

ORGANIZATION MANAGEMENT

CHAPTER ONE

ORGANIZATION

1.1 Organizing

Organizations are systems created to achieve common goals through people-to-people and people-to-work relationships. They are essentially social entities that are goal-directed, deliberately structured for coordinated activity systems and is linked to the external environment. Organizations are made up of people and their relationships with one another. Managers deliberately structure and coordinate organizational resources to achieve the organization's purpose. Each organization has its own external and internal environments that define the nature of the relationships according to its specific needs.

Organizing is the function that managers undertake to design, structure, and arrange the components of an organization's internal environment to facilitate attainment of organizational goals. Organizing creates the framework needed to reach a company's objectives and goals.

Organizing is the process of defining and grouping activities, and establishing authority relationships among them to attain organizational objectives.

1.1.2 Importance of Organizing

A comprehensive approach to organizing helps the management in many ways. Organizing aligns the various resources towards a common mission.

1. **Efficient Administration:** It brings together various departments by grouping similar and related jobs under a single specialization. This establishes coordination between different departments, which leads to unification of effort and harmony in work. It governs the working of the various departments by defining activities and their authority relationships in the organizational structure. It creates the mechanism for management to direct and control the various activities in the enterprise.
2. **Resource Optimization:** Organizing ensures effective role-job-fit for every employee in the organization. It helps in avoiding confusion and delays, as well

as duplication of work and overlapping of effort.

3. **Specialization:** It is the process of organizing groups and sub-divide the various activities and jobs based on the concept of division of labour. This helps in the completion of maximum work in minimum time ensuring the benefit of specialization.
4. **Promotes Effective Communication:** Organizing is an important means of creating coordination and communication among the various departments of the organization. Different jobs and positions are interrelated by structural relationship. It specifies the channel and mode of communication among different members.
5. **Creates Transparency:** The jobs and activities performed by the employees are clearly defined on the written document called **job description** which details out what exactly has to be done in every job. Organizing fixes the authority-responsibility among employees. This brings in clarity and transparency in the organization.
6. **Expansion and Growth:** When resources are optimally utilized and there exists a proper division of work among departments and employees, management can multiply its strength and undertake more activities. Organizations can easily meet the challenges and can expand their activities in a planned manner.

1.2 Organization

Organization is a system of co-operative activities of two or more persons.” Organization is essentially a matter of relationship of man to man, job to job and department to department. Organization is the process of dividing up of the activities which are necessary to any purpose and arranging them in groups which are assigned to individuals. Organization is necessary for attaining maximum efficiency with minimum resources. There are three main types of organization.

- 1) Line organization
- 2) Functional organization
- 3) Line and Staff organization.

1.2.1 Line Organization (Oldest and Simplest Style)

In this type of organization, the line of authority flows directly from top to bottom and the line of responsibility flows from bottom to top in opposite direction. Each departmental head has complete control over his section and he is fully authorized to

select his labour, staff, purchases of raw materials, stores and to set the standards of output etc. The responsibility of each departmental head is clearly defined. Each department works as a self-supporting unit.

Advantages of Line Organization

- 1) **Simplicity:** It is easy to establish and simple to understand. The entire activities are broadly grouped into departments. Each departmental head having complete command over his department.
- 2) **Strong in discipline:** Due to unity of command and unified control it is possible to maintain strict discipline. The duties and responsibilities of each individual are clearly defined.
- 3) **Unity of command:** It establishes clear cut superior subordinate relationships. Each subordinate is responsible to only one superior. This develops a sense of responsibility and loyalty.

Disadvantages of Line Organization

- 1) **Undue reliance:** Loss of one or two capable men may put the organization in difficulties.
- 2) **Personal limitations:** In this type of organization an individual executive cannot do justice to all different activities, because he cannot be specialized in all trades.
- 3) **Overload of work:** Departmental heads are overloaded with various routine jobs hence they cannot spend time for important managerial functions like planning, development, budgeting etc.



1.2.2 Functional Organization

F.W. Taylor suggested functional organization, because it was difficult to find all-round persons qualified to work at middle management levels in the line organizations. In this type of organizations specialists like Production Engineer, Design Engineer, Maintenance Engineer, Purchase Officer etc. are employed. Each specialist is supposed to give his functional advice to all other foremen and workers. Each specialist is authorized to give orders to workers, but only in regard of his field of specialization.

The main feature of functional organization is the division of work and specialization. In each department, there is one expert. An expert is not only a counsellor but also an administrator. An Expert does not only bear responsibility of his department but also bear responsibility of all departments. For example, Purchase Manager will take responsibility of purchasing items for all departments. HR Manager will take responsibility of recruitment of all departments.

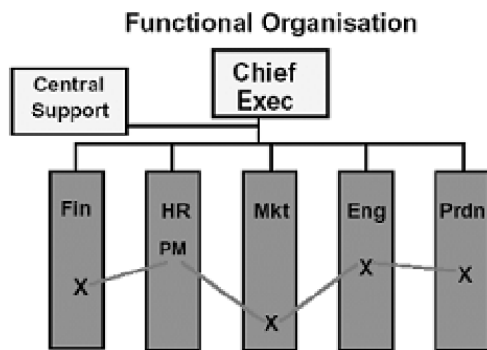
Advantages of Functional Organization

- 1) **Separation of work:** In functional organization mental work has been separated from routine work. Specialized and skilled supervisory attention is given to workers. The result is increase in rate of production and improved quality of work.
- 2) **Ease of selection and training:** Functional organization is based upon expert knowledge. The availability of guidance through experts makes it possible to train the workers properly in comparatively short span of time.

- 3) It helps in mass production by standardization and specialization.

Disadvantages of Functional Organization

- 1) **Indiscipline:** Since the workers receive instructions from number of specialists it leads to confusion to whom they should follow.
- 2) **Shifting of Responsibility:** It is difficult from the top management to locate responsibility for the satisfactory work. Everybody tries to shift responsibilities on others for the faults and failures.
- 3) **Increase in Cost:** High salary is paid to the experts employed. This increases the total cost of the job.



1.2.3 Line and Staff Organization

The line and staff organization combines the line organization with staff departments that support and advise line department. In each department, there is one expert and some line personnel / line officials. Line official will do all managerial work and expert will give advice to line official or line personnel.

Line and staff organization is that in which the line heads are assisted by specialist staff. The line maintains discipline and stability, staff provides experts information and helps to improve overall efficiency. Thus the staff are thinkers while the line are doers.

Advantages of Line and Staff Organization

- 1) **Planned Specialization:** The line and staff is a duplex organization, dividing the whole work into creative plan and action plan. The creative plan is concerned with original thinking and the action plan takes care of the execution of work.

- 2) **Availability of specialized knowledge:** The staff with expert knowledge provides opportunities to the line officers for adopting rational multidimensional views towards a problem. Therefore it helps to take sound decisions.
- 3) **Adaptability to progressive business.** This type of organization contains good features of both line as well as functional organization. Specialized staff can devote their time for planning, method study research, collection of data etc.,
- 4) **Less wastage & Improved Quality.**

Disadvantages of Line and Staff Organization

- 1) **Chances of Misinterpretation:** Although the expert's advice is available, yet it reaches the workers through line supervisors. The line officers may fail to understand the meaning of the advice and there is always a risk of misunderstanding and misinterpretation.
- 2) **Expensive:** The overhead cost of the product increases because of high salaried specialized staff.
- 3) **Loss of initiative by line executives:** If they start depending too much on staff may lose their initiative drive and ingenuity.

1.3 Formal and Informal Organization

1.3.1 Formal Organization

Chester I Barnard defined formal organization as "a system of consciously coordinated activities or forces of two or more persons". A formal organization is deliberately designed to achieve specific objectives. It refers to the structure of well defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously designed to enable the people of the organization to work together for accomplishing common objectives. Thus, formal organization is more or less an arbitrary structure to which the individual must adjust. It tells him to do certain things in a specified manner, to obey orders from designated individuals and to cooperate with others. Coordination also proceeds to a prescribed pattern in the formal organization structure.

The formal organization is built around four key pillars; namely,

i. Division of Labour,

- ii. Scalar and Functional Processes,*
- iii. Structure, and*
- iv. Span of Control.*

These pillars may also be called principles of formal organization. Division of labour and specialization imply the whole work is divided into a number of small operations and each operation is performed by a different person so that there is maximum specialization. The scalar and functional processes imply the growth of the organization both vertically and horizontally. The structure of the organization refers to the overall arrangement in the organization which ensures proper balance between different parts of the organization and secures the execution of all operations and the achievement of organizational objectives. The span of control refers to the number of subordinates directly reporting and accountable to one superior.

Formal organization possesses the following characteristics:

1. It is deliberately impersonal;
2. It is based on ideal relationships; and
3. It is based on the rabble hypothesis of the nature of man.

These characteristics have been criticized by many authors. Firstly, as formal organization is deliberately impersonal, emotions and sentiments of individuals are ignored in determining the interactions, communication and accountability. But human beings cannot live without social relations and, that is why, they develop informal relations. Secondly, it is based on ideal relationships, human beings are thought to be rational and economic beings. Further, it is assumed that there would be no unofficial channel of communication. But it is very difficult to find such ideal relationships in actual life. Lastly, it is based on the rabble hypothesis of the nature of man. It is assumed that there will always be the same kind of reaction if human beings are punished or rewarded. But the individuals are not always motivated by the same rewards or punishments in the same manner.

Formal organization is deliberately construed to achieve some goals. It sticks to the goals (as laid down by the originators). Goals are not easily changeable with the passage of time. This is another point of criticism put forward by its critics. The rules and regulations of the organization may be too rigid that it becomes difficult to achieve the goals. Moreover, formal organization does not consider the goals of the individuals. Because of these reasons formal organization usually gives birth to informal groups which cannot be separated from it. As a matter of fact, there is a close relationship

between the formal and informal organizations. Management should not ignore informal organization (informal group, informal leader, informal communications, etc.) but it should use it to achieve the organizational goals.

1.3.2 Informal Organization

Informal organization refers to the relationship between people in the organization based on personal attitudes, emotions, prejudices, likes, dislikes, etc. These relations are not developed according to procedures and regulations laid down in the formal organization structure. These groups may be based on some similarities that people of a large group see among the members of the group with respect to tastes and preferences, socio-cultural background, temperaments, attitudes, etc,. These groups are not preplanned, but they develop automatically within the organization according to its environment. Informal organizations are small groups and these groups can overlap because a person may be a member of several different informal groups. A manager cannot abolish the informal groups since he does not create them. Informal relations will always support and supplement the formal one.

There are certain disadvantages also of informal organizations. They put resistance to change and conform to old practices. The communication in informal organization is very fast. Sometimes, it creates rumours which may prove dangerous to the enterprise.

Modern authors on organization behaviour view organizations as consisting of both types of relationships, i.e., formal and informal. It is true that while laying out an organization plan, management can only develop formal structure of relationships, but organization is not only a form chart or structure of relationships. Formal organization, no doubt, is an important part of the organization. But informal organization is also not less important. If handled properly, it will help in performing the activities of the organization very efficiently and effectively. In short, informal relations are complementary to formal relations and procedures laid down in the organization structure. Both formal and informal organizations are necessary for any group action just as two blades are essential to make a pair of scissors workable.

1.3.3 Differences between Formal and Informal Organization

The formal and informal organizations differ from each other in the following respects:

- i. **Origin:** Formal organizations are created by conscious managerial decisions. But informal organizations arise naturally within the formal organization because of the tendency of the individual to associate and interact.

Management has no hand either in emergence or in abolition of informal groups.

- ii. **Purpose:** Formal organizations are created for realizing certain well defined objectives. But informal groups are created by organizational members for their social and psychological satisfaction.
- iii. **Activities:** Activities in case of formal organization are differentiated and integrated around the objectives of the enterprise and are formalized into work units or departments on a horizontal basis. In case of informal organization, there are no specific activities. They arise from time to time as result of interactions and sentiments of the individuals. Informal groups may be based on common taste, language, culture or any other factor.
- iv. **Structure:** Formal organization is hierarchical, pyramid shaped and bureaucratic in structure with well defined positions, rigid delineation of roles and superior – subordinate relationships on impersonal basis, enforcement of organizational order through a set of policies, procedures, and rules, conscious emphasis on status, differential based on authority, narrow and downward oriented communication system, etc. Informal organization is loosely structured, with only unwritten norms of behaviour enforced by consent. Communication is informal and multi directional. There are no rigid status differentials.
- v. **Membership.** In a formal organization, every individual belongs to one work group only and works under one superior. But in case of informal organization, one person can be a member of more than one group, according to his choice. He may be a leader in one group and a follower in another. There is no rigidity about group membership.
- vi. **Orientation:** In case of formal organization, values, goals and tasks are dominantly economic and technical and they are concerned with productivity, profitability, efficiency, survival and growth. But in the case of informal organization, values goals and tasks are dominantly psycho-social, setting around individual and group satisfaction, affiliation, cohesiveness and friendship.
- vii. **Norms of Behaviour:** In a formal organization, individuals are required to behave in the prescribed manner in their work situations. They are expected to behave in a rational manner. Deviations from the standard norms are dealt with according to the processes of organizational law and order. There is also a system of rewards and punishments. But in case of informal organization, individual behaviour and group behaviour influence each other. Behaviour is more natural and social. An informal organization develops its own norms of behaviour and a system of rewards and punishments to ensure adherence of group norms.

1.4 Principles of Organization

The following illustration shows the five principles of Organization:



1.4.1 Work Specialization

Also called **division of labour**, work specialization is the degree to which organizational tasks are divided into separate jobs. Each employee is trained to perform specific tasks related to their specialized function. Specialization is extensive, for example running a particular machine in a factory assembly line. The groups are structured based on similar skills. Activities or jobs tend to be small, but workers can perform them efficiently as they are specialized in it.

In spite of the obvious benefits of specialization, many organizations are moving away from this principle as too much specialization isolates employees and narrows down their skills to perform routine tasks. Also it makes the organization people dependent. Hence organizations are creating and expanding job processes to reduce dependency on particular skills in employees and are facilitating job rotation among them.

Advantages of Work Specialization

1. Increase in production rate.
2. Quality of product is better.

Disadvantages of Work Specialization

1. Workers may lose interest due to repetition of jobs.
2. Workers may not get change for job enlargement.
3. Work becomes boredom & chances of absenteeism increased & reduced performance.

1.4.2 Authority

Authority is the legitimate power assigned to a manager to make decisions, issue orders, and allocate resources on behalf of the organization to achieve organizational objectives. Authority is within the framework of the organization structure and is an essential part of the manager's job role. Authority follows a top-down hierarchy. Roles or positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom. The extent and level of authority is defined by the job role of the manager. Subordinates comply with the manager's authority as it is a formal and legitimate right to issue orders.

Definitions

- "Authority is the right to give order and the power to exact obedience". – Henri Fayol
- "Authority is the power to command, to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental performance". – Koontz and O'Donnell

Authority in ordinary sense of the term is nothing more than a legal right. It empowers an individual to take decisions. He is given a right to command and to exercise control over those who are responsible for the execution of policies and programmes of the enterprise. For decisions taken the authorized person is held responsible and is made answerable to his superiors and the organization as a whole.

1.4.2.1 Factors for Successful Use of Authority

For the successful use of authority the following factors may be taken into consideration:

1. **Favourable Atmosphere:** For the implementation of authority, favourable atmosphere must be created in the enterprise so that sweet human relations may be established in the enterprise.
2. **Justified Behaviour:** They must feel and treat all the employees on an equal ground. If they do not do so, the employees may not contribute their efforts towards the attainment of organizational objectives.
3. **Mutual Co-operation and Faith:** There must be mutual cooperation and mutual trust between officers and employees of the enterprise for the successful use of authority.
4. **Interest in the work:** A very important condition of the successful use of authority is that the employees must have an interest in the work for which they are responsible. If they are not interested in their work, it may be very difficult for the higher officers to implement their authority.
5. **Respect to Superiors:** There must be an atmosphere in the enterprise in which the employees pay their best regards to their bosses. If they do not have a feeling of regard for them, they may not obey their orders.

1.4.2.2 Sources of Authority

There are three different schools of thought about the sources of authority which are discussed below:

1. **Formal Authority Theory:** According to this theory, all authority originates in the formal structure of an organization. Every manager or executive possesses authority because of his organizational position and this authority is known as formal authority. Authority conferred by law is also regarded as formal authority. Subordinates accept the formal authority of a manager because of his position in the organization. The subordinates are aware of the fact that if they disregard the formal authority they will be punished according to the rules and regulations of the company. The formal authority theory further states that the superiors have the right to delegate their authority. Thus, formal authority always flows from top to bottom.
2. **Acceptance Theory:** This theory states that authority is the power that is accepted by others. Formal authority is reduced to nominal authority if it is not accepted by the subordinates. The subordinates accept the authority if the advantages to be derived by its acceptance exceed the disadvantages resulting

from its refusal. The subordinates give obedience to the managers because they visualize the following advantages :

- i. Receipt of financial incentives.
- ii. Contribution in attaining the objectives of the enterprise.
- iii. Fulfilment of responsibilities.
- iv. Appreciation from colleagues.
- v. Setting of an example for others.
- vi. Responsibility to leadership of superior
- vii. Moral obligation because of regard for old age, experience, competence, etc.

According to acceptance theory, authority flows from bottom to top. A manager has authority if he gets obedience from the subordinates. Subordinates obey the manager because of the fear of losing financial rewards. This theory emphasizes sanctions that a manager can use and overlooks the influence of social institutions like trade unions.

3. **Competence Theory:** The supporters of this view assert that an individual derives authority because of his personal qualities and technical competence. Many persons derive informal authority because of their competence. For instance a person possesses expert knowledge in a particular subject. People will go to him for guidance in that matter even though he has got no formal authority.

1.4.3 Chain of Command

The chain of command is the unbroken line of authority that ultimately links each individual with the top organizational position through a managerial position at each successive layer in between. It is an effective business tool to maintain order and assign accountability even in the most casual working environments. A chain of command is established so that everyone knows whom they should report to and what responsibilities are expected at their level. A chain of command enforces responsibility and accountability.

It is the line of authority extending from upper organizational levels to lower levels, which clarifies who reports to whom. Managers need to consider it when organizing work because it helps employees with questions such as “Who do I report to?” and

“Who do I go to if I have a problem?”

It is based on the two principles of **Unity of command, Scalar Principle, Authority and Responsibility.**

Unity of command states that an employee should have one and only one manager or supervisor or reporting authority to whom he is directly accountable to. This is done to ensure that the employee does not receive conflicting demands or priorities from several supervisors at once, placing him in a confused situation. However, there are exceptions to the chain of command under special circumstances for specific tasks if required. But for the most part organizations to a large extent should adhere to this principle for effective outcomes.

Scalar principle states that there should exist a clear line of authority from the position of ultimate authority at the top to every individual in the organization, linking all the managers at all the levels. It involves a concept called a "gang plank" using which a subordinate may contact a superior or his superior in case of an emergency, defying the hierarchy of control. However, the immediate superiors must be informed about the matter.

Authority: It refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it. Authority empowers the superior to make a subordinate to do the work. Lines of authority should be clearly established in the structure of organization in order to avoid overlapping actions.

Responsibility: Responsibility represents the work or duties assigned to a person by virtue of his position in the organization. It refers to the mental and physical activities which must be performed to carry out the task or duty. That means every person who performs some kind of mental or physical activities as an assigned task has responsibility. In order to enable the subordinates perform his responsibility well, the superior must clearly tell the former as to what is expected of him. In other words, the delegator must determine clearly the task or duty that is assigned to the delegatee. The duty must be expressed either in terms of function or in terms of objectives. If a subordinate is asked to control the operations of a machine, the duty is in terms of function. But if he is asked to produce a certain number of pieces of a product, the duty is in terms of target or objective. Determination of duties in terms of objective will enable the subordinate to know by what standards his performance will be evaluated.

According to Alwin Brown, responsibility is capable of being understood in two senses. In one, it denotes the definition of a part or role to be performed in administration. In

the other, it denotes the obligation for the performance of that part.

1.4.4 Delegation

Another important concept closely related to authority is delegation. It is the practice of turning over work-related tasks and/or authority to employees or subordinates. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success.

Authority is said to be delegated when discretion is vested in a subordinate by a superior. Delegation is the downward transfer of authority from a manager to a subordinate. Superiors or managers cannot delegate authority they do not have, however, high they may be in the organizational hierarchy.

Delegation as a process involves establishment of expected outcomes, task assignment, delegation of authority for accomplishing these tasks, and exaction of responsibility for their accomplishment. Delegation leads to empowerment, as employees have the freedom to contribute ideas and do their jobs in the best possible ways.

Delegation means devolution of authority on subordinates to make them to perform the assigned duties or tasks. It is that part of the process of organization by which managers make it possible for others to share the work of accomplishing organizational objectives. Delegation consists of granting authority or the right to decision-making in certain defined areas and charging the sub-ordinate with responsibility for carrying through the assigned tasks.

Delegation refers to the assignment of work to others and confer them the requisite authority to accomplish the job assigned.

1. In the words of F.G. Moore – "Delegation means assigning work to others and give them authority to do it."
2. Louis A. Allen has said – "Delegation is the dynamics 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 organizational placement, can perform effectively and so that he can get others to help him with what remains".
3. E.F.L. Brech has also said – "Delegation is a process of sharing a few or all of the four elements of the management process, i.e. command, planning,

co-ordination and control". He goes on to say that the delegation is not a question of issuing instructions but is a bringing down of the executive's responsibility and transmission of part or all of it to other persons.

Since one person constitutes only one man power, so F.G. Moore has once said that – "Delegation, therefore, is necessary for enlarging his capacity by asking trusted subordinates to share his burden." Without delegation says S.S. Chatterjee, "The very existence of organization is shattered at once. If there are no duties to be divided and no authorities to be shared in the enterprise, the existence of an organization structure is nullified and becomes absurd. Management of that organization becomes impossible without delegation." For this reason activities are to be integrated, coordinated and unity of purpose to be achieved, this necessitates effective delegation.

1.4.4.1 Methods of Delegation

In a big manufacturing concern the following may be the methods of delegation of authority to ensure better result, unified direction and command and effective delegation:

- 1. Administrative Delegation** – When a few of the administrative functions are delegated to sub-ordinate staff it is called administrative delegation. These functions are generally of routine nature, e.g. to maintain discipline, to supervise the work, to recommend for the reward or punishment etc.
- 2. Geographical Delegation** – When the work of enterprise is located at different distant places it is not possible for an executive to manage the whole affairs single handed. He then proceeds to delegate his authority to those who are posted at the places where physically he cannot be present round the year. This is known as geographical method of delegating the authority.
- 3. Functional Delegation** – When the enterprise is organized on the basis of functional organization, the delegation of authority is also done on the functional basis. All the heads are given to manage their departments according to their skill, knowledge and experience of course; they are accountable to the chief executives.
- 4. Technical Delegation:** This method of delegation of authority is based on technical knowledge and skill. Here the authority is delegated in order to get the advantages of expert and experienced hands and their technical skill.

1.4.4.2 Elements of Delegation and its Types

The elements of delegation of authority involve three steps:

1. **Authority:** The superior grants authority to the subordinate to carry out the assigned task or duty. This may include right to use resources, spend money, engage people, etc.
2. **Responsibility:** The superior entrusts some responsibility or duty to a subordinate.
3. **Accountability:** The last step in delegation is concerned with creating an obligation to carry out duty or responsibility and render an account of the results achieved through the use of delegated authority. The subordinate must be held accountable for the exercise of authority granted to him. By accepting the duties and authority, a subordinate becomes responsible to his superior.

Accountability is the obligation to carry out responsibility and exercise authority in terms of performance standards established by the superior. Creation of accountability is the process of justifying the granting of authority to a subordinate for the accomplishment of a particular task. In order to make this process effective, the standards of performance should be determined before assigning a task and should be accepted by the subordinate. An important principle of management governing this basic relationship is that of single accountability. An individual should be answerable to only one immediate superior and no more.

The extent of accountability depends upon the extent of delegation of authority and responsibility. A person cannot be held answerable for the acts not assigned to him by his superior. For instance, if the production manager is given responsibility and authority to produce a specified quantity of certain product and the personnel department is given responsibility and authority for the development of workforce, the production manager cannot be held accountable for the development of workforce. "Accountability is, by the act which creates it, of the same quality and weight as the accompanying responsibility and authority".

1.4.4.3 **Types of Delegation**

The important kinds of delegation of authority are as follows:

1. **General and Specific Delegation:**

- i. **General Delegation:** It is that delegation in which the authority is given to perform general managerial functions, like planning, organizing, directing etc. The sub-ordinate managers perform these functions and enjoy the authority required to carry out these responsibilities. The Chief Executive exercises over all control and guides the subordinates from time-to-time.
- ii. **The Specific Delegation:** Specific Delegation relates to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation. Various departmental managers get specific authority to undertake their department duties.

2. Formal or Informal Delegation:

- i. **Formal Delegation:** Formal delegation has been considered as a part of organizational structure. Whenever a task is assigned to a person, the required authority is also given to him. This delegation is a part of the normal functioning of the organization. Every person is automatically given authority as per his duties. When production manager gets powers to increase production then it is formal delegation of authority.
- ii. **Informal Delegation:** This delegation does not arise due to position but it arises according to the circumstances of the case. A person may undertake a particular task not because he has been assigned it but because it is necessary to do his normal work.

3. Written or Unwritten Delegation:

- i. **Written Delegation:** Written delegation is normally given through letters, instructions, circulars etc. Whatever has been delegated it must be in writing.
- ii. **Unwritten Delegation:** Unwritten delegation is given to the person concerned not in any particular way but through conventions, customs and usages the other party has to do work accordingly.

4. Downward or Upward Delegation

- i. **Downwards Delegation:** This delegation has been considered as a superior's delegation of authority to his immediate subordinate.
- ii. **Upward Delegation:** This type of delegation takes place when a subordinate assigns some of his tasks to his superiors. This is an uncommon