UNIT I
INTRODUCTION

MANAGEMENT

- Management is the process of designing and maintaining an environment in which individuals , working together in groups , accomplish their aims effectively and efficiently.
- As how the mind controls the human body and its function similarly management (mind) controls the various activities (human body) in the Organisation
- Collection of physical equipments, 4 M's in Organisation – Men, Machine, Materials, Money. For efficient and profitable functioning it is necessary that all these factors are put to work in a co-ordinated manner.

Management Definition

Management is the art of getting things done through others. Harold Koontz Defined as " Management is the process of designing and maintaining an environment in which individuals, working together in groups efficiently to accomplish selected aims"

- Managers carry out their managerial function
- Applies to any kind of Organisation
- Applies to managers at all Organisational levels
- Aim is to create a surplus productivity
- Concerned with effectiveness and efficiency
- Management of 4 M's in the Organisation – Men, Machine, Materials & money

Importance of Management

Management is the dynamic life –giving element in every business. Without it the resources of production remain resources and never become production.

Sound Management provides the following benefits .

- Achievement of group goals
- Optimum utilization of resources
- Fulfillment of social obligations
- Economic growth
- Stability
- Human Development
- Meets the challenge of change

Characteristics of Management

- Management is Universal
- Management is dynamic
- Management is a group of managers
- Management is Purposeful
- Management is goal oriented
- Management is integrative Function
- Management is a Social process
- Management is a Multi-faceted discipline
- Management is a continuous process
- Management is a system of authority
- Management is a resource
- Management is intangible
- Management is profession, an art as well as a science

MANAGEMENT AS AN ART,SCIENCE AND PROFESSION

Management as an Art

The main elements of an art are –

- Personal Skills
- Practical know-how
- Application of knowledge
- Result orientation
- Creativity
- Constant practice aimed at perfection

Management is basically an art because of the following reasons –

- A manager applies his knowledge and skills to coordinate the efforts of his people
- Management seeks to achieve concrete practical results
- Management is creative. It brings out new situation and converts into output
- Effective Management lead to realization of Organizational and other goals. Mastery in Management requires a sufficiently long period of experience in, managing.

Management as Science

The essential elements of Science

- Systematised body of Knowledge
- Underlying principles and theories developed through continuous observation, inquiry, experimentation and research.
- Universal truth and applicability.
- Organised body of knowledge can be taught and learnt in class room and outside.
- Management is a social science. It contains all the essentials of science. It is an inexact science.
- PERT, CPM, Cost A/C, Finance, MBO etc

Thus, the theory (Science) and practice (art) of Management go side by side for the efficient functioning of an organisation.

Management as a Profession

The essential attribute of a profession

- A well-defined and organised body of knowledge
- Learning and Experience
- Entry restricted by qualification
- Recognised national body
- Ethical code of conduct
- Dominance of service motive

Management is not a full fledged profession now due to the following shortcomings

- Skills not fully developed
- No uniform method of entry
- Objective is monetary rather than service
- Ethical code is not strict
- Associations are not statutory bodies

But in India it is developing into a profession and it will be achieved in due course.

MANAGERIAL SKILLS

- Conceptual skills
- Human Skills
- Technical Skills
- Design Skills – Decision making

LEVELS OF MANAGEMENT

1. **Top Level Management –**

Board of Directors, MD, Owners, Chief Executives

- To analyze, evaluate and deal with the environmental forces
- To establish overall long term goals and broad policies of the company including the master budget
- To appoint departmental and other key executives
- To represent the company to the outside world
- To coordinate the activities and efforts of different department

2. **Middle Level Management –**

Sales Executives, Production Executives, Production executives etc.

- To interpret and explain the policies framed by top management
- To compile and issue detailed instruction regarding operations
- To Cooperate among themselves so as to integrate various parts of the division or a department
- To motivate supervisory personnel to work for Organisation goals
- To develop and train supervisory and operative personnel.

3. **Supervisory / Operating / Lower Level Management –**

Superintendents, Branch managers, General Foremen

- To plan day to day production within the goals lay down by higher authority
- To assign jobs to workers and to make arrangement for their training and development
- To supervise and control workers and to maintain personal contact with them.

MANAGERIAL FUNCTIONS

Functions	Sub Functions
Planning	Forecasting, decision making, strategy formulation, policy making, programming, scheduling, budgeting, problem-solving, innovation, investigation and research.
Organising	Grouping of Functions, Departmentation, delegation, decentralisation, activity analysis, task allocation
Staffing	Manpower planning, job analysis, Recruitment, Selection, Training, Placement, Compensation, Promotion, appraisal, etc.
Directing	Supervision, Motivation, communication, Leadership, etc
Controlling	Fixation of standard, recording, measurement, reporting corrective action.

ROLES OF A MANAGER (MINTZBERG)

1. **Interpersonal Role** - Interacting with people inside and outside the Organisation
   - **Figurehead** – as a symbolic head of an organisation, the manager performs routine duties of a legal nature
   - **Leader** – Hiring, Training, motivating and guiding subordinates

- **Liaison** - Interacting with other managers outside the organisation to obtain favours and information

2. **Informational Role** – Serving as a focal point for exchange of Information
   - **Monitor** – Seeks and receive information concerning internal and external events so as to gain understanding of the Organisation and its environment.
   - **Disseminator** – Transmits information to subordinates, peers and superiors within the Organisation
   - **Spokesperson** – Speaking on behalf of the Organisation and transmitting information on Organisation plans, policies and actions to outsiders.

3. **Decisional Role** – Makes important decision
   - **Entrepreneur** – Initiating changes or improvements in the activities of the Organisation
   - **Disturbance handler**- Taking charge and corrective action when Organisation faces unexpected crises
   - **Resource allocator** – Distributing Organization’s resources like money, time, equipment and labor
   - **Negotiator** – Representing the Organisation in bargaining and negotiations with outsiders and insiders

HISTORICAL DEVELOPMENTS

- The evolution in management theory over the last century is the history of the constantly changing role of leaders in organizations.
- As organizational leaders evolved from the carrot-and-stick wielding owner-managers of the earlier Industrial Era to the Servant Leaders of the 21st Century, the impact of individual leaders on organizations became progressively important.
- Whereas early managers could rely on authority and strong-arm tactics to reach their goals, servant leaders in our time are challenged to set personal examples by living the values and principles they wish their followers to achieve.

TIMELINE OF MANAGEMENT THOUGHT

Early 1920	Scientific management (Taylor, Gilbreth)
1920s	Statistical process control (Shewart)
1930s	Acceptance sampling (Dodge, Roming)
1940s	Military standards introduced
1950s	Quality management in Japan (Deming, Juran)
1960s	Taguchi method, and quality tools
1970s	Quality becomes strategic (USA)
1980s	Introduction of LEAN, TQM, Baldrige Award
1990s	Reengineering, Six Sigma
2000s	Supply chain management, improvement of supplier development, LEAN, Six sigma become popular, contingency theory

Early Management and the study of management

- Although great feats of human achievement such as the Egyptian pyramids, the Great Wall of China, the Colosseum in Rome and the Taj Mahal in India all bear testimony to skilled management in ancient times, the formal study of management only began late in the 19th century.
- The main driving force behind this development of management as a science was the transition from 19th century "entrepreneurial capitalism" to early 20th century "managerial capitalism".
- Whereas the first capitalists were business owners who used their own finances to fund organizations that they managed themselves, rapid industrial growth saw the formation of large organizations with capital often provided by outsiders. This not only "widened the gap" between owners or shareholders and management, it also brought new management challenges.

Scientific Management

- One of the early pioneers of management theory was **Frederick W. Taylor** (1856-1915), a Mechanical Engineer who believed that it was management's task to design jobs properly and to provide incentives to motivate workers to achieve higher productivity.
- While working at the Midvale Steel Company in Philadelphia, Taylor developed a new time radical approach to manage, known as scientific management.
- He conducted studies into how workers or machines performed tasks, measuring and analyzing each measurable aspect of the work.
- He then determined standard times and sequences for the completion of each task. With this information, Taylor provided managers with realistic production standards per man- and machine-hour.
- Taylor's scientific management changed the role of managers from being run-of-the-mill whip men to specialized foremen who were adequately equipped to supervise each phase of the production process.
- On a larger scale, he revolutionized managerial thought and laid the foundation for the formation of many other management systems in decades to come.

The Administrative Approach

- Across the Atlantic ocean **Jules Henri Fayol** (1841-1925), a fellow engineer and manager of a group of French mines, came to the conclusion that management was an activity common to all human undertakings (including home, business, government, schools, etc.) and that all these undertakings needed five basic administrative functions (planning, organizing, commanding, coordinating and controlling).

- He argued that because management was an all-encompassing activity, it should be taught in schools, colleges and universities.
- Fayol's approach rejected the old notion that "managers are born, not made", proposing instead that management is a skill which can be acquired if its principles are understood.

The Bureaucratic Approach

- **Max Weber** (1864-1920) was a German sociologist who approached management by focusing on organizational structure, dividing organizations into hierarchies with clear lines of authority and control. This meant that managers were given "legal authority" based on their position in the organizational structure, to enforce rules and policy.
- Weber's bureaucratic system helped large organizations to function in a more stable, organized and systematic manner. However, by doing away with personality based or charismatic leadership, individuality and creativity is often sacrificed.
- Bureaucratic leaders and workers are required to obey rules and do only what they are told.
- The result is that these leaders seldom think "outside the box" and therefore find it very difficult to adapt to changing environments and new challenges.

