labour laws, the minimum wages regulations, tax laws, etc. A business cannot proper either by evading the regulatory laws or by entering into legal battles with the Government. Hence, it is the duty of the managers to foresee the trend of the regulatory statutes related to the field of activities of the business and take advance steps to adjust their business accordingly.

(d) **Economic system:** Business is an organised economic activity aiming at the production and sale of goods and services needed by the individuals in a society. Manages must study the business system with reference to the economic system in which it has to function. The basic questions that have to be answered by any economic system are:

1. What commodities shall be produced and in what quantities?
2. By whom, and with what resources and by what technology are these to be produced?
3. Whose needs are to be catered to by the production and distribution of goods and services?

These questions are answered differently by various economic systems which fall under four categories – capitalism, socialism, communism and mixed economy. Hence, manages must study these systems and analyse their impact on the enterprise.

(e) **Science and Technology:** Science and technology as the fifth factor of production of the modern times offers innumerable opportunities to enter business. Business is an order of growth, expansion and change in the economy. This dynamic function is performed by a business enterprise through technological advances which contribute significantly towards the reduction of cost and the improvement of productivity. Therefore, through technological co-ordination and the use of automation and computer a business enterprise can increase its competitive strength and improve its image in the minds of the customers.

Vertical and Horizontal Co-ordination

On the basis of flow, co-ordination can be classified into vertical and horizontal. In other words, co-ordination may take place from the top down, bottom up, or sideways.

Vertical Co-ordination: Vertical co-ordination means co-ordination between different levels of organisation. The vertical structure of an organisation states that the lines of authority pass from top to bottom. The activities of managers, deputy manager, superintendent, and others below are knit together through vertical co-ordination. Moreover, to achieve organisational goals, work activities must be divided and departmentalised, which is necessary for managers to co-ordinate the activities of an enterprise. Hence, in case of vertical structure it is imperative on the part of management to ensure adequate co-ordination through proper delegation of authority with the help of directing and controlling so that the orders from one may not conflict with the orders from another.

Horizontal or Lateral Co-ordination: Horizontal co-ordination indicates the relationship between peers, colleagues, fellow workers, different departments like production, sales, finance, personnel and other units at the same level of management hierarchy. In horizontal organisation authority structure, individuals are located on the same level and normally they have no authority and more or less equal in social status. Such structure helps to clarify authority relationships to understand communication patterns, and is more conducive to adequate co-ordination in an enterprise.

Principles of Co-Ordination

Mary Parker Follett has formulated the following set of principles for effective co-ordination:

1. Early Beginning: The first principle is that co-ordination must be attempted and arranged in the early stage of the management process and policy making. It may be impossible to secure co-ordination in an enterprise if co-ordination is not started or attended to at the planning stage. For example, if the manger of one department confronts the policy decision made by the manager of the other department, co-ordination naturally becomes very difficult. Management, thus has to arrange for early co-ordination which improves the quality of plans and influences timely decisions on matters of policy.

2. Direct Personal Contact: The second principle emphasises the significance of direct personal contact in removing misunderstanding and conflict between departments or between personnel or executives. Direct personal contact involves direct face to face communication personal discussion, settlement of differences, exchanges of ideas between the personnel. Co-ordination can also be achieved through interpersonal, vertical and horizontal relationships of people in an enterprise.

3. Reciprocal Relationship of Factors: The third principle states that all factors in a situation are reciprocally interrelated and interdependent. No department can work in isolation from the other departments. That is, when purchase department works with sales department, which in turn works with finance department and personnel department, each of the four departments finds itself influenced by the other department in the total situation. Similarly, in a group every person influences all others and is in turn influenced by others. When reciprocal relationship of factors proves to be appreciable, adequate co-ordination can be secured in an enterprise.

4. Continuous Process: The fourth principle states that co-ordination is a continuous process and must go on all the time. In contrast to the principle of continuity, difference of opinions and information gap may appear and misunderstanding in inter-departmental operations may crop up. By keeping the process of co-ordination as an on-going or never ending process with a continuous flow of information sound co-ordination can be ensured in an enterprise.

Advantages of Co-Ordination

1. Co-ordination Acts as a Guide or Key to All Management Functions: Co-ordination acts as a key to all functions of management, namely, planning, organising, staffing, directing and controlling. Planning is an exercise in co-ordination and a good plan requires perfect harmonisation between means and ends. This can be achieved if co-ordination is arranged in the early stages of planning and policy-making. Organising is concerned with structuring the enterprise activities in a systematic manner. It creates a framework of authority and responsibility within which the functions of management will be discharged. To achieve a common purpose, organisation calls for the co-ordination of work of individual with that of the department. Staffing is mainly concerned with the recruitment, placement, promotions and transfers of right people, in the right place at the right time to determine the manpower requirement in different departments and to assure the proper performance of their functions, with co-ordination. Directing is concerned with making the human efforts cannot be achieved if direction fails due to lack of co-ordination. Finally, controlling means regulating the activities of personnel or department in accordance with the planning and policy. It ensures the realisation of planned objectives through the process of work evaluation. Co-ordination has, thus, a direct relationship with controlling because the very nature of controlling process brings about effective co-ordination in an enterprise.

2. Co-ordination Improves Human Relations: In modern times, it is a recognised fact that the workers should be given proper treatment at work to avoid troubles and to advance the enterprise. Such treatment should be based on mutual co-operation in the solution of common problems. This is largely based on management's ability to integrate the interests and needs of its employees with effective co-ordination.

3. Co-ordination Achieves Unity of Individuals: The purpose of management is to achieve harmony of individual effort towards the accomplishment of group goals. Each person in an enterprise has his or her own individual role to perform and gives prior attention to achieve his or her individual goal. Situation may arise where the goals pursued by the organisation may not be similar to the one pursued by an individual within the organisation. This may result in the variation of total objectives of the organisation and conflicts between the individuals. To avoid such a conflicting situation, co-ordination is an advantageous function which unites the activities of the individuals and has a common purpose of getting organisational objectives accomplished.

4. Co-ordination Creates Favourable Working Environment: Co-ordination creates a pleasing surrounding and a favourable work atmosphere, and arranges for better job facilities in an organisation. This further improves working capacity, develops enthusiasm, and a sense of loyalty towards the organisation.

5. Co-ordination Achieves High Employee Morale and Job Satisfaction: Morale is the co-operative attitude or mental health of a number of people who are related to each other. It is an overall climate prevailing among members of a group. Good morale is thus, evidenced by coordinated efforts of group members through employee enthusiasm, job satisfaction and a willingness to co-operate with others in the accomplishment of an organisation's objectives.

6. Co-ordination Brings Efficiency and Economy: Through effective co-ordination, duplication of efforts can be avoided and it is possible to bring about economy in labour, time and equipment. There will be fewer delays in performing an operation, which will ensure efficiency when the activities are properly integrated. An enterprise with effective co-ordination also recognises the worth of quality control, reduction in cost, full attendance at work, exemplary safety record maintenance of discipline and co-operation with the management in difficult times.

Techniques of Co-Ordination

The primary objective of all the management functions of planning, organising, staffing, directing and controlling is to get things done by coordinated efforts of others. Every managerial function is an exercise in co-ordination and hence management must remove the obstacles that deter co-ordination by adopting the following specific techniques.

1. Chain of Command: This technique stresses that the hierarchy or chain of command is the most obvious method and is the traditional means of co-ordination. Management has to exercise authority to regulate the performance of different departments because clear cut authority relationships help in reducing conflicts among different departments. This technique also emphasises that an employee should receive orders from one superior only because dual command is a continuous source of conflict. Co-ordination cannot be secured when two superiors give their orders to the same person or department. Thus, in order to bring an orderly synchronisation of actions in an enterprise, manager must achieve co-ordination through chain of command because all subordinates under him are responsible to him.

2. Leadership: Through effective leadership, co-ordination becomes possible because leadership provides individual motivation and persuades the group to have an identity of interests and outlook in group efforts. To achieve the common objectives of an enterprise, the manager is a good leader and must guide and co-ordinate the activities of his subordinates.

3. Committees: this technique of achieving co-ordination is used in most organisation by forming a committee, which helps to promote unity of purpose and uniformity of action different departments. A committee is a group of persons and the decisions of the committee are group decisions which provide co-ordination among various activities and persons through information, advice, interchange of ideas, etc. While forming the committees, utmost car must be taken by the management, otherwise, the decisions taken by the group may not be effective to achieve co-ordination in an enterprise.

4. Communication: Effective communication conveys ideas, opinions, or decisions of managers to subordinate at different levels of the organisation and carriers back information, suggestions and responses from subordinates. It regulates the flow of work, co-ordinates the efforts of the subordinates of an enterprise. To be effective, communication must be as direct as possible so as to minimize the chances of misinterpretation. To ensure proper co-ordination, various kinds of communication channels may be used, such as verbal relay of information, written reports, memos or other forms of documents, mechanical devices such as teletypes, intercommunication system etc.

5. Voluntary Co-ordination: Self co-ordination or voluntary co-ordination is possible in a climate of mutual co-operation, when two or more persons, working within the same of different departments, mutually discuss their problems and arrive at a coordinated action. This can be easily achieved in any organisation, when the supervisor gives his consent without any hesitation for such a mutual consultation among subordinates.

6. Sound Planning and Clear-out Objectives: The objectives of the organisation and policies must be clearly defined by the management. A well-conceived plan must clearly define the goals of the organisation so that inter-departmental objectives can be accomplished. Thus to ensure co-ordination, clear formulation of policies in the field of production, sales, finance, personnel, etc., must be correlated.

7. Incentives: Incentives have a tendency to incite action and bring about co-ordination. In order to infuse enthusiasm in a worker for greater and better work, incentives have a distinct and significant role. Financial incentives include wage, bonus, salary, etc. and non-financial incentives which include job security, recognition, promotion, etc., may be used to create mutuality of interest, to achieve co-ordination and to reduce conflicts.

8. Liaison Officers: Liaison officers can be employed when personal contact of the managers of different branches in an enterprise is not possible. These liaison officers unite the different departments and collect necessary information to co-ordinate the activities of various functions in an enterprise.

9. Professional Advisors: Professional practitioners such as management experts, legal advisers, tax consultants, technologists, industrial psychologists advise in some area of their expertise, such as management development, Government policies, consumers' interest, banking trends, labour laws, tax laws, etc. Services of these professional advisers will be of much value and essential to an enterprise to achieve external co-ordination.

Questions

1. Define co-ordination and explain the characteristics of co-ordination.
2. What is effective co-ordination? Distinguish clearly between co-ordination and co-operation?
3. Explain the different types of co-ordination.
4. Define co-ordination. Discuss the important principles of co-ordination.
5. "Managers use a variety of techniques for achieving co-ordination". Discuss.

UNIT VII

DIRECTION AND CONTROL

Unit structure

Lesson 7.1 Direction

Lesson 7.2 Control

Lesson 7.3 Budget and Budgetary control

Lesson 7.1 Direction

Learning Objectives

After reading this unit you should be able to

- Define direction
- Examine the elements of direction
- Understand characteristics and importance of direction
- Enumerate the principles of direction

Meaning

Like planning, organising and staffing, directing is a fundamental function of management. It stands for that managerial function which initiates organised action. Directing is the process by which actual performance of subordinates in guided towards common goals. It is involved with initiating action. It is also a technique of utilising human resources in the organisation. In short, directing is telling employees what to do, now to do, and see that they do it to the best of their ability and capacity. Directing is in ever present, continuing function of the manager. It is a managerial function performed by all the managers at all levels of the organisation.

Definition

According to Haimann, “Directing consists of the process and techniques utilised in issuing instructions and making certain that operations are carried on as originally planned. Directing is the process around which all performance revolves. It is the essence of operations, and co-ordination is a necessary by product of good managerial directing”.

Elements

The directing function consists of four elements namely:

1. Motivation
2. Leadership
3. Supervision and
4. Communication

Characteristics of Directing

1. It is an important function of the top management. It alone can initiate action in the organisation. Hence the directing function is broader in scope.
2. It is performed at every level of management. It runs down the organisation in a chain of command. It is the superior who directs a sub-ordinate, not a sub-ordinate direct his superior.
3. It is not a more mechanical activity of passing orders and issuing instruction, but motivating, leading, supervising, communicating and inspiring sub-ordinates.
4. It is an important instrument to improve efficiency and productivity.
5. It is an interconnecting mechanism. It interconnects the mutually dependent aspects of motivation, leadership, supervision and communication.
6. It is a continuous process.

Importance of Directing

1. It bridges the gap between managerial decisions and their actual execution by employees.
2. It initiates action to utilise resources – manpower and material, in a certain way to reap the desired results.
3. It integrates organisation objectives and individual goals.
4. It seeks to maximise the potentialities, capacities and capabilities of employees in the enterprise.
5. It facilitates the introduction of changes in the organisation in tune with changes in the external environment.
6. It provides much needed stability in the organisation and maintains balance in the different departments of the organisaiton.

Principles of Directing

Directing is a complex and complicated function of management as it is concerned with employees of diverse nature. The following are some of the principles which are generally followed in directing the sub-ordinates.

1. Harmony of Objectives: The principle of harmony seeks to reconcile organisation's objectives with employee objectives. Management must bring out fusion towards individual employees, groups and enterprise. This will foster the sense of belonging to the organisation among the employees.

2. Unity of Direction: The principle of unity of direction lays stress on the sub-ordinates receiving orders from one superior. Dual or multiple commands will create only conflict and confusion.

3. Personal supervision: The principle of personal supervision means face-to-face communication between superiors and sub-ordinates. Managers should have direct access to their sub-ordinates, so as to get quick feedback.

4. Motivation: The principle of motivation is important to inspire employees, and to lead them to higher job satisfaction.

5. Leadership: The principle of leadership underlines the importance of importance of influencing the employees to reach peak performance in the work environment. Managers must seek to influence the activities of their sub-ordinates get their wholehearted support and achieve the goals of organisation.

6. Follow up: The principle of follow-up refers to continuous supervision and constant coaching to find out whether the employees perform as per standards or not.

Questions

1. What is direction and discuss the elements of direction
2. Explain the characteristics and importance of direction
3. Enlist the principles of direction

Lesson 7.2 Control

Learning Objectives

After reading this unit you must be able to

- Define control
- Understand the characteristics of controlling
- Exhibit the objectives of control
- Discuss the necessity and elements of control
- Enumerate the process of control
- Explain the importance of control
- Identify the limitations of control

Introduction

If a business enterprise achieves its objectives more ambitious objectives can be formulated. In case the objectives are not achieved, plan needs a revision. In either case, an evaluation is necessary and therein comes he controlling process. The exercise of control is the primary responsibility of every manger. Planning, organising, coordination and motivation are the managerial functions which are undertaken to get things done and controlling ensures that work is properly implemented. Control is just a part of the managerial process.

Control is one of the most important elements of management. In the past, managers believed that the necessity for control arose only when something went wrong. The object of control was to find out the person responsible for these things and take action against him. But this is only a negative view of control. According to scientific management the primary object of control is to bring to light the variations, as soon as they appear, between performance and standards lay down. Control is aimed at results and not at people as such.

Meaning

In Management literature, the word "control" has a special meaning. It means setting standards, measuring actual performance, and taking corrective action. It implies a standard of comparison for the results of any operation, task or activity. It is more than mere evaluation, appraisal or correction. It measures performance against goals and plans, indicates where deviations exist and helps accomplishment of objectives. It serves to determine personnel responsible for deviations and to take necessary steps to improve performance. In short, control means setting standards, measuring performance and correcting actions with a view to achieve results.

Definitions

In the words of Henry Fayol, “The control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted. The orders which have been given and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from occurring again”.

It is a classic definition. It is comprehensive. It has been faithfully followed through the years and universally accepted.

According to E.F.L. Breach, “Control is checking current performance against pre-determined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance”.

According to Harold Koontz, “Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplishment”.

These definitions point out the close relationship between planning and controlling. In planning of an organisation’s activities, the fundamental goals and objectives and the methods for obtaining them are established. The control process measures progress towards these goals. Controlling is not possible without objectives and plans. Control is intended to achieve and accomplish objectives.

Characteristics of Controlling

1. Control is a Continuous Process: Control is a never ending activity on the part of mangers. This includes continuous analysis of goals, establishments of standards, measurement of performance, and remedial action with the help of organisational policies and procedures.

2. Control is a Management Function: Control as a management function implies, measurement of accomplishment of events against the standard of plans and to correct the deviations in order to attain the objectives according to plan. In fact, this is a follow up action towards other management functions. The utility of this function is such that it is performed by all levels of managers in the business unit to keep a close control of all aspects of business which are assigned to them.

3. Control is Exercised at All Levels: The word “control” exists and works at each and every level of management, even though its nature and extent may be different at different levels but to the top management, it helps in exercising the administrative control which is based on certain plans and policies for the common objectives. In the same way the middle level of management is also responsible for controlling and implementing plans and policies in the organisation. Finally, the lower level management is responsible to keeps a control on the operations that are involved in actual performance.

4. Control is Forward Looking: Another characteristic feature of control is that it always looks forward. It relates to the future as a manager and has no control on the happenings in the past. They can only correct future action for further operations of work. It is the past experience of control, which guides a manager to improve his action for the attainment of common objectives of the organisation.

5. Control is a Dynamic Process: It is a dynamic process and is flexible. It requires regular review and check of standards and performances which leads to proper corrective actions and modifications in plans and policies, according to the changing conditions and atmosphere, tests and needs of business.

6. Control is a Self-Corrective Process: In the process of control we generally compare our actual performance with planned performance and verify the deviations which have taken place in actual performance from those which have been fixed by the planners. Thus it tells us that control exists only when the work is completed because we can compare the performance only then. If there are deviations in actual performance when compared with proposed performance, then control should take the corrective measures to avoid errors and deviations in future.

7. Control is closely Related to Planning: We know the meaning of planning. It decides in advance what do to, how to do, when to do and by whom it is to be done.

It makes impossible things possible, which would not otherwise happen. For this, certain objectives are famed and are referred to as standards against which actual performance is checked.

Objectives of Control

The main objective of control is to ensure a high degree of efficiency of the business. This very objective helps the manager to attain the goals of the organisation in a systematic and effective way. The following are the objectives of control:

1. To ensure high efficiency of the business.
2. To understand what had happened or is happening why and by whom it happens.
3. To ensure effective and proper communication between the management and workers at all levels to achieve the objectives of the organisation.

4. To keep a proper check and control over direct and indirect expenses.
5. To reframe organisational goals, policies and objectives.
6. To find out the various deviations from the planned and proposed targets and to take necessary corrective action.
7. To make sure that all the activities are performed according to the pre-determined plans.

Necessity of Control

The necessity of control in business organisations cannot be over emphasised. Proper control smoothens the working of an organisation. Absence of control leads of lowering of morale among the employees since they cannot then predict what will happen to them. Again in big business concerns, the employees have to be trusted with large sums of money, with valuable raw materials and still more with valuable trade secrets. In the absence of control there is a greater likelihood of these people yielding to temptations. The existence and operations of an efficient system of control create an atmosphere of order and discipline and help greatly in minimising all chances for dishonest behaviour on the part of the employees.

Elements of Control

There are six elements of control namely Authority, Knowledge, Guidance, Direction, Constraint and Restraint. To be in a position to exercise control, the manager must know what the situation is, what it should be and how to correct it. Besides he must have the authority to take the appropriate action.

Process of Control

The basic control process consists of the following five steps:

1. Establishment of Standards: Standards serve as a basis for measuring performance. They may be expressed in quantitative or qualitative terms. A standard is a criterion on against which results can be measured. In quantitative terms they are expressed in numbers which are to be produced by workers while in terms of money they refer to the cost of production, cost of distribution per unit etc. It is the duty of the planner to set the standards and state clearly to those workers from whom the results are expected so that they do not face and difficulty in achieving the goals. They must be valid, understandable and acceptable.

2. Measurement of Performance: The second important element in the process of control is the measurement of determination of the actual performance. Measurement of actual performance does not mean knowing what has happened but also what is likely to happen.

It means that deviations are predicted in advance which helps the management to take corrective action in advance for the achievement of goals. For the management it becomes essential to measure performance as soon as the operations are completed. Not only this, it can also be measured while the activity is in the course of operation. From this, appraisal would be possible in time.

3. Appraisal of Performance: We compare the actual performance with the standards. It can be easily compared if the standards are properly determined and methods are clearly communicated for the measurement of performance. The manager should concentrate on those main deviations which are noticed while making the appraisal of performance. But he should not waste his time and energy on small deviations. This approach will give the correct, quick and favourable results. At the same time, simple and effective action also avoids uneconomic watching, wastages of time and attention.

4. Finding out Deviations: While comparing the actual and standard performance, it is wiser to find out the extent, nature and the basic causes for deviations. A competent manager does not find any difficulty in locating the deviation points while measuring the actual performance properly. To find out the cause of deviations he will have to depend on proper, accurate and timely information. A manger after getting the information from various departments would conveniently tell whether errors have occurred in the operations or project designing and from them he can easily find out the causes of deviations and the workers who are responsible for such errors.

5. Correction of Deviations: The last but not the lease element in the process of control is correction of deviations. For the correction of deviations, management should take necessary action and implement them so that in future these errors and deviations are minimized. Correction in deviations involve improvement in technology, direction, supervision, setting new goals, restructuring the organisation and revision of targets, set in advance. If corrective action is not taken properly in time against the major deviations then it will lead to heavy losses.

Steps for an effective control system

If control is to be effective and adequate, it must be specially tailored to the specific task or person it is meant to serve.

1. Control Should be Tailored to Plans and Positions: Control should reflect the plan it is designed to follow. Managers should have information as to how the plans for which they are responsible are working. Control will differ from department to department, from one individual to another and from business to business. If control is so designed as to serve a specific purpose, it will be more effective. Control must relate to plans. It means that manager should get quick information whenever there are deviations.

Organisational pattern should be reflected in control. Organisational structure establishes authority and responsibility relationships of individuals in the organisations. The more the relationships are clear and definite, the easier it will be correct deviations from standards.

2. Control Should be Designed to Suit Individual Managers: Control should be designed to suit to individual mangers and their personalities. Control system should facilitate the manager in carrying out the control function. Unfortunately, if the manager is unable to understand the control system it is useless. What is not understood cannot be used at all. Control should be designed to individual personalities also. The requirements as to the kind of information and the manner of its presentation differ from individual to individual. Some individuals may like to have information in mathematical model form while some others may not prefer such information at all. So it is essential that information and control techniques should be comprehensible to the people who use them.

3. Control Should Point out Exceptions: if control is based on exception principle, it will allow managers to concentrate on vital issues.

4. Control Should be Objective: Control should be objective and accurate. It is true that management contains many subjective elements but an individual's work is not a matter for subjective determination. That is why objective standards are to be established. The objective standard may be quantitative or qualitative. The quantitative standards may be prescribed in terms of cost or man hour or date of job completion. The standard is said to be qualitative when it is based on qualitative concepts. For example, training programme which aims at improving the quality of personnel. In both qualitative and quantitative standards, the standard is determinable and verifiable.

5. Control Should be Flexible: The system of control should be such that it accommodates all changes or failure in plans. To avoid unforeseen situations, when plans are changed control should reflect corresponding changes to remain operative under new conditions. If plans are to be revised to change its objectives, the system of control should also be adjusted to suit the changed circumstances.

6. Control Should be Economical: The system of control must be economical. In simple words, it must be worth its cost. Small organisations should go in for a simple system of control because they cannot afford to have complicated system. The question of economy is to be decided taking into consideration the importance of the activity, the size of operation, the expense which might be incurred in the absence of control and the contribution made by the control system. Economy can be ensured by selecting the critical points or areas which require control.

7. Control Should Lead to corrective Action: An adequate and effective control system should point out the reasons of failure, the persons responsible for them and assures that corrective action will be taken. If no corrective action is taken through appropriate planning, organising, staffing and directing, controls are not necessary.

8. Active Participation: All members in the organisation should participate in the effective implementation of the control system. This is only possible when each and every worker in the organisation is asked to take active part in the discussions and exchange views while selecting the system of control.

9. Suggestive: The control system should also be suggestive. A system which detects deviations only should also tell the accurate and correct alternative. A good system can disclose the names of their persons who are involved in deviation but to overcome these it should also suggest corrective action which enables the organisation to achieve the objectives of the business.

10. Competent and Talented Staff: A system of control can work more effectively if it has talented and competent people to work in the organisation. Modern Technology and a new system of operation can be introduced only when an organisation has competent persons to operate them. A system of control should be adopted after taking into account the caliber, ability and the understanding power of the related managers and workers, only then the results will be in favour of the organisation.

Importance of control

Control is the most important aspect of a Manager's function. The significance of control in an organisation can be judged from the following:

1. Insurance value of Control: Control eliminates the risk of non-conformity of actual performance with the main goals of the organisation. Control is the function which regulates the operation to ensure the attainment of the set objectives. Regular measurement of work in progress with proper adjustments in operations puts the performance on the right track and helps in the attainment of goals.

2. Basis for Future Action: Control provides the information and facts to the management for planning and organising when the work is completed and the result is evaluated. In fact, evaluation of results helps the management to re plan for non-repetitive operations and rewarding, punishing and disciplining the workers. It would be better to say that long term planning for future is not possible unless and until control information is available in time to the managers for the operation of the work.

3. Small Size of the Business: A small business can operate its activities smoothly and efficiently with a few workers. But for a large scale business in the modern times, it is quite impossible to work without proper policies, procedures and quality of different varieties of goods. That is why in a large organisation there is always a need for a scientific system of control to solve the day to-day problems.

4. Indicator for Managerial Weakness: Control plays the role of an indicator and keeps an eye on the functions of managers for the attainment of goals. In the organisation there will be certain unforeseen and unknown problems which cannot be traced out by mere planning, organising and staffing efforts. It is the control process that can trace these out. That is why it is known as indicator of managerial weakness. Control not only finds out the weakness of managers but also provides solutions and remedial action to solve the problems.

5. Facility of Coordination: Control plays a very important role in Co-coordinating the business activities and workers. It blinds all the workers and other activities and motivates them to move towards the common objectives through co-ordination. Control will play the role of a middleman between the workers and management to provide the required information in time to the workers. Further, if proper co-ordination through control exists in the organisation then wastage of time, efforts and money can easily be eliminated.

6. Simplifies Supervision: The systematic system of control helps in finding out the deviation existing in the organisation which also simplifies the task of the supervisor in managing his sub-ordinates. So through control it becomes simpler for the supervisor to supervise and guide the workers to follow the right track and fulfill the required goals.

7. Extension of Decentralisation: Control system helps the top management to extend the frontiers of decentralisation without the loss of control. When proper procedures, policies, methods, targets etc., are clearly communicated to the sub-ordinates, they develop self-confidence and need not always refer to their supervisors with the problems. Thus senior management people will not waste their time for such problems and would rather utilise their time and energy for further planning and organisational work.

Limitations of control

1. Lack of satisfactory standards: It is quite difficult to fix satisfactory standards for many activities particularly those which involve intangible performances such as results of management, development, human relations and public relations. Cost of other activities cannot be accurately indicated by any pre-set standards. Activities of the workers for service of advisory nature and other activities relating to the behaviour of the workers do not indicate quantitative output and identify their level of attainment. Therefore controlling becomes difficult.

2. Effects of external factors: Internal factors could be checked and put in the right perspective in time, by the proper system of control, but it is impossible to check and control the external factors. For example, change in the Government and its policy, new inventions or discoveries, changes in the fashions and liking of the consumers etc., cannot be checked by the system of control.

3. Imperfections in management: As explained above, intangible performance always brings difficulties at the time of setting standards. This is also responsible for making the task complicated for the measurement of results or evaluations. If one fails to measure the performance in quantitative and qualitative terms, the results of behavioural and staff activities have to be evaluated by line managers on their own thinking and managerial judgement. Further economic consideration is not possible if we measure everything and everybody's work.

4. Problem in setting of Individual Responsibilities: Assignment of individual responsibilities for negative deviation from the standard is difficult. This wash outs the system of control completely. In some cases it is difficult to assign the responsibility of negative deviation to an individual. The effective impact of control in most of the cases depends on how responsible are the workers one has in the organisation.

5. Limitation of Corrective Actions: It is true that if all deviations and errors could be corrected in time, the chances of loss would be relatively less in the organisation. To some extent it is true that there are certain organisations which have taken corrective and quick actions and were successful in avoiding errors. But often problems arise when management does not take corrective action in time to avoid deviations.

6. More expansive devise: To make the control more systematic and effective, it requires careful and timely investigation of different business activities. It enables the unit to find out the causes of variations with the actual provisions made in the budgets. In order to investigate all the activities on has to appoint more skilled people, which requires more money to reward the workers for their work. It, therefore, becomes a costly affair in terms of money and time.

7. Human reactions to control: Control creates tension in the minds of workers and their actions and thinking is affected. The pressure of work gives the negative results and reduces the quantity and quality of work. The worker ignore long term goals and give false reports about the performance too. If the system of control is introduced in the organistion in detail, close check of individual performance exists, then it produces adverse results among lower level managers.

Questions

1. What is control and enlist the characteristics of control
2. Explain the process of control
3. Discuss the importance and limitations of control

Lesson 7.3 Budgets and Budgetary Control

Learning Objectives

After reading this lesson you should be able to

- Define Budgets
- Understand the Characteristics of a Budget
- Enlist the objectives of a Budget
- Envisage the techniques of Budgeting
- Identify types of Budgets
- Explain Budgetary Control
- Discuss advantages and disadvantages of Budgetary Control

Introduction

Budget is an instrument used by management in planning its future activities. It is a numerical statement which expresses the policies, programmes, and plans of the business organisation for a specific period of time in future.

Definitions

"A business budget is an estimate of future needs, arranged according to an orderly basis covering some or all of the activities of an enterprise for a definite period of time" – George R.Terry.

"Budgeting is essentially the formulation of plans for a given period in the future in specific numerical terms. As such budgets are statements of anticipated results" – Koontz and O'Donnell.

Characteristics of a Budget

The characteristics of a budget are as follows:

1. Budget indicates results in quantity or in money.
2. It relates to a future period.
3. It is prepared in advance.
4. It is prepared for a fixed period.
5. It is based on pre-determined objectives.

Objectives of a Budget

The following are the main objectives of budgets.

1. To assist the business enterprise in procuring necessary finance whenever required to meet the business commitments.

2. To act as a yardstick for measuring the performance of the enterprise by comparing the targets which were already determined at the time of planning.
3. To help in correlating the responsibilities of the different executives according to the requirement of the business policies.
4. To coordinate plans of the different departments.
5. To provide various types of classifications to the authorities whenever required, to simplify the controlling function of management of the business enterprise.
6. To reduce the plans to the extent of numerical facts and figures.
7. To assure that sufficient finance is available for business purposes.

Techniques of Budgeting

Techniques of budgeting really imply the method by which management is able to control the organisation. These tools may be listed as follows:

1. Budget and Budgetary control.
2. Costing and cost control.
3. Marginal costing and break-even analysis.
4. Stock control.
5. Internal and external audit.
6. Statistical data and PERT.
7. Personal observation.

Budgetary Control

A 'budget" is an estimate of future need arranged according to an orderly basis covering some or all of the activities of an enterprise for a definite period of time. In contrast, 'Budgetary control' is a process of comparing the actual results with the corresponding budget data in order to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of the difference. Budgetary control is defined as the establishment of departmental objects relating to the responsibilities of the executives to the requirement of a policy and the continuous comparison of actual with budget results, either to secure by individual action the objective of their policy or to provide a basis for its revision.

According to George R. Terry, "budgetary control may be described as a process of finding out what is being done and comparing actual results with the corresponding data in order to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of the differences".

Objectives of Budgetary Control

1. To have proper control on all types of business activities for the achievement of specified goals.
2. To trace out the causes of deviations from the set standards and suggest proper methods to adopt for the future.
3. To give a new look to the plans, budgets, organisational system etc., as per the changing circumstances and conditions of the organisation.
4. To check actual performance with the figures given in the budget to find out deviations from time to time.
5. To increase the efficiency of working through modern methods of organisation and scientific method of control.
6. To ensure the economical use of land, materials, man power, machines and other items through proper advance planning, organizing coordinating and controlling the activities of various departments in the organisation.
7. To adopt and generate advance thinking for the anticipation of future operations.

Types of Budgets

The types of budgets are many. Some of the important and commonly used budgets are:

1. Sales Budget: Sales Budget is a detailed expression of the sales forecast. It is the foundation of budgetary control. The revenue from sales of products or services furnishes the principal income. It helps to pay operating expenses.

2. Expenditure Budget: Expenditure Budget deals with individual items of expenditure, such a travel, telephone, advertisement, entertainment etc. Sometimes this budget lump major items together and other items in one control summary.

3. Time, Space, Material and Product Budgets: All the budgets are not expressed in monetary terms. Some are better presented in quantities. They are more significant at a certain stage in planning and control. The more common kinds of this type are budgets for direct-labour-hours, machine hours, units of materials, square feet allocated and units produced.

4. Capital Expenditure Budgets: These budgets specify capital expenditure the Capital expenditure involves purchase of machinery, equipment, inventories, and other items. They may be either for a short term or a long one. They give definite form to plans for spending.

5. Cash Budgets: A cash budget is a forecast of cash receipts and expenditures. It is one of the most important controls in an organisation. Cash is necessary to meet obligations. It shows the availability of cash or shortage of funds. The purpose of cash budget is to guarantee that the enterprise is assured of steady cash flow. It is an effective device for controlling activities involving receipt or payment of cash.

6. Distribution Cost Budgets: it is based on the sales budget. It forecasts the cost of selling and distributing products during the budget period. It is jointly prepared by the sales manager, the advertising manager and the distribution manager.

7. Production Budget: It is an estimate of the quantity of the goods to be produced during the budget period. It takes into account the stock levels desired to be maintained. It helps to determine the quantity of the goods to be produced to meet the sales forecast. Production cost budget spells out the estimated cost of carrying out the production plans. Production overhead budget deals with production overheads in terms of fixed variable and semi-variable. It contains the forecast of all production overheads.

8. Labour Budgets: It gives the estimate of labour requirements to meet the production needs. It may include both direct and indirect labour requirements. It reveals the expected labour requirements during the budget period. It helps to prepare suitable plans for recruitment and training of labour.

9. Profit budget: A profit budget combines cost and revenue budgets in one statement. It is sometimes called as Master budget. It consists of a set of project financial statements and schedules for the succeeding year. It serves as an annual profit plan. It plans and coordinates overall enterprise activities. It provides benchmarks that are useful in judging the adequacy of expense budgets. Profit budget helps to assign responsibility to each manager for his share of the overall organisational performance.

10. Balance Sheet Budget: The Balance Sheet budget brings together all of the other budgets. It projects how the balance sheet will look at the end of the budget period, if actual results conform to anticipated results. This budget is also known as proforma balance sheet. It may be thought of as a final check on the organisation's planned programmes and activities.

11. Fixed budget: Budgets tend to become inflexible. They may become inappropriate for changing situations. When situations are unsteady it would not be fair to expect managers to stick to the original expense budget. In this sense, every budget is a fixed budget. The estimated revenue and expenditure are rigidly fixed. The fixed budget, in short, fixes what individual costs should be at one specified volume.

12. Variable budget: Variable budget is cost schedule. It shows how each cost should vary as the level of activity or output varies. It combines flexibility with efficiency. It is designed to suit the variations in the volumes of sales or out-puts. It is based upon an analysis of expense items. It determines how individual cost should vary with volume of output. It is useful in identifying how costs are affected by the amount of work being done. Fixed cost, variable costs and semi-variable costs are taken into consideration while preparing the variable budget.

Budgetary Control Methods

There are three specialised budgetary control methods. They are

1. The Planning Programme Budgetary Systems (PPBS)
2. Zero-Base Budgeting and
3. Human Resource Accounting.

They are developed to identify and eliminate costly programmes that tend to duplicate other programmes. They provide a means of analysing the benefits and costs of each programme or activity.

1. Features of PPBS:

1. Analysing and specifying the basic objectives in each major activity or programme area.
2. Analysing the output of each programme with reference to the specific objectives.
3. Measuring to total costs of the programme for several years ahead.
4. Determining which alternatives are most effective in achieving the basic objectives at the least cost and
5. Implementing the systems in systematic manner.

2. Zero-Base Budgeting: it is so called because budget is started from base zero. The task of individuals preparing the budget is to decide what activities and funds should be dropped and more often, what activities and funds should be added.

Zero-base budgeting enables the organisation to look at its activities and priorities afresh. The previous year's resource allocations are not automatically considered, as the basis of the current year's allocations. It involves allocating an organisation's funds on the basis of cost-benefit analysis of each of the organisation's major activities.

3. Human Resource Accounting: Traditional budgets neglect the human resources of the enterprise. For instance, the costs of recruiting and training personnel are treated simply as operating expenses. Human resource accounting attempts to treat the significant costs of recruitment, training and servicing the human element. It treats the human cost as a long term investment in human resources. It recognizes the human element in the organisation.

Advantages of Budgetary Control

1. The main merit of budgetary control is to maximise profits through effective planning and control of income and expenditure (i.e.) directing capital and available resources to the best and most profitable channel.
2. Budgetary control gives the clear definition and also tells the objectives, policies and is a tool of these policies for periodic examination.
3. There should be proper co-ordination of functions and performance of various branches through budgetary control which leads to co-operation among the members of staff of the organisation.
4. Budgetary control helps in finding out the deviations for the remedial measures.
5. It gives a force of motivation of work more efficiently and accurately as budgets are prepared for each and every item of expenditure in all the functional aspects in a department.
6. Budgetary control is a powerful tool of responsibility accounting as it helps in passing authority to the subordinates.
7. It provides a perfect and proper base for the introduction of the incentive system in the organisation.
8. The system of budgetary control tells the basis for internal audit as it provides the means of regular appraisal of departmental performance.
9. It is used to project and determine working capital requirements of the business during the period of budget.
10. It plays the role of stabiliser particularly with those industries which are affected by the seasonal or cyclic fluctuations.

Disadvantages of Budgetary Control

1. Owning to the rigid attitude adopted by the people in the organisation, it renders the original plan useless because they follow the estimates from the budgets without modifying the changes of attitudes and working conditions etc. This means that the budgetary control system is not flexible and permits the mangers to change the policies, procedures etc.
2. In case of lack of understanding and absence of competent staff members, it becomes difficult to exercise the budget effectively.

3. Non-availability of actual data and information from the various departments at the time of preparing the budget makes it difficult for the planner to give the correct estimates. Hence, a lot problems and deviations are faced by the managers at the time of execution.
4. Budgetary control requires a lot of time, money and effort to record the performance of each and every worker in the organisation. Hence it is not economical for a small and average type of business because it is an expensive device.
5. Budgets can hide inefficiency by allowing expenditure without keeping an eye on them. This means that a particular department may be inefficient even though expenses are within the limits of the budget.

Steps for the Successful Implementation of Budgetary Control

1. There should be a clear cut picture showing the responsibilities and duties of various line executives. While preparing the chart of duties. Proper attention should be taken in advance.
2. In the chart, duties, plans, objectives, policies etc., are to be defined in a simple way and costs should also be mentioned which are going to be corrected by the budgetary scheme.
3. A budget committee should be formed for proper implementation of the plan.
4. A quick and proper method of communication is adopted to pass on the information among the executives, which should be based on a two-way system.
5. Budgets should be framed by experienced and talented people who are directly or indirectly responsible for its performance.
6. Budgets should cover all phases and departments of the organisation and should be continuous in process.
7. Budgets should be such that, it is accepted by all the members of organization and they extend their cooperation.

Questions

1. Define budget and explain the characteristics of budget
2. Enumerate the techniques of budgeting
3. Discuss budgetary control

UNIT VIII

EMERGING CONCEPTS IN MANAGEMENT

Unit structure

Lesson 8.1 Total Quality Management

Lesson 8.2 Management by Exceptions

Lesson 8.3 Corporate Social Responsibility

Lesson 8.1 Total Quality Management

Learning Objectives

After reading this unit you should be able to

- Define Total Quality Management
- Understand characteristics of TQM
- Enumerate the principles of TQM
- Explain the frame work and benefits of TQM

Introduction

One of the important issues that business has focused on in the last two decades is "quality". The other issues are cost and delivery. Quality has been widely considered as a key element for success in business in the present competitive market. Quality refers to meeting the needs and expectations of customers. It is important to understand that quality is about more than a product simply working properly. Quality refers to certain standards and the ways and means by which those standards are achieved, maintained and improved. Quality is not just confined to products and services. It is a homogeneous element of any aspect of doing things with high degree of perfection. For example Business success depends on the quality decision making.

TQM is a people-focused management system that aims at continual increase in customer satisfaction at continually lower cost. TQM is a total system approach (not a separate area of program), and an integral part of high level strategy. It works horizontally across functions and departments, involving all employees, top to bottom, and exceeds backwards and forward to include the supply chain and the customer chain.

Definition

TQM is the management approach of an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction and benefits to all members of the organization and to society. - **ISO**

TQM is an integrated organizational approach in delighting customers (both internal and external by meeting their expectations on a continuous basis through everyone involved with the organization working on continuous improvement in all products, services, and processes along with proper problem solving methodology- **Indian Statistical Institute (ISI)**

Characteristics

1. Customer Oriented
2. Long term commitment for continuous improvement of all process
3. Team work
4. Continuous involvement of top management
5. Continuous improving at all levels and all areas of responsibility

Basic concepts of TQM

1. Top management commitment
2. Focus on the customer– Both internal and external
3. Effective involvement and utilization of entire work force
4. Continuous improvement
5. Treating suppliers as partners
6. Establishing performance measures for the processes

Principles of TQM:

1. Customers' requirements-(both internal & external) must be met first time and every time
2. Everybody must be involved
3. Regular two way communication must be promoted
4. Identify the training needs and supply it to the employees
5. Top management commitment is must
6. Every job must add value
7. Eliminate waste & reduce total cost
8. Promote creativity
9. Focus on team work.

TQM Frame Work

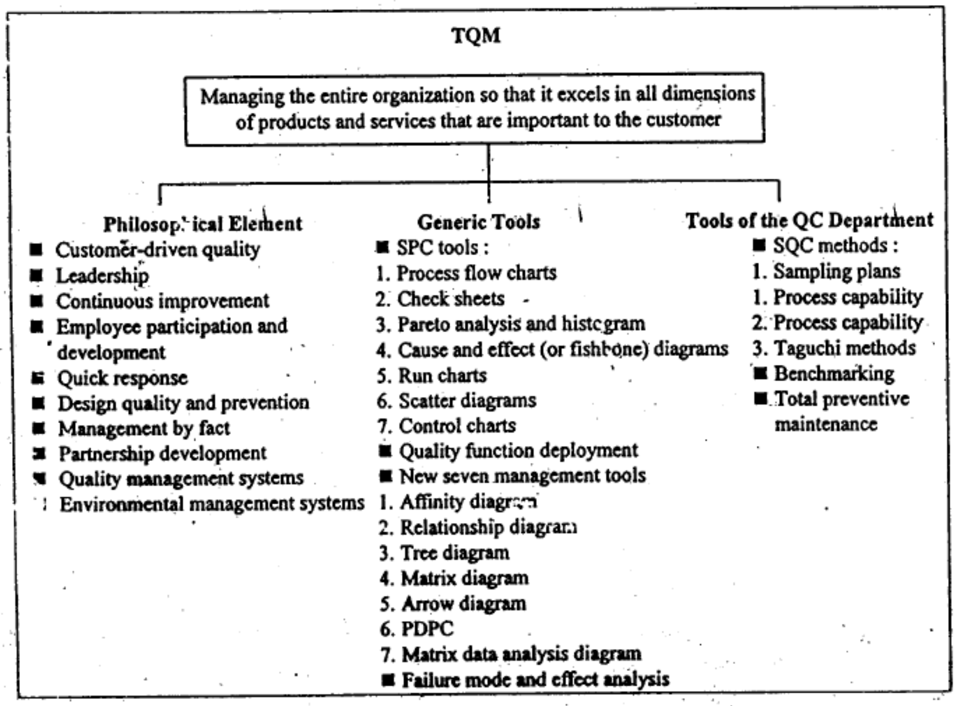
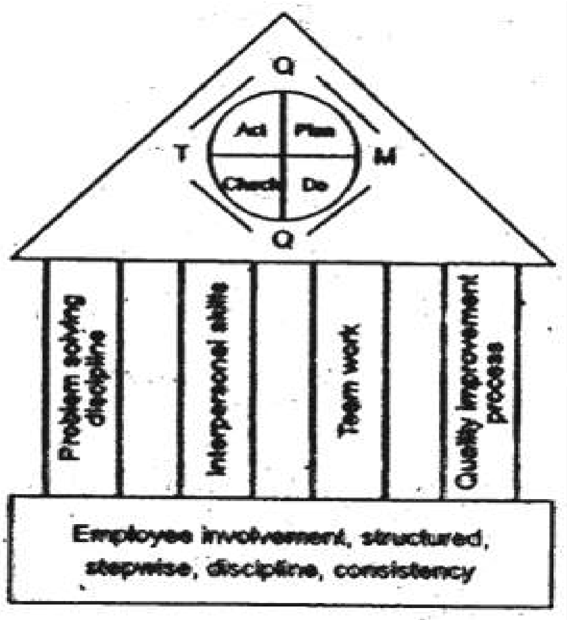


Fig. Elements of Total Quality Management



Barriers to TQM

1. Lack of management commitment
2. Lack of faith in and support to TQM activities among management personnel
3. Failure to appreciate TQM as a cultural revolution. In other words, inability to change organizational culture
4. Misunderstanding about the concept of TQM
5. Improper planning
6. Lack of employees commitment
7. Lack of effective communication
8. Lack of continuous training and education
9. Lack of interest or incompetence of leaders
10. Ineffective measurement techniques and lack of access to data and results
11. Non-application of proper tools and techniques
12. Inadequate use of empowerment and team work

Benefits of TQM

Tangible Benefits	Intangible Benefits
Improved product quality	Improved employee participation
Improved productivity	Improved teamwork
Reduced quality costs	Improved working relationships
Increased market and customers	Improved customer satisfaction
Increased profitability	Improved communication
Reduced employee grievances	Enhancement of job interest
	Enhanced problem solving capacity
	Bettercompanyimage

Questions

1. Define Total Quality Management
2. Explain the characteristics of TQM
3. Discuss the frame work and benefits of TQM

Lesson 8.2 Management by Exceptions

Learning Objectives

After reading this unit you should be able to

- Understand Management by exception
- Enumerate the Ingredients of MBE
- Enlist the benefits of MBE

Introduction

The essence of the management by Exception (in short form MBE) is that only exceptional matters are brought to attention of the executives. It is a "system of identification and communication that signals the manager when his attention is needed; conversely, it remains silent when his attention is not required "The importance of MBE stems from the big size of business and the consequences of complexity in operations. MBE is a very effective approach in controlling the modern organization. MBE should not be mistaken as management by crisis. "It MBE slips into management by crisis, then disastrous results follow; organization heads for breakdown in control and planning".

One of the most important ways of tailoring controls for efficiency and effectiveness is to make sure that they are designed to point out exception. In other words by concentrating on exceptions from planned performance, controls based on the time honored exception principle allow managers to detect those places where their attention is required and should be given. This implies the use of management by exception particularly in controlling aspect. Management by exception is a system of identification and communication that signals to manger when his attention is needed. From this point of view, management by exception can be used in other management processes also though its primary focus revolves around controlling.

Ingredients of MBE

Management by exception has six basic ingredients: measurement, projection, selection, observation comparison and decision –making.

- Measurement assigns values to past and presents performances. This is necessary because without measurement of some kind, it would be impossible to identify and exception.
- Projection analyses those measurements that are meaningful to organizational objectives and extends them into future expectations.

- Selection involves the criteria which management will use to follow progress towards organizational objectives.
- Observation stage of management by exception involves measurement of current performance so that managers are aware of the current state of affairs in the organization.
- Comparison stage makes comparison of actual and planned performance and identifies the exceptions that require attention and reports the variances to management.
- Decision- making prescribes the action that must be taken in order to bring performance back into control or to adjust expectations to reflect changing conditions or to exploit opportunity.

Thus, it can be observed that management by exception is inseparable from other management essentials in many ways. However the major difference lies in the fact that the superior's attention is drawn only in the case of exceptional differences between planned performance and actual performance. In other cases decisions are taken by subordinate mangers. However what is exceptional requires the completion of whole process.

Benefits of M B E

There are various areas where precepts of management by exception are used such as statistical control of product quality economic order quantities and order points for control of inventories and supplies break even points for determining operating levels trends in ratios of indirect to direct labour used in apportioning overhead, attitude surveys for gauging employee morale, etc. the use of management by exception is prevalent because of the following factors:

a) Management by exception saves executives time because they apply themselves on fewer problems, which are important. Other details of the problems are left to subordinates.

b) It concentrates executive's efforts on major problems. Instead of spreading managerial attention across all sorts of problems it is placed selectively where and when it is needed. Thus it ensures better utilization of managerial talents.

c) It facilitates better delegation of authority increase span of management and consequently provides better opportunities for self-motivated personnel in the organizations. It lessens the frequency of decisions at the higher levels of management, which can concentrate on strategic management rather than engaging themselves in operational management.

d) Management by exception makes better use of knowledge of trends history and available business data. It forces a manger to review past history and to study related business data because these are the foundations upon which standards are derived and from which exceptions are noted.

e) It identifies crises and critical problems and thus avoids uninformed impulsive pushing of the panic button. It helps in identification of crisis because the moment any exceptional deviation occurs the attention of higher-level managers is drawn. In this way it also alerts management to appraise opportunities as well as difficulties.

f) Management by exception provides qualitative and quantitative yardsticks for judging situations and people. Thus it helps in performance appraisal by providing more objective criteria and provides better motivation to people in the organization.

g) It enhances the degree of communication between different segments of an organization. With its focus on results it seeks to relate cause regardless of their place in the organization with over all organizational results. As such it encourages exchange of information between functions and also between a functional do cost center or profit center to which it reports. Degree of communication determines the organizational cohesiveness and leads it to achievement of objectives

Questions

1. What do you mean by Management by exception
2. Explain the ingredients of MBE
3. What are the benefits of MBE

Lesson 8.3 Corporate Social Responsibility

Learning Objectives

After reading this unit you should be able to

- Meaning of Social Responsibility
- Define Social Responsibility
- Explain Social Responsibility of Management

Introduction

Social Responsibility of Management is one of the most talked about and widely supported subjects in recent years. Traditionally the basic objective of any business organisation is profit maximisation. In the 1930s, it was felt that managers of large companies must make decisions which maintain an equitable balance among different interest groups (shareholders, employees, customers, suppliers, general public and the government). Managers were considered trustees for these interest groups. This view later developed into the concept of social responsibility.

Corporate Social Responsibility term has been revaluated with an aim to embrace responsibility for the Company's actions and encourage a positive impact through its activities on the environment, consumers, conscience, corporate citizenship, social performance, employees, communities and all stakeholders.

Definition

A study of few definitions would be useful to have an understanding of this concept.

"Social responsibility is seriously considering the impact of the company's action on society" – Raymond Baver. This definition clearly indicates that the social responsibility of management to society goes beyond profit-making. This definition does not give an operative meaning of social responsibility for management.

"Social responsibilities refer to the businessman's decisions and action taken to reasons at least partially beyond the firm's direct economic or technical interest" – Keith Davis. This definition prescribes action not related to the interest of the organisation and is very broad in nature.

The operational definition of social responsibility is as follows:

Social responsibility is the responsibility of management to the organisation itself and to all the interest groups with which it interacts. It requires management to place equally all other interest groups, such as employees, customers, creditors and suppliers, government and society with shareholders.

While there may be no single universally accepted definition of CSR, each definition that currently exists underpins the impact that businesses have on society at large and the societal expectations of them. Although the roots of CSR lie in philanthropic activities (such as donations, charity, relief work, etc.) of corporations, globally, the concept of CSR has evolved and now encompasses all related concepts such as triple bottom line, corporate citizenship, philanthropy, strategic philanthropy, shared value, corporate sustainability and business responsibility. This is evident in some of the definitions presented below:

The EC defines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”

The WBCSD defines CSR as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.”

According to the UNIDO “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.”

From the above definitions, it is clear that:

The CSR approach is holistic and integrated with the core business strategy for addressing social and environmental impacts of businesses. CSR needs to address the well-being of all stakeholders and not just the company’s shareholders. Philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

CSR in India

CSR in India has traditionally been seen as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to this concept. However, what was clearly evident that much of this had a national character encapsulated within it, whether it was endowing institutions to actively participating in India's freedom movement, and embedded in the idea of trusteeship. As some observers have pointed out, the practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects.

Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while CSR remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports.

The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action at the ground level, and how the understanding of CSR is set to undergo a change.

Benefits of a robust CSR programme

As the business environment gets increasingly complex and stakeholders become vocal about their expectations, good CSR practices can only bring in greater benefits, some of which are as follows:

Communities provide the license to operate: Apart from internal drivers such as values and ethos, some of the key stakeholders that influence corporate behaviour include governments (through laws and regulations), investors and customers. In India, a fourth and increasingly important stakeholder is the community, and many companies have started realising that the 'license to operate' is no longer given by governments alone, but communities that are impacted by a company's business operations. Thus, a robust CSR programme that meets the aspirations of these communities not only provides them with the license to operate, but also to maintain the license, thereby precluding the ‘trust deficit’.

Attracting and retaining employees: Several human resource studies have linked a company’s ability to attract, retain and motivate employees with their CSR commitments. Interventions that encourage and enable employees to participate are shown to increase employee morale and a sense of belonging to the company.

Communities as suppliers: There are certain innovative CSR initiatives emerging, wherein companies have invested in enhancing community livelihood by incorporating them into their supply chain. This has benefitted communities and increased their income levels, while providing these companies with an additional and secure supply chain.

Enhancing corporate reputation: The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programmes. This allows companies to position themselves as responsible corporate citizens.

There are many big entities who have been actively engaged in the CSR activities but unfortunately the number is relatively less. In order to encourage more entities to participate in the process of development of the society via- CSR, the Government of India has actually implemented the concept of CSR in the new Companies Act 2013, On 27th February, 2014, the Government of India has notified the rules for CSR spending u/s 135 of the New Companies Act 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 effective from 1st April 2014. Turning the CSR from voluntary activities to the mandated responsibilities, also governed by the bundle of regulations as follows:

Company (includes foreign company with branches or project in India) having:

- Minimum net worth of rupees 500 Crore.
- Turnover up to "1000 Crore"
- Having a net profit of at least '5crore'.

during any financial year, are covered by this provision

Composition of CSR Committee

The Company should constitute a Corporate Social Responsibility Committee as follows:

1. The Committee shall consist of minimum 3 (three) including 1 (one) Independent Director, however in case of Private Company or the Company, which is not

required to appoint Independent Director on board, or Foreign Company the committee can be formulated with (2) two directors.

2. The CSR Policy shall be formulated in accordance with Schedule VII and the CSR Committee will be responsible for framing the policy, finalizing the amount to be spent on CSR, monitoring & implementation of the Scheme.
3. If Company ceases to fulfill the eligibility criteria for three consecutive years, then the company is not required to comply until the company will meet the eligibility criteria once again.

The CSR Rules provides the manner in which CSR committee shall formulate, monitor the policy and manner of understanding for CSR activities.

Under the rules, the Government has also fixed a threshold limit of 2% of the "Average' Net Profits of the block of previous three years on CSR activities and if Company fails to spend such amount, disclosures are to be made for the same. But an exemption has been given to the Companies that do not satisfy the above threshold for three consecutive years.

Brief on CSR Activities as prescribed under Schedule VII of CA, 2013

1. Objective to efface the daily life segments including poverty, malnutrition and hunger while enhancing the standard of living and promoting the facets of better health care and sanitation.
2. Initiative to promote the different segments of education including special education and programs to enhance the vocation skills for all ages like children, women, elderly and conducting other livelihood enhancement projects.
3. Aim to bring the uniformity in respect of different sections of the society to promote gender equality and other facilities for senior citizens and developing hostels for women and orphans and taking initiative for empowering women and lowering inequalities faced by socially and economically backward groups.
4. Elevate the segment of flora and fauna to bring the ecological balance and environmental sustainability in respect of animal welfare, conservation of natural resources and ago forestry while maintaining the quality of air, water and soil.
5. Enhancement of Craftsmanship while protecting art and culture and measures to restore sites of historical importance and national heritage and promoting the works of art and setting up of public libraries.
6. Steps to bring worthy to the part of war windows, armed force veterans and their departments.

7. Sports programs and training sessions to enhance the level of rural sports, nationally recognized sports, Paralympic sports and Olympics sports.
8. Favoring to Prime Minister's National Relief Fund and contribution to other fund set up by the central government to promote socio-economic development and welfare of the schedule castes and Schedule Tribes and for supporting backward classes, minorities and women.
9. To uplift the technology of incubator that's comes under academic institutions and which are approved by the Central Government.
10. Introducing varied projects for Rural Development.

The below activities doesn't include under the CSR activities of the Company.

1. Business run in the normal course.
2. Outside the territory of the India or abroad.
3. For the welfare of the employees and their families.
4. Political party contribution of any amount directly and indirectly as defined u/s 182 of the Act.

The above CSR activities shall be undertaken by the Company, as per its stated CSR policy, in consonance with the new or ongoing projects excluding activities undertaken in pursuance of its normal course of business. The Board of Directors may decide to undertake its CSR activities approved by the CSR Committee, through a registered trust or a registered society.

Yearly Compliances:-

1. The Annual Report of the Company shall include a comprehensive Report on CSR in the format as prescribed in the Companies (Corporate Social Responsibility Policy) Rules, 2014, containing particulars on Overview of CSR Policy, Composition of the Committee, Avg. Net Profit, prescribed expenditure and details of its spending, reason in case of failure etc.
2. The disclosure on CSR in Board Report should also be available on the Company's Website.
3. The activities included in the CSR Policy and the prescribed expenditure being undertaken/ spent shall be ensured by the Board, in the respective manner.

This means all the Companies falling in the aforesaid criteria needs to ensure CSR compliance but it is debatable to say that the same is *for welfare of the society or the companies are doing it just to avoid penalties*. CSR stands to support the Company's

Vision as well as directions to what Organization stands for and will sustain its clients. An ISO 26000 is the accepted worldwide standard for Corporate Social Responsibility (CSR).

Social responsibility of Management towards various interest groups

Social responsibility requires management to identify the various interest groups which affect its functioning and which are also affected by its functioning. Broadly speaking, these interest groups are shareholders, employees, customers, creditors and suppliers, government. The responsibility of management towards each one of these interest groups are as follows:

1. Responsibility to Shareholders: The responsibility of management to its shareholders who are the actual owners is indeed a primary one. The fact that the shareholders have taken great risk in making investments should be adequately recognized. Management will have to strengthen and consolidate its position in order to safeguard the capital of shareholders and to provide them a reasonable dividend. Hence, management should develop and improve its business and build up financial independence.

The organisation should earn sufficient profits in order to pay reasonable dividends to shareholders. In addition to this, it should create adequate reserves so that when profits are not adequate to pay dividends, it could make use of these reserves to pay reasonable dividend. Management should make sure that its organisaiton earns sufficient profits, in order to discharge its responsibilities to the shareholders. Through direct participation in management action, the interest of majority of shareholders and large minority of shareholders is protected. It is the responsibility of management to protect the interest of other minority of shareholders, by providing them adequate information about the functioning of the organisation.

2. Responsibility to the Employees: Social Responsibility of Management towards the employees is also of prime importance. The success of an organisation depends to a very large extend on employees morale and their whole-hearted co-operation. The extent of social responsibility of management towards its employees and the employer-employee relationship decides the morale of employees. Therefore the responsibility of management is to protect the interest of its employees. This can be done in the following ways.

i. Providing them with a congenial working environment.
ii. Payment of reasonable and fair wages.
iii. Providing an opportunity for participation of workers in management.
iv. Provisions for labour welfare measures to the extent possible.

v. Establishment of reasonable and fair work standards and norms.
vi. Proper arrangements for employee counselling and measures for redressal of their grievances.
vii. Recognition of genuine trade-union rights
viii. Providing adequate training and education to workers.
ix. Management should have a tolerant attitude towards employees and have a face-to-face discussion with them so that a cooperative endeavor between employers and employees in created.

3. Responsibility to Customers: Peter F. Drucker, one of the famous writers on management says that,. "There is only one valid definition of business purpose: to create a customer". A customer is one who has a favourable impression of a company including its goods and services. Management owes a primary obligation to give a fair deal to customers. Customer satisfaction is the primary objective of any business. The following are the responsibilities of management towards its customer:

i. To charge customers with a fair and reasonable price.
ii. To improve the quality of products and to introduce better and new products through research and development.
iii. To have a smooth distribution system so that goods are easily available.
iv. Not to indulge in hoarding, profiteering, black marketing etc.,
v. To provide adequate after sales services.
vi. Not to mislead customers by false and exaggerated advertisement.
vii. To provide full information about the product, in order to enable the customer to buy the right product.
viii. Customers should be given an opportunity to be heard and their genuine grievances should be redressed.

4. Responsibility to Creditors, Suppliers and Others: These interest groups affect a business organisation in different ways. It is the duty of management to fulfill its obligation to them. This can be done by:

i. Providing adequate and relevant information to creditors and suppliers.
ii. Creating a cooperative and healthy environment between different businesses.
iii. Promptness with regard to payment to price for materials purchased from suppliers.
iv. Payment of proper interest on borrowing to creditors.

5. Responsibility to Society: Responsibility of management towards society has gained much importance. An organisaiton exists within society and gets facilities from it. Hence management should be socially responsible to society.

Such responsibilities include:

i. Assisting the overall development of the locality.

ii. Preventing environmental pollution and preserving ecological balance.

iii. Maintaining fair business practices.

iv. Rehabilitating people displaced, if any, as a result of locating the industrial plant in the area.

v. Contributing liberally to research and development programmes.

vi. Means to provide and promote general amenities which will help in creating better standards of living in general.

6. Responsibility to Government: The Government and the business system of a country are very closely related. The growth of business to a very great extent depends upon the facilities and benefits provided by the Government. The business system is always subject to control of the Government, but eh government control measures are meant only for its development. Management is socially responsible to the Government in the following ways:

i. To pay taxes honestly and never to resort to tax evasion.

ii. To make sure that the provision of various regulatory acts are properly complied with and never flouted.

iii. To establish regional balanced development by starting industries in rural and backward regions.

iv. Not to gain political favour by any means, as this would corrupt the democratic process.

v. By helping the Government to achieve national objectives which it has set.

Arguments against and for Social Responsibility

Many management thinkers have asked a question, as to why management should be concerned about social responsibility. A lot of arguments against and in favour of social responsibility have emerged. In order to have a clear and balanced view of social responsibility, it is essential to present these arguments. This will provide an insight for understanding the concept in a better way.

Arguments against Social Responsibility

1. The concept of social responsibility is contrary to the basic function of business, i.e., profit-making. Business should mind its costs and improve its economic performance without involving itself in social matters which is the concern of the government and other social welfare organisations.
2. Social responsibility will lead to additional costs, which become a burden to management.
3. Management may lack competent knowledge to carry out social activity and thereby resources would be wasted.
4. Another important argument against social responsibility is the domination of business values over social value which is not good for the development of society.

Arguments in favour of Social Responsibility

1. Business can build up a better image by being socially responsible because business is a part of society.
2. Social responsibilities to a great extend helps in avoidance of Government regulations. By voluntarily carrying out social action, management can prevent government intervention and regulations, otherwise various pressure groups in society like trade unions, consumer organizations etc., would force government control and intervention for irresponsible behaviour of management.
3. Social responsibility helps a business organisation to safeguard its own self-interest of long-term survival. If business falls to serve society, its existence in the long-run will be at stake.
4. Another reason for management to be socially responsible is that it has the managerial talent, functional expertise and financial resources to take up social obligations, besides fulfilling its own economic obligations. With its innovative ability and its productivity-oriented approach to problems, it can easily assume a social role.

Questions

1. Define Corporate Social Responsibility
2. Discuss about developments on CSR in India
3. Discuss about Social Responsibility of management towards various interest groups
4. Should the business firm consider social responsibility? Explain with arguments for and against social responsibility.