The Human Relations Movement

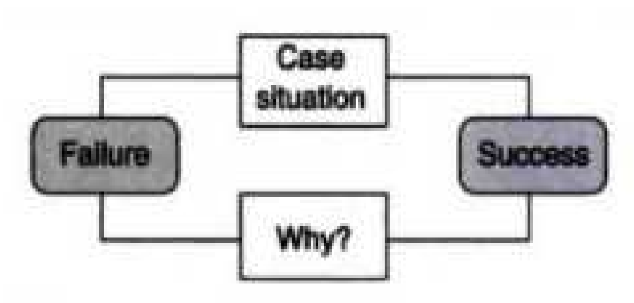
- **Elton Mayo** (1880-1949) was a Harvard professor who proposed that managers should become more "people-orientated".
- Conducting experiments on conditions in the workplace and incorporating the well-published findings of the Hawthorne Studies, Mayo declared that "logical factors were far less important than emotional factors in determining productive efficiency" .
- He concluded that participation in social groups and "group pressure", as opposed to organizational structures or demands from management, had the strongest impact on worker productivity.
- Mayo's findings once again revolutionized the role of managers in organizations.

- The work performed by individuals has to satisfy their “personal, subjective” social needs as well as the company’s productive requirements.
- He and other proponents of this movement therefore called for managers to “accept a new role” in their relationship with workers; develop a new concept of authority; and help foster a new social order in the workplace.
- In practice managers were encouraged to consult workers about change, take note of their views, and to show concern for their physical and mental health.

APPROACHES TO MANAGEMENT

1) Empirical or case Approach
2) Interpersonal Behaviour Approach
3) Group behaviour approach
4) Co-operative Social System Approach
5) Socio-Technical Systems Approach
6) Decision Theory Approach
7) Systems Approach
8) Mathematical Approach
9) Contingency or situational Approach
10) Mintzberg's managerial roles approach
11) McKinsey's 7S framework approach
12) Operational Approach
13) Total Quality management approach
14) Reengineering approach

EMPIRICAL APPROACH

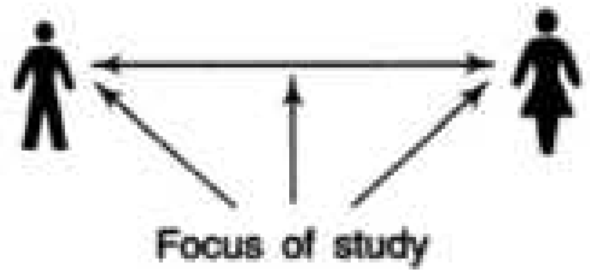


- Study of Managerial Experiences and cases
- Managerial experience passed from participator to students for continuity in knowledge management.
- Study of Successful & failure cases help practising managers.
- Theoretical research combined with practical experiences.
- Uses – Learning through experience of others
- Limitations – No Contribution for the development of management as a discipline – Situations of past not the same as present.

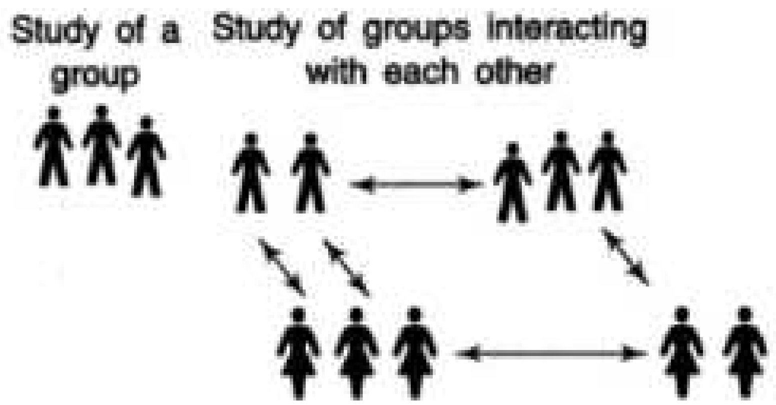
INTERPERSONAL BEHAVIOUR APPROACH

- Organisation as people
- Interpersonal Behaviour Approach

- Individual Psychology



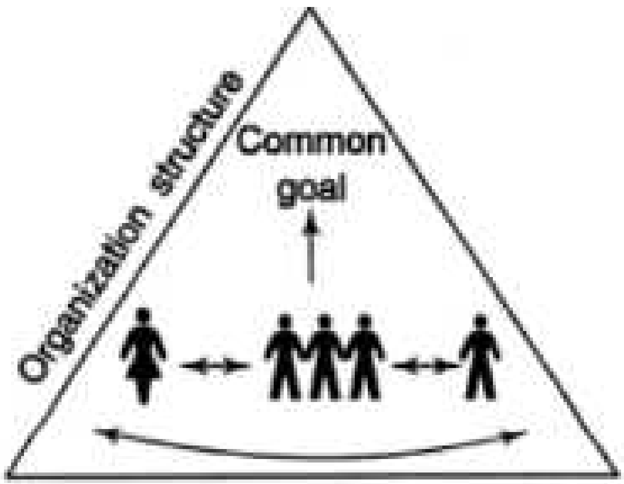
GROUP BEHAVIOUR APPROACH



- Draws heavily from psychology & sociology.
- Understand human relations.
- Emphasis on greater productivity through motivation & good human relations Motivation, leadership, participative management & group dynamics are core of this approach.
- Uses – Demonstrates how management can be effective by applying knowledge of organisation behaviour.
- Contributors – Maslow, Herzberg, Vroom, Mc Cleland, Argyris, Likert, Lewin, Mc Gregor, etc.
- Limitations – Treating management as equivalent to human behaviour. Talks about organisation & organisation behaviour in vague terms.

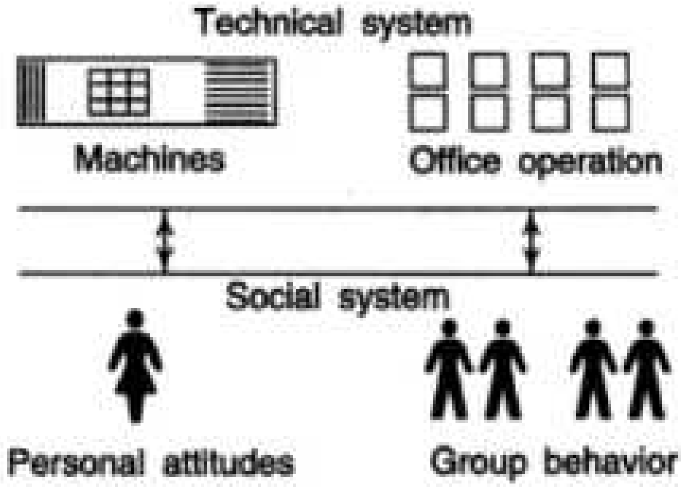
CO-OPERATIVE SOCIAL SYSTEM APPROACH

- Understanding the behaviour of groups & individuals.
- Social System, a system of cultural relationship
- Relationship exist between external and internal environment of the organisation.



- Formal Organisation - Cultural relationships of social groups working within the organisation.
- Co-operation necessary
- Efforts directed - harmony between goals of organisation & goals of groups.
- Uses – Organisational decisions should not be based on desires of one group alone but should reflect the interests of all the parties.
- Limitations – Broader than management & its practice – Overlooks many management concepts principles & techniques that are important to practising managers.

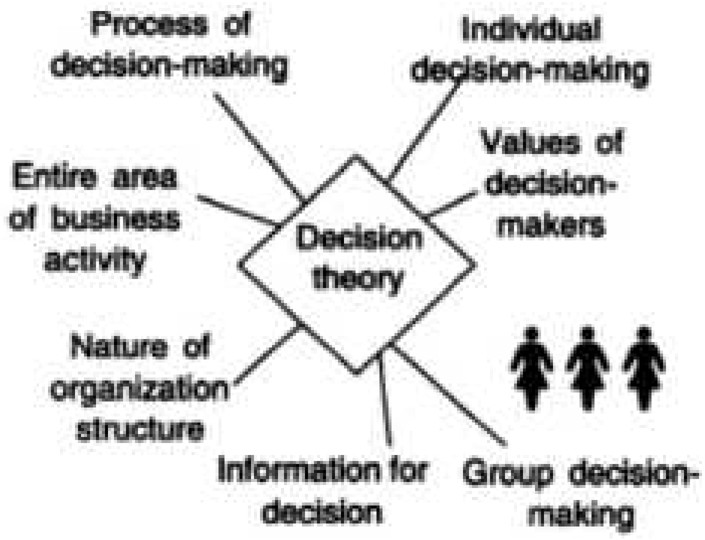
SOCIO -TECHNICAL SYSTEMS APPROACH



- Social & technical systems interact. This interaction is important for organisational effectiveness.
- Organisation – governed by social laws as well as psychological forces.
- Technical aspects of organisation modified by the social aspects.

- Uses – Organisational effectiveness depends on looking at people and their interactions and also at the technical environment in which they operate. Change in technology – Change in social interactions at work place
- Limitations – Lack of total managerial view – Concentrate on factory or other production system – No new contribution – People aware about the role of technology of the social system of the work place

DECISION THEORY APPROACH

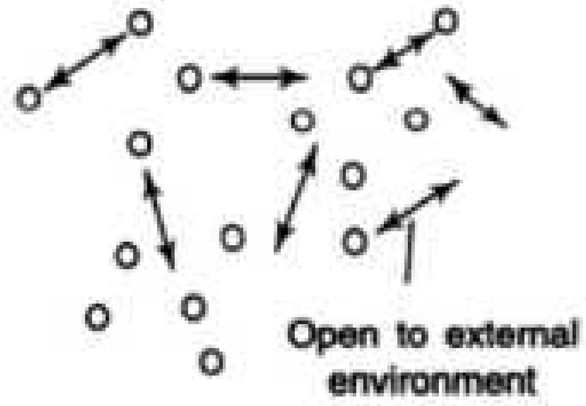


- Manager – Decision maker
- Organisation – Decision making unit.
- Features – Management is decision making. – Members of Organisation - decision makers and problem solvers.
- Decision making - control point in management – Increasing efficiency - the quality of decision – MIS, process & techniques of decision making are the subject matter of study.
- Uses – Tools for making suitable decisions in organisations.
- Limitation – Does not take the total view of management – Decision making - one aspect of management

SYSTEMS APPROACH

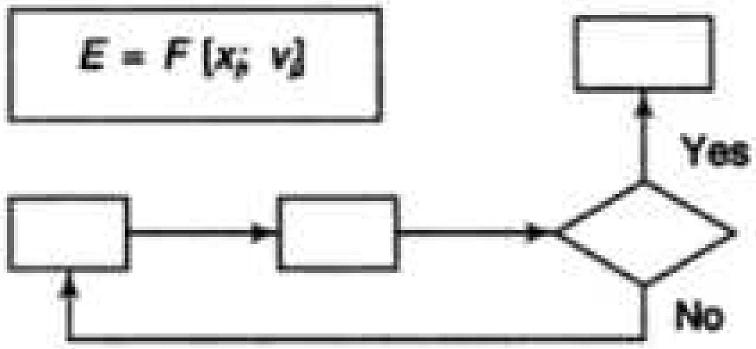
- An enterprise - Man-Made system - Internal parts -Achieve established goals External parts - Achieve interplay with its environment
- Manager integrates his available facilities with goal achievement.
- Uses – Quick Perception – Better Planning

- Limitations – Complicated – Expensive



MATHEMATICAL APPROACH

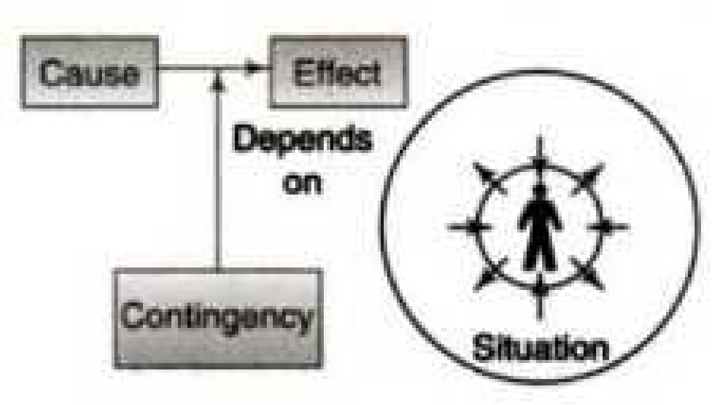
- Management- logical entity
- Actions- Mathematical symbols, Relationships and measurable data.
- Problem Solving mechanism with the help of mathematical tools and techniques.



- Problems Expressed in mathematical symbols.
- Variables in management – quantified.
- Scope - Decision making, system analysis & some aspect of human behaviour. Tools - Operations research ,simulation etc
- Uses – Provided Exactness in management discipline.
- Limitations – Not a separate school – Technique in decision making.

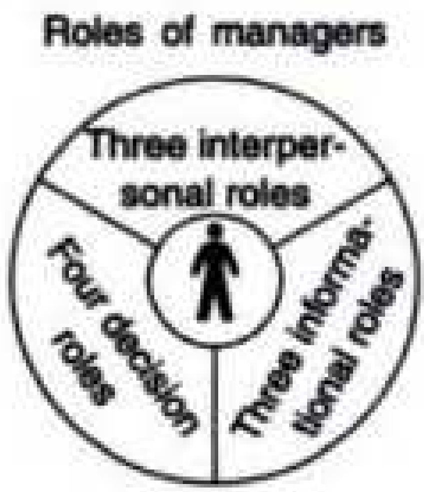
CONTIGENCY OR SITUATIONAL APPROACH

- In developing management concepts the environment within which the concepts are to be applied has to be considered.



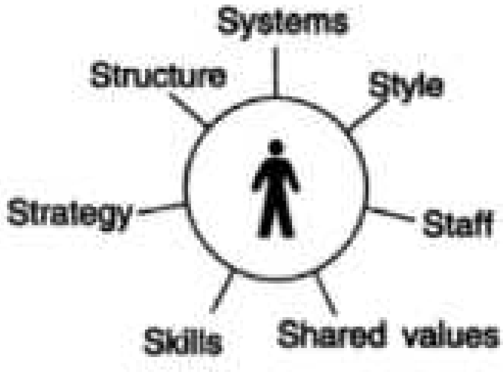
- Internal environment – Structure, Processes, Technology.
- External Environment – Social, Economic, Political etc.
- Features – Appropriateness of a management technique depends on situation-If - Then approach.

MINTZBERG'S MANAGERIAL ROLES APPROACH



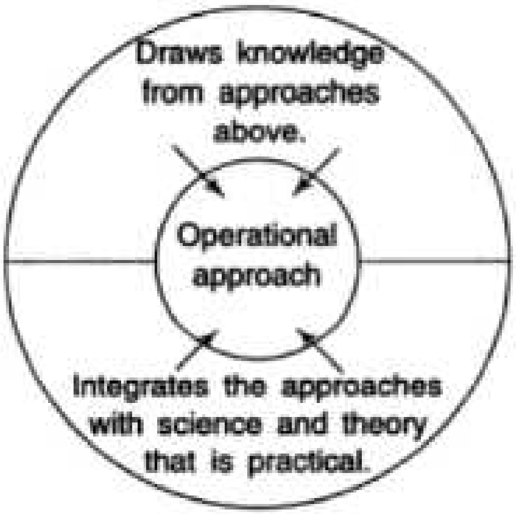
1. Interpersonal Role
   - Figurehead
   - Leader
   - Liaison
2. Informational Role
   - Monitor
   - Disseminator
   - Spokesperson
3. Decisional Role
   - Entrepreneur
   - Disturbance handler
   - Resource allocator
   - Negotiator

MCKINSEY'S 7S FRAMEWORK APPROACH



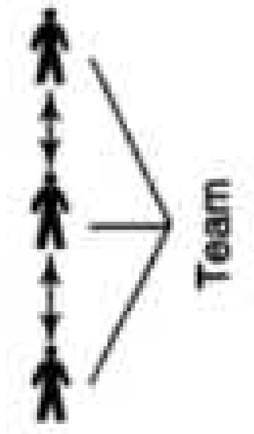
- Strategy
- Structure
- Systems
- Style
- Staff
- Shared values
- Skills

OPERATIONAL APPROACH



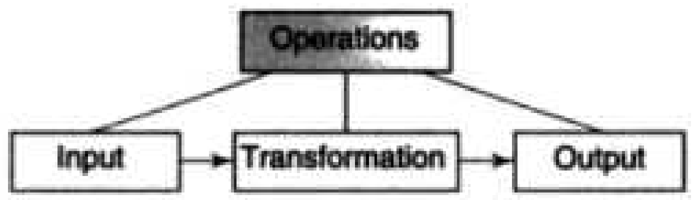
- Management is a process.
- Universalist / Classist / Traditional Approach.
- Functions of managers remain same – Functions of management – core of good management – Framework of management – Principles of management
- Uses – Flexible & practical but not universal.

TOTAL QUALITY MANAGEMENT APPROACH



- Focuses on providing dependable, satisfying products and services or services that are fit for use as well as confirming to quality requirements.
- The general concepts are continuous improvements, attention to details, team work and quality education.

REENGINEERING APPROACH



- It is concerned with fundamental rethinking, process analysis, radical redesign and dramatic results.
- It neglects external environment.
- Possibly ignores customers needs, total management system.

MANAGEMENT AND ADMINISTRATION

Administration frames the objectives and policies of an organization. Management implements these policies and objectives.

Management and administration are at times used interchangeably; however, they are two different levels of the organization. The administration is the top level of the organization with the decisive functions. They are responsible for determining the policies and objectives of the organization or the firm. Management, on the other hand is the middle level executive function. They implement the policies and objectives as decided by the administration.

The administration includes the people who are either owners or partners of the firm. They usually contribute to the firm's capital and earn profits or returns on their investment. The main administrative function is handling the business aspects of the firm, such as finance. Other administrative functions usually include planning, organizing, staffing, directing, controlling and budgeting. Administration must integrate leadership and vision, to organize the people and resources, in order to achieve common goals and objectives for the organization.

Management usually incorporates the employees of the firm who use their skills for the firm in return for remuneration. Management is responsible for carrying out the strategies of the administration. Motivation is the key factor of a management. Management must motivate and handle the employees. It can be said that management is directly under the control of administration. Management and administration may seem the same, but there are differences between the two. Administration has to do with the setting up of objectives and crucial policies of every organization. What is understood by management, however, is the act or function of putting into practice the policies and plans decided upon by the administration.

Administration is a determinative function, while management is an executive function. It also follows that administration makes the important decisions of an enterprise in its entirety, whereas management makes the decisions within the confines of the framework, which is set up by the administration.

Administration is the top level, whereas management is a middle level activity. If one were to decide the status, or position of administration, one would find that it consists of owners who invest the capital, and receive profits from an organization. Management consists of a group of managerial persons, who leverage their specialist skills to fulfill the objectives of an organization.

Administrators are usually found in government, military, religious and educational organizations. Management is used by business enterprises. The decisions of an administration are shaped by public opinion, government policies, and social and religious factors, whereas management decisions are shaped by the values, opinions and beliefs of the mangers.

In administration, the planning and organizing of functions are the key factors, whereas, so far as management is concerned, it involves motivating and controlling functions. When it comes to the type of abilities required by an administrator, one needs administrative qualities, rather than technical qualities. In management, technical abilities and human relation management abilities are crucial.

Administration usually handles the business aspects, such as finance . It may be defined as a system of efficiently organizing people and resources, so as to make them successfully pursue and achieve common goals and objectives. Administration is perhaps both an art and a science. This is because administrators are ultimately judged by their performance. Administration must incorporate both leadership and vision.

Management is really a subset of administration, which has to do with the technical and mundane facets of an organization’s operation. It is different from executive or strategic work. Management deals with the employees. Administration is above management, and exercises control over the finance and licensing of an organization.

Therefore, we can see that these two terms are distinct from one another, each with their own set of functions. Both these functions are crucial, in their own ways, to the growth of an organization.

Definition of Management

Management is defined as an act of managing people and their work, for achieving a common goal by using the organization's resources. It creates an environment under which the manager and his subordinates can work together for the attainment of group objective. It is a group of people who use their skills and talent in running the complete system of the organization. It is an activity, a function, a process, a discipline and many more.

Planning, organizing, leading, motivating, controlling, coordination and decision making are the major activities performed by the management. Management brings together 5M's of the organization, i.e. Men, Material, Machines, Methods and Money. It is a result oriented activity, which focuses on achieving the desired output.

Definition of Administration

Administration is a systematic process of administering the management of a business organization, an educational institution like school or college, government office or any non profit organization. The main function of administration is formation of plans, policies and procedures, setting up of goals and objectives, enforcing rules and regulations, etc.

Administration lays down the fundamental framework of an organization, within which the management of the organization functions. The nature of administration is bureaucratic. It is a broader term as it involves forecasting, planning, organizing and decision making functions at the highest level of the enterprise. Administration represents the top layer of the management hierarchy of the organization. These top level authorities are the either owners or business partners who invest their capital to start the business. They get their returns in the form of profits or as a dividend.

Key Differences between Management and Administration

The major differences between management and administration are given below:

1. Management is a systematic way of managing people and things within the organization. The administration is defined as an act of administering the whole organization by a group of people.

2. Management is an activity of business and functional level, whereas Administration is a high level activity.
3. Management plays an executive role in the organization. Unlike administration, whose role is decisive in nature.
4. Administration takes all the important decisions of the organization while management makes decisions under the boundaries set by the administration.
5. A group of persons, who are employees of the organization are collectively known as management. On the other hand, administration represents the owners of the organization.
6. Management can be seen in the profit making organization like business enterprises. Conversely, the Administration is found in government and military offices, clubs, hospitals, religious organizations and all the non profit making enterprises.
7. Management is all about plans and actions, but the administration is concerned with framing policies and setting objectives.
8. The manager looks after the management of the organization, whereas administrator is responsible for the administration of the organization.
9. Management focuses on managing people and their work. On the other hand, administration focuses on making the best possible utilization of the organization’s resources.

Summary:

1. Management is the act or function of putting into practice the policies and plans decided upon by the administration.

2. Administration is a determinative function, while management is an executive function.

3. Administration makes the important decisions of an enterprise in its entirety, whereas management makes the decisions within the confines of the framework, which is set up by the administration.

4. Administrators are mainly found in government, military, religious and educational organizations. Management, on the other hand, is used by business enterprises.

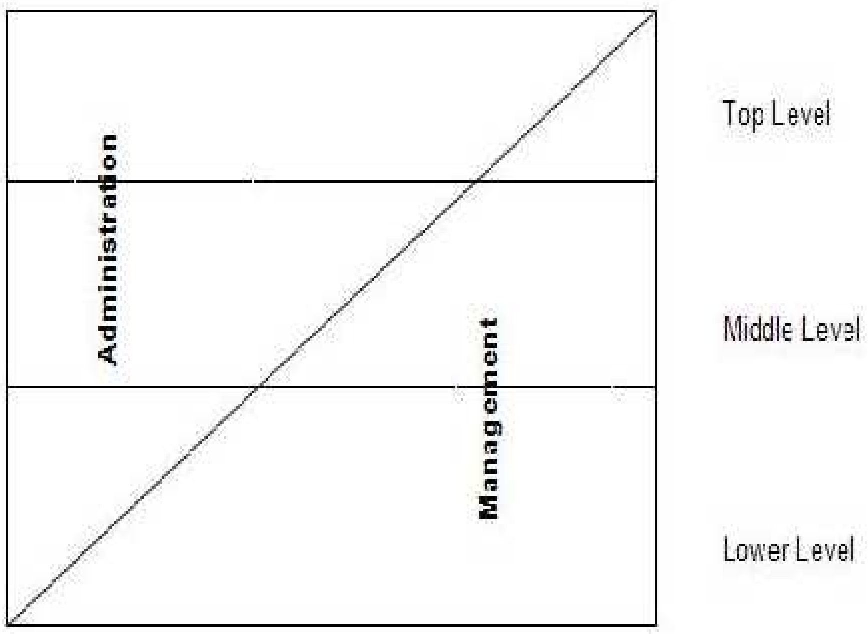
COMPARISON CHART

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called the Management.	The process of administering an organization by a group of people is known as the Administration.
Authority	Middle and Lower Level	Top level
Role	Executive	Decisive
Area of operation	It has full control over the activities of the organization.	It works under administration.
Applicable to	Profit making organizations, i.e. business organizations.	Government offices, military, clubs, business enterprises, hospitals, religious and educational organizations.
Decides	Who will do the work? And How will it be done?	What should be done? And When is should be done?
Work	Putting plans and policies into actions.	Formulation of plans, framing policies and setting objectives

BASIS FOR COMPARISON	**MANAGEMENT**	**ADMINISTRATION**
Focus on	Managing work	Making best possible allocation of limited resources.
Key person	Manager	Administrator
Represents	Employees, who work for remuneration	Owners, who get a return on the capital invested by them.

Conclusion

Theoretically, it can be said that both are different terms, but practically, you will find that the terms are more or less same. You would have noticed that a manager performs both administrative and functional activities. Although, the managers who are working on the top most level are said to be the part of administration whereas the managers working on the middle or lower level represents management. So, we can say that administration is above management.



DEVELOPMENT OF MANAGEMENT THOUGHT

Both theory and history are indispensable tools for managing contemporary organizations. A theory is a conceptual framework for organizing knowledge that provides a blueprint for various courses of action.

Early Approaches to Management

Name	Period	Contribution
Robert Owen	1771-1858	Proposed legislative reforms to improve working conditions of labor
Charles Babbage	1792-1871	Advocated the concept or 'division of labor'
Andrew Ure	1778-1857	Advocated the study of management
Charles Dupin	1784-1873	
Henry R.Towne	1844-1924	Emphasized the need to consider management as separated field of study and the importance of business skills for running a business.

Major classification of management approaches

CLASSICAL APPROACH	SCIENTIFIC MANAGEMENT	BUREAUCRATIC MANAGEMENT	ADMINISTRATIVE MANAGEMENT
BEHAVIORAL APPROACH	HAWTHORNE STUDIES	MASLOW'S NEED HIERARCHY	THEORY X AND THEORY Y
QUANTITATIVE APPROACH	MANAGEMENT SCIENCE	OPERATIONS MANAGEMENT	MANAGEMENT INFORMATION SYSTEM
MODERN APPROACH	THE SYSTEMS THEORY	CONTINGENCY THEORY	EMERGING APPROACHES

CLASSICAL APPROACH

- Forms the foundation for the field of management

- The schools for management thoughts are:
    - Scientific Management
    - Administrative Theory
    - Bureaucratic Management

1. SCIENTIFIC MANAGEMENT-F.W. TAYLOR

- Piece rate incentive system
- Time and motion study
- Gantt scheduling chart-Henry Laurence Gantt

2. ADMINISTRATIVE THEORY- HENRY FAYOL

- Technical
- Commercial
- Financial
- Security
- Accounting
- Managerial

3. BUREAUCRATIC MANAGEMENT- MAX WEBER

- Work specialization and division of labor
- Abstract rules and regulations
- Impersonality of managers
- Hierarchy of organization structure

Scientific Management

- Early 1900s
- It is defined as “that kind of management which conducts a business or affairs by standards established, by facts or truths gained through systematic observation, experiment, or reasoning.”

  Major contributors:

- Frederick Winslow Taylor
- Frank and Lillian Gillbreth
- Henry L.Gantt

Frederick Winslow Taylor

- “Father of scientific management”(1878)
- Two major managerial practices:
- Piece-rate incentive system
- Time-and-motion study

Frank and Lillian Gilbreth

- 1868-1924
- Motion study involves finding out the best sequence and minimum number of motions needed to complete a task.
- Explore new ways for eliminating unnecessary motions and reducing work fatigue.

Henry L.Gantt (1861-1919)

- Well known for Task – and - bonus system -The Gantt chart
- If the worker completed the work fast, i.e., in less than the standard time, he received a bonus.
- It is a Simple chart that compares actual and planned performances.

Limitations of Scientific Management

- Do not focus on the management of an organization from a manager’s point of view.
- People were “rational” and were motivated primarily by the desire for material gain.
- It also ignored the human desire for job satisfaction.

Administrative Theory:

- It focused on principles that could be used by managers to coordinate the internal activities of organizations.
- Henri Fayol (1841-1925) Fourteen principles:

1. Division of work
2. Authority and responsibility
3. Discipline
4. Unity of command
5. Unity of direction
6. Subordination of the individual interest to the general interest
7. Remuneration
8. Centralization:

9. Scalar chain
10. Order
11. Equity
12. Stability
13. Initiative
14. Espirit de corps (team spirit)

Bureaucratic Management-Weber (1864-1920)

Characteristics of Weber's ideal Bureaucracy:

- Work specification and division of labor
- Abstract rules and regulations
- Impersonality of managers
- Hierarchy of organization structure

Limitations of Bureaucratic Management and Administrative Theory

- Not universally applicable to today's complex organizations.
- Fayol's principles like that of specialization were frequently in conflict with the principle of unity of command.
- Principle characteristic of bureaucracy changes in the global environment.
- Classical theorists ignored the problems of leadership, motivation, power or information relations.

Behavioral Approach

- The behavioral approach to management emphasized individual attitudes and behaviors and group processes, and recognized the significance of behavioral process in the workplace.

Hawthorne Studies

- Illumination studies
- Relay assembly room study
- Bank wiring room study

Contributions of Behavioral Thinkers to Management Thought

Name	Period	Contribution
Mary Parker Follet	1868-1933	Advocated the concept of 'power sharing' and integration
Elton Mayo	1868-1933	foundation for the Human Relations Movement;
Abraham Maslow	1908 – 1970	motivated by a hierarchy of needs
Douglas McGregor	1906-1964	Theory X and Theory Y personalities
Chris Argyris	-	Classified organizations based on the employees' set of values

Mary Parker Follet (1868-1933)

- Power, according to Follet, was the ability to influence and bring about a change.
- Concept of integration, which involves finding a solution acceptable to all group members

Abraham Maslow

His theory rested on these assumptions.

- Physiological needs;
- Safety or security needs
- Belongingness or social needs;
- Esteem or status needs
- Self actualization or self-fulfillment needs.

Maslow's Need Hierarchy

Elton Mayo (1868-1933)

Pre-judgment	Findings
Job performance depends on the individual worker	The group is the key factors in job performance
Fatigue is the main factor affecting output.	Perceived meaning and importance of the work determining output.
Management sets production standards	Workplace culture sets its own production standards.

Douglas Mcgregor

Theory X	**Theory Y**
Most People dislike work	Work is a natural activity like play.
Most People must be coerced and threatened before they work.	People are capable of self direction and self control
Most people prefer to be directed. They avoid responsibility and have little ambition.	People become committed to organizational objectives if they are rewarded in doing so.

Chris Argyris

- Maturity – immaturity theory
- People progress from a stage of immaturity and dependence to a state of maturity and independence.
- Model I and Model II organization analysis.
- Model I organization are manipulative

Quantitative Approach

- It includes the application of statistics, optimization models, information models and computer simulations. More specifically, this approach focuses on achieving organizational effectiveness.

Three main branches:

- Management Science
- Operations Management and
- Management Information Systems.

Management Science

- It stresses the use of mathematical models and statistical methods for decision-making.
- Another name is the Operations Research.

Operations Management

- It deals with the effective management of the production process and the timely delivery of an organization's products and services.

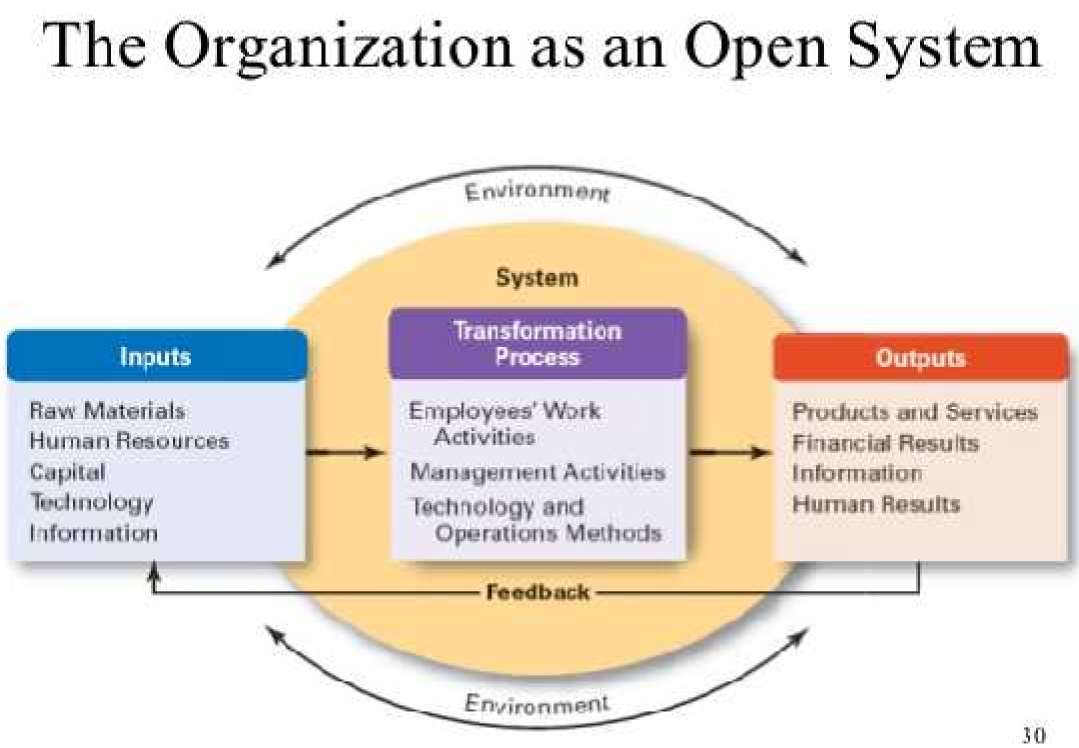
Management Information Systems

- Management information systems focuses on designing and implementing computer-based information systems for business organizations.

Modern Approaches to Management

- Systems Theory
- Contingency Theory

<u>Systems Theory</u>



Contingency Theory

Systems Viewpoint
How the parts fits together

- Individual
- Group
- Organization
- environment

Behavioral Viewpoint
How managers influence others

- Interpersonal Roles
- Informational Roles
- Decisional Roles

Traditional viewpoint
What managers do

- Plan
- Organize
- Lead
- Control

Contingency Viewpoint

Managers' use of other view points to solve problems

- External environment
- Technology
- Individuals

CONTRIBUTION OF F.W.TAYLOR TO SCIENTIFIC MANAGEMENT

Frederick W. Taylor (1856-1915), developer of scientific management. **Scientific management** (also called **Taylorism** or the **Taylor system**) is a theory of management that analyzes and synthesizes workflows, with the objective of improving labour productivity. The core ideas of the theory were developed by Frederick Winslow Taylor in the 1880s and 1890s, and were first published in his monographs, *Shop Management* (1905) and *The Principles of Scientific Management* (1911).

Taylor believed that decisions based upon tradition and rules of thumb should be replaced by precise procedures developed after careful study of an individual at work. Its application is contingent on a high level of managerial control over employee work practices. Taylorism is a variation on the theme of efficiency; it is a late 19th and early 20^{th} century instance of the larger recurring theme in human life of increasing efficiency, decreasing waste, and using empirical methods to decide what matters, rather than uncritically accepting pre-existing ideas of what matters. Thus it is a chapter in the larger narrative that also includes, for example, the folk wisdom of thrift, time and motion study, Fordism, and lean manufacturing. It overlapped considerably with the Efficiency Movement, which was the broader cultural echo of scientific management's impact on business managers specifically.

In management literature today, the greatest use of the concept of Taylorism is as a contrast to a new, improved way of doing business. In political and sociological terms, Taylorism can be seen as the division of labour pushed to its logical extreme, with a consequent de-skilling of the worker and dehumanisation of the workplace.

PRINCIPLES OF SCIENTIFIC MANAGEMENT

1. Replacing rule of thumb with science
2. Harmony in group action
3. Co-operation
4. Maximum output
5. Development of workers

General approach

1. Shift in decision making from employees to managers
2. Develop a standard method for performing each job
3. Select workers with appropriate abilities for each job
4. Train workers in the standard method previously developed
5. Support workers by planning their work and eliminating interruptions
6. Provide wage incentives to workers for increased output.

Contributions

- Scientific approach to business management and process improvement
  - ❖ Workers and managers must work according to scientific principles rather than working haphazardly when carrying out organizational activities.
- Importance of compensation for performance
  - ❖ Organizational activities must be performed in a coordinated and consistent way, not in an inconsistent and incoherent way
- Began the careful study of tasks and jobs.
  - ❖ Organizations and their methods, rather than submitting low unproductiveness, must reject this and must try to provide the highest productivity.
  - ❖ Specialization in every part of a defined labor must be provided.
- Importance of selection criteria by management
  - ❖ Each labor must be parted to sub-factors forming it. When defining activities which workers must carry out, not only intuition and experience but also scientific methods must be used as well.
  - ❖ People whose mental and physical skills are sufficient for works being standardized must be chosen that's to say, the most suitable staff member must be chosen.

Elements

- Labor is defined and authority/responsibility is legitimised/official
- Positions placed in hierarchy and under authority of higher level
- Selection is based upon technical competence, training or experience
- Actions and decisions are recorded to allow continuity and memory
- Management is different from ownership of the organization

- Managers follow rules/procedures to enable reliable/predictable behaviour.

While working in Midvale Company as a manager Taylor observed that employees were not performing as per their capacity of productivity. And he considered that this condition was occurring because of no care towards the waste. Taylor worked towards the experiments at his work place to increase the worker's efficiency so that maximum output could be achieved by utilizing effort at maximum level.

1. **Scientific task setting:-** Taylor observed that the management does not know exactly the works – pieces of work- volume of works- which are to be performed by the workers during a fixed period of time- which is called working day. In a working day how much work is to be done by a worker but be fixed by a manager and the task should be set every day. The process of task setting requires scientific technique. To make a worker do a quantity of work in a working day is called scientific task setting
2. **Differential payment system:-** under this system, a worker received the piece rate benefit which will attract the workers to work more for more amount of wages and more incentives would be created to raise the standardization of output to promote the workers to produce more and perform more task than before and utilize waste time to earn more wages.
3. **Reorganization of supervision:-** concepts of separation of planning and doing and functional foremanship were developed. Taylor opines that the workers should only emphasize in planning or in doing. There should be 8 foreman in which 4 are for planning and 4for doing. For planning they were route clerk, instruction cord clerk, time and cost clerk and disciplinarian. And for doing they were speed boss, gang boss, repair boss and inspector.
4. **Scientific recruiting and training:-**staffs and workers should be selected and employed on scientific basis. Management should develop and train every worker by providing proper knowledge and training to increase their skills and make them effective
5. **Economy:-** efficient cost accounting system should be followed to control cost which can minimize the wastages and thoroughly reduced and thus eliminated.

6. **Mental revolution:-** Taylor argued that both management and workers should try to understand each other instead of quarrelling for profits and benefits which would increase production, profit and benefits.

Criticisms

- Did not appreciate the social context of work and higher needs of workers.
- Did not acknowledge variance among individuals.
- Tended to regard workers as uninformed and ignored their ideas and suggestions.

TOOLS OF SCIENTIFIC MANAGEMENT

1. Separation of planning and doing
2. Functional Foremanship
3. Job Analysis
4. Standardization
5. Scientific Selection and training of workers
6. Financial Incentives
7. Economy
8. Mental Revolution

CONTRIBUTION OF HENRY FAYOL

Fayolism is one of the first comprehensive statements of a general theory of management, developed by the French management theorist Henri Fayol (1841–1925): one of the most influential contributors to modern concepts of management.

Fayol has proposed that there are five primary functions of management:

(1) Planning,

(2) Organizing,

(3) Commanding,

(4) Coordinating and

(5) Controlling.

Fayol's work has stood the test of time and has been shown to be relevant and appropriate to contemporary management. Daft's text is organized around Fayol's four functions. Many of today's management texts including Daft (2005) have reduced the five functions to four:

(1) Planning,

(2) Organizing,

(3) Leading and

(4) Controlling.

The 6 types of Operations

For Fayol any organisation can be subdivided into six types of operations. Each operation being fulfilled by its corresponding essential function:

1. **Technical** Operations (production, manufacturing, transformation)
2. **Commercial** Operations (purchases, sales, exchanges)
3. **Financial** Operations (seek for capital and finance management)
4. **Security** Operations (protection of goods and people)
5. **Accounting** Operations (balance, P&L, cost control, statistics, etc)

6. **Administrative' Operations** (**Management**)

In 1925 six month before Henri Fayol's death Verne helped Fayol to redefine the function of administration (Administration Industrielle et Generale).

The 9 Levels

Fayol was representing an organisation like a living body (« **corps social** », ie. "social body") with main organs hierarchically structured as follow:

1. Shareholders,
2. Board of Administration,
3. General Direction and its General staff (advisors),
4. Regional/local Directions,
5. Main Engineers,
6. Services Managers,
7. Workshops Managers,
8. Foremen,
9. Workers.

The 5 Elements of Administration

Popularized by Fayol with the acronym of POCCC:

1. **Planning** (to foresee/anticipate and make plans)
2. **Organisation** (to provide the Function with all is needed for its smooth running: Supplies, Tools, Funding and Employees)
3. **Commandment** (to lead the people employed by the organisation)
4. **Coordination** (to harmonise all actions of an Organisation in order to facilitate its smooth running and success)
5. **Control** (to verify if everything happens in accordance with defined plans, orders given, and accepted principles)

For Fayol, "The Art of Commanding” relies upon certain personal qualities and upon the knowledge of management general principles. It has, like all other arts, its degrees. The manager in charge of a commandment must:

1. Have a deep knowledge of his staff;
2. Cull the incapables;
3. Well know the conventions binding the organisation and its members;
4. Give the good example (by his attitude);
5. Conduct regular inspections of the « corps social »;
6. Get together his main partners in conferences (meetings) where are prepared the Unity of Direction and the Focus of Efforts;
7. Not be distracted by details;
8. Aim to make prevalent among his staff, energy and initiative.

The 14 Principles of Administration

1. **Division of work:** Reduces the span of attention or effort for any one person or group. Develops practice or routine and familiarity.

2. **Authority:** "The right to give orders. Should not be considered without reference to responsibility."

3. **Discipline:** "Outward marks of respect in accordance with formal or informal agreements between a firm and its employees."

4. **Unity of command:** "One man one superior!"

5. **Unity of direction:** "One head and One plan for a group of activities with the same objective."

6. **Subordination of Individual Interests to the Common Interest:** "The interests of one individual or group should not prevail over the general or common good."

7. **Remuneration of personnel:** "Pay should be fair to both the worker as well as the organization."

8. **Centralisation:** "Is always present to a greater or lesser extent, depending on the size of the company and the quality of its managers."

9. **Scalar chain:** "The line of authority from top to bottom of the organization."

10. **Order: "**A place for everything and everything in its right place; ie. The right man in the right place."

11. **Equity:** "A combination of kindness and justice towards employees."

12. **Stability of personnel tenure:** "Employees need to be given time to settle in to their jobs, even though this may be a lengthy period in the case of some managers."

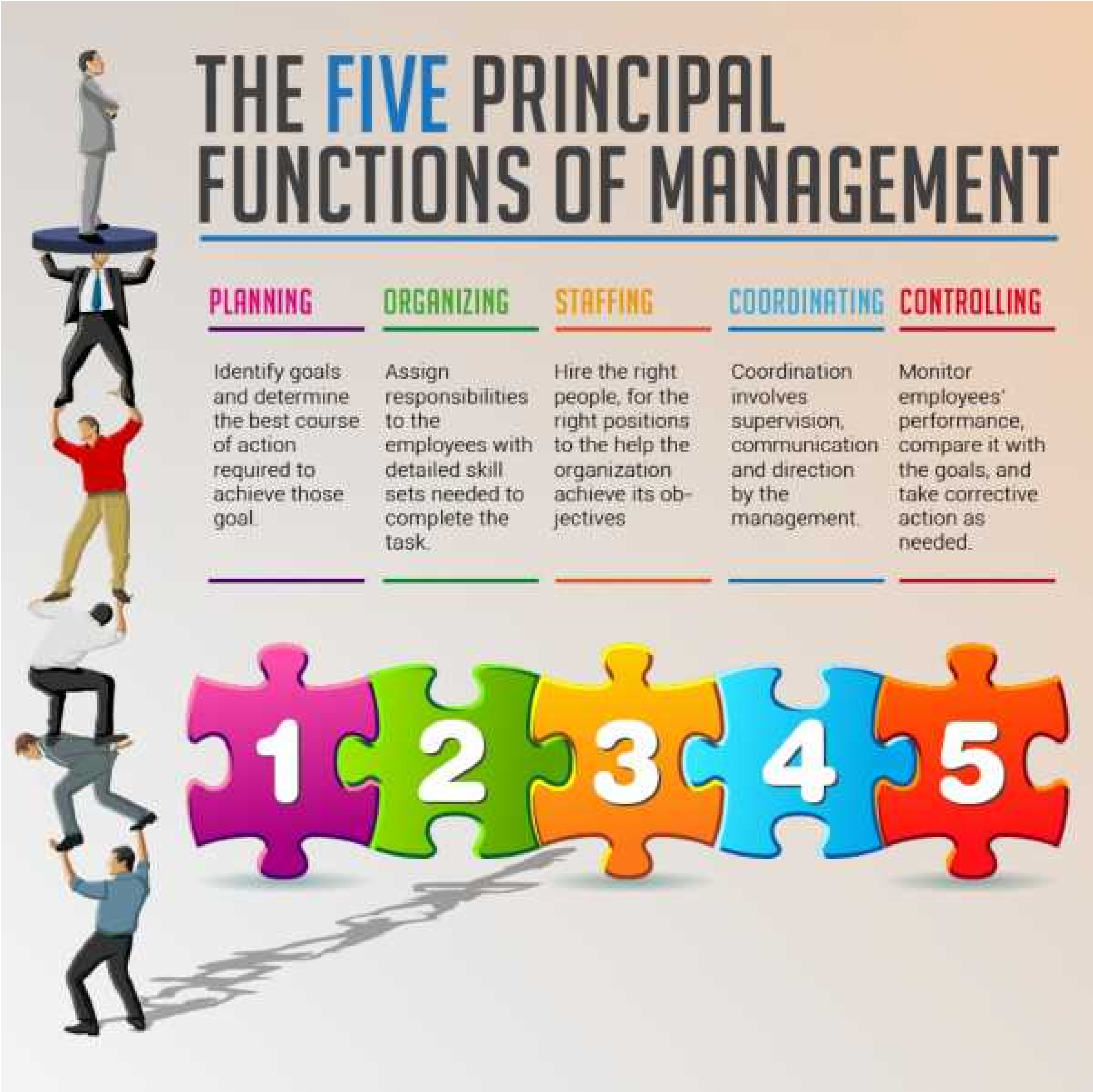
13. **Initiative:** "Within the limits of authority and discipline, all levels of staff should be encouraged to show initiative."

14. **Esprit de corps (Union is strength):** "Harmony is a great strength to an organization; **teamwork** should be encouraged."

Fayol suggested that it is important to have unity of command: a concept that suggests there should be only one supervisor for each person in an organization. Like Socrates, Fayol suggested that management is a universal human activity that applies equally well to the family as it does to the corporation.

FUNCTIONS OF MANAGEMENT

Management operates through various functions, often classified as planning, organizing, staffing, leading/directing, and controlling/monitoring.



Planning:

- Deciding what needs to happen in the future (today, next week, next month, next year, over the next 5 years, etc.) and generating plans for action.

Organizing:

- Implementation making optimum use of the resources required to enable the successful carrying out of plans.

Staffing:

- Job Analyzing, recruitment and hiring individuals for appropriate jobs.

Leading/directing:

- Determining what needs to be done in a situation and getting people to do it.

Controlling/Monitoring:

- Checking progress against plans, which may need modification based on feedback.

PROFIT

$ $

PLANNING

Vision
Directional and motivational guidance for the entire organization.

Mission
An Organization's reason for being. It reflects the culture and values of ownership.

Objectives
Objectives refine the Mission and address key issues within the organization such as market standing, innovation, productivity, physical and financial resources, profitability, management and worker performance.

Goals
Goals are specific statements of anticipated results that further define the organization's objectives. They are expected to be SMART: Specific, Measurable, Attainable, Rewarding, and Timed.

Strategic Planning
Strategies are major plans that commit large amounts of resource to proposed actions which are designed to achieve the major goals and objectives.

ORGANIZATION

Organizational Structure
The organization structure and distribution of authority should reflect the mission, objectives, goals and tactics that grew out of the planning function.

Division of Labor
Division of Labor is captured in an organization chart which is a pictorial representation of an organization's formal structure. It must always remain consistent with reality.

Delegation of Authority
Authority is legitimized power. Power is the ability to influence others. Delegation is the distribution of authority which frees ownership from the tyranny or urgency, repetitive activities and overwhelming tasks.

Departmentalization
Departmentalization is the grouping of jobs under the authority of a single manager for the purposes of planning, coordination and control.

Informal Structure
The informal structure has no written rules, is fluid in form and scope, is not easy to identify and has vague membership guidelines. It cannot be controlled by management but access to it can create a closed circle of communication that can signal important morale issues.

STAFFING

Recruiting
Staffing follows the organization functions by filling, and keeping filled, every required position within the company.

Screening
The acceptance of poor quality candidates yields poor quality employees. Screening includes proper wording of ads, a structured interviewing process, testing and background checks.

Hiring
Recruiting and screening are useless if nobody is hired. Hiring is a skill of creating a persuasive and alluring opportunity proposition.

Training
Training is what determines if your well-chosen candidates will succeed or fail. Most employers decry the cost of training without ever examining the cost of NO TRAINING.

Maintaining
A well executed staffing function will keep all positions filled with qualified, well trained employees without allowing any department to ever fall below its minimum roster count.

DIRECTION

Decision Making and Problem Solving
Two fundamental attributes of successful entrepreneurs are problem solving and decision making. They are closely linked and are, typically, mirrored in the efficiency and productivity of their management and staff.

Leadership
Organizations do not succeed while their people are failing. Strong, fair, decisive leadership that displays compassionate use of the five functions of management will ultimately succeed.

Communication
The Key to successful directing lies in effectively communicating directives. Poor communication results in poor execution.

Motivation
Needs, Rewards and Effort are the three most important components of positive motivation. Figure out a person's needs, satisfy them and the person will be motivated.

Discipline
Avoidance of pain or discomfort is a powerful method of holding people accountable. Once behavioral guidelines have been established then dispassionate discipline must be exercised.

CONTROL

Establish Standards
Performance standards must be established based on the firm's objectives and the use and availability of resources.

Measurement
The accurate measurement and reporting of real-time performance is crucial. Without it, no order can be maintained and chaos reigns.

Comparison
The comparison of the company's predicted performance to actual, real-time performance allows ownership to properly assess their position.

Action
Corrective action must be immediately taken whenever there is even the slightest deviance between actual and predicted results and behaviors.

Re-Cycle
Control is both anticipatory and retrospective. It is also cyclical, which means it never ends.

TYPES OF BUSINESS ORGANISATIONS

A business is an organization that uses economic resources or inputs to provide goods or services to customers in exchange for money or other goods and services. Business organizations come in different types and forms. There are 4 Types of Business,

1. Service Business

A service type of business provides intangible products (products with no physical form). Service type firms offer professional skills, expertise, advice, and other similar products.

Examples of service businesses are: schools, repair shops, hair salons, banks, accounting firms, and law firms.

2. Merchandising Business

This type of business buys products at wholesale price and sells the same at retail price. They are known as "buy and sell" businesses. They make profit by selling the products at prices higher than their purchase costs. A merchandising business sells a product without changing its form.

Examples are: grocery stores, convenience stores, distributors, and other resellers.

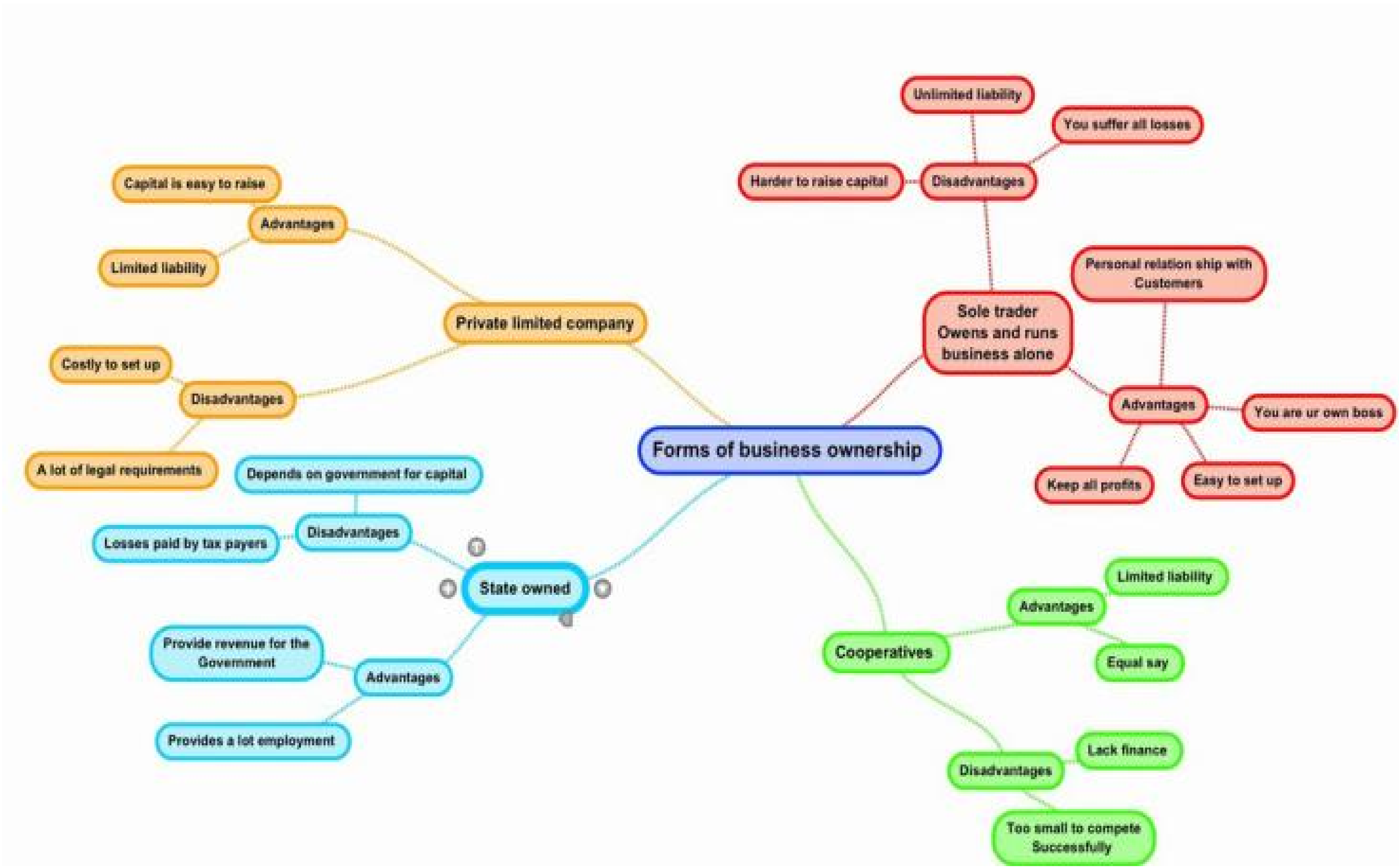
3. Manufacturing Business

Unlike a merchandising business, a manufacturing business buys products with the intention of using them as materials in making a new product. Thus, there is a transformation of the products purchased. A manufacturing business combines raw materials, labor, and factory overhead in its production process. The manufactured goods will then be sold to customers.

4. Hybrid Business

Hybrid businesses are companies that may be classified in more than one type of business. A restaurant, for example, combines ingredients in making a fine meal (manufacturing), sells a cold bottle of wine (merchandising), and fills customer orders (service). Nonetheless, these companies may be classified according to their major business interest. In that case, restaurants are more of the service type – they provide dining services.

Forms of Business Organization



These are the basic forms of business ownership:

1. Sole Proprietorship

- A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.
- A sole proprietorship is a business owned by only one person. It is easy to set-up and is the least costly among all forms of ownership.
- The owner faces unlimited liability; meaning, the creditors of the business may go after the personal assets of the owner if the business cannot pay them.
- The sole proprietorship form is usually adopted by small business entities.

Characteristics of sole proprietorship form of business organisation

(a) Single Ownership: The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.

(b) No Separation of Ownership and Management: The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company form of business organisation. A sole proprietor contributes and organises the resources in a systematic way and controls the activities with the objective of earning profit.

(c) Less Legal Formalities: The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

(d) No Separate Entity: The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.

(e) No Sharing of Profit and Loss: The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.

(f) Unlimited Liability: The liability of the sole proprietor is unlimited. In case of loss, if his business assets are not enough to pay the business liabilities, his personal property can also be utilised to pay off the liabilities of the business.

(g) One-man Control: The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

Merits of Sole proprietorship

(a) Easy to Form and Wind Up.

(b) Quick Decision and Prompt Action.

(c) Direct Motivation.

(d) Flexibility in Operation.

(e) Maintenance of Business Secrets.

(f) Personal Touch.

Limitations of sole proprietorship

(a) Limited Resources.

(b) Lack of Continuity.

(c) Unlimited Liability.

(d) Not Suitable for Large Scale Operations.

(e) Limited Managerial Expertise.

2. Partnership

- A partnership is a business owned by two or more persons who contribute resources into the entity. The partners divide the profits of the business among themselves.
- In general partnerships, all partners have unlimited liability. In limited partnerships, creditors cannot go after the personal assets of the limited partners.

Characteristics of partnership form of business organisation

Based on the definition of partnership as given above, the various characteristics of partnership form of business organisation, can be summarised as follows:

(a) Two or More Persons: To form a partnership firm atleast two persons are required. The maximum limit on the number of persons is ten for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal and the relationship among them cannot be called partnership.

(b) Contractual Relationship: Partnership is created by an agreement among the persons who have agreed to join hands. Such persons must be competent to contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However, a minor can be admitted to the benefits of partnership firm i.e., he can have share in the profits without any obligation for losses.

(c) Sharing Profits and Business: There must be an agreement among the partners to share the profits and losses of the business of the partnership firm. If two or more persons share the income of jointly owned property, it is not regarded as partnership.

(d) Existence of Lawful Business: The business of which the persons have agreed to share the profit must be lawful. Any agreement to indulge in smuggling, black marketing etc. cannot be called partnership business in the eyes of law.

(e) Principal Agent Relationship: There must be an agency relationship between the partners. Every partner is the principal as well as the agent of the firm. When a partner deals with other parties he/she acts as an agent of other partners, and at the same time the other partners become the principal.

(f) Unlimited Liability: The partners of the firm have unlimited liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the assets of the firm are insufficient to meet the firm’s liabilities, the personal properties of the partners can also be utilised for this purpose. However, the liability of a minor partner is limited to the extent of his share in the profits.

(g) Voluntary Registration: The registration of partnership firm is not compulsory. But an unregistered firm suffers from some limitations which makes it virtually compulsory to be registered. Following are the limitations of an unregistered firm.

(i) The firm cannot sue outsiders, although the outsiders can sue it.

(ii) In case of any dispute among the partners, it is not possible to settle the dispute through court of law.

(iii) The firm cannot claim adjustments for amount payable to, or receivable from, any other parties.

Merits of partnership form

(a) Easy to Form

(b) Availability of Larger Resources

(c) Better Decisions

(d) Flexibility

(e) Sharing of Risks

(f) Keen

(g) Benefits of Specialisation

(h) Protection of Interest

(i) Secrecy

Limitations of partnership form

A partnership firm also suffers from certain limitations. These are as follows:

(a) Unlimited Liability

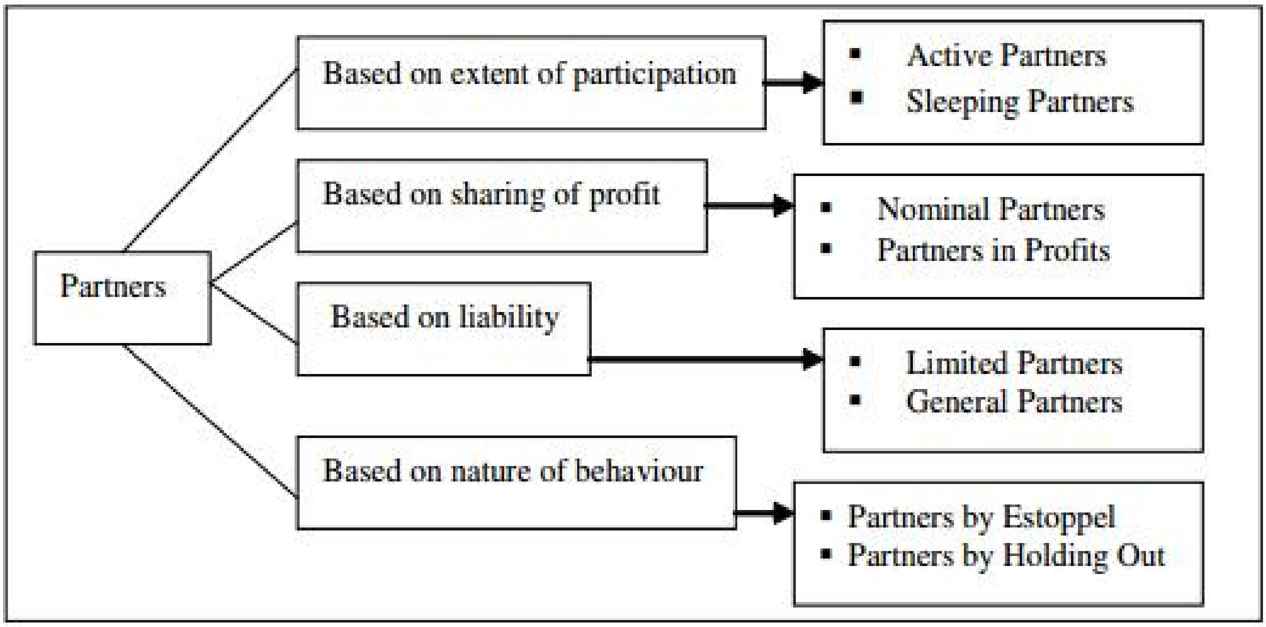
(b) Instability

(c) Limited Capital

(d) Non-transferability of share

(e) Possibility of Conflicts

Types of partners



(A) Based on the extent of participation in the day-to-day management of the firm partners can be classified as 'Active Partners' and 'Sleeping Partners'. The partners who actively participate in the day-to-day operations of the business are known as active partners or working partners. Those partners who do not participate in the day-to-day activities of the business are known as sleeping or dormant partners. Such partners simply contribute capital and share the profits and losses.

(B) Based on sharing of profits, the partners may be classified as 'Nominal Partners' and 'Partners in Profits'. Nominal partners allow the firm to use their name as partner. They neither invest any capital nor participate in the day-to-day operations. They are not entitled to share the profits of the firm. However, they are liable to third parties for all the acts of the firm. A person who shares the profits of the business without being liable for the losses is known as partner in profits. This is applicable only to the minors who are admitted to the benefits of the firm and their liability is limited to their capital contribution.

(C) Based on Liability, the partners can be classified as 'Limited Partners' and 'General Partners'. The liability of limited partners is limited to the extent of their capital contribution. This type of partners is found in Limited Partnership firms in some European countries and USA. So far, it is not allowed in India. However, the Limited liability Partnership Act is very much under consideration of the Parliament. The partners having unlimited liability are called as general partners or Partners with unlimited liability. It may be noted that every partner who is not a limited partner is treated as a general partner.

(D) based on the behaviour and conduct exhibited; there are two more types of partners besides the ones discussed above. These are

(a) Partner by Estoppels; and
(b) Partner by Holding out.

A person, who behaves in the public in such a way as to give an impression that he/she is a partner of the firm, is called ‘partner by estoppels’. Such partners are not entitled to share the profits of the firm, but are fully liable if somebody suffers because of his/her false representation. Similarly, if a partner or partnership firm declares that a particular person is a partner of their firm, and such a person does not disclaim it, then he/she is known as ‘Partner by Holding out’. Such partners are not entitled to profits but are fully liable as regards the firm’s debts.

3. Corporation

- A corporation is a business organization that has a separate legal personality from its owners. Ownership in a stock corporation is represented by shares of stock.
- The owners (stockholders) enjoy limited liability but have limited involvement in the company's operations. The board of directors, an elected group from the stockholders, controls the activities of the corporation.
- In addition to those basic forms of business ownership, these are some other types of organizations that are common today:

4. Limited Liability Company

- Limited liability companies (LLCs) in the USA, are hybrid forms of business that have characteristics of both a corporation and a partnership. An LLC is not incorporated; hence, it is not considered a corporation.
- Nonetheless, the owners enjoy limited liability like in a corporation. An LLC may elect to be taxed as a sole proprietorship, a partnership, or a corporation.
- Memorandum of Association - describes what company has been formed to do

- Articles of Association - internal rules covering:
    - What directors can do
    - Voting rights of shareholders
- Limited liability means that investors can only lose money they have invested.
- Encourages people to finance company
- Limited liability means that they can only recover money from existing assets of business. They cannot claim personal assets of shareholders to recover amounts owed by company.

5. Cooperative

- Cooperative Society is defined as “a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.”
- A cooperative is a business organization owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called members. Cooperatives may be incorporated or unincorporated.
- Some examples of cooperatives are: water and electricity (utility) cooperatives, cooperative banking, credit unions, and housing cooperatives.

Characteristics of cooperative society

Based on the above definition we can identify the following characteristics of cooperative society form of business organisation:

(a) Voluntary Association: Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.

(b) Open Membership: The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.

(c) Number of Members: A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.

(d) Registration of the Society: In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attains certain characteristics. These are as follows.

(i) The society enjoys perpetual succession

(ii) It has its own common seal

(iii) It can enter into agreements with others

(iv) It can sue others in a court of law

(v) It can own properties in its name

(e) State Control: Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.

(f) Capital: The capital of the cooperative society is contributed by its members. Since, the member's contribution is very limited, it often depends on the loan from government and apex cooperative institutions or by way of grants and assistance from state and Central Government.

(g) Democratic Set Up: The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective management. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.

(h) Service Motive: The primary objective of all cooperative societies is to provide services to its members.

(i) Return on Capital Investment: The members get return on their capital investment in the form of dividend.

(j) Distribution of Surplus: After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

Types of cooperative societies

Some of the important types are given below.

(a) Consumers' Cooperative Societies: These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

(b) Producer's Cooperative Societies: These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipments etc.

(c) Marketing Cooperative Societies: To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies.

(d) Housing Cooperative Societies: To provide residential houses to the members, housing cooperative societies are formed generally in urban areas.

(e) Farming Cooperative Societies: These societies are formed by the small farmers to get the benefit of large-scale farming.

(f) Credit Cooperative Societies: These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

Merits

§ Easy to form

§ Limited liability

§ Open Membership

§ State Assistance

§ Stable life

§ Tax concessions

§ Democratic Management

Limitations

§ Limited Capital

§ Lack of Managerial Expertise

§ Less Motivation

§ Lack of Interest

§ Dependence on Govt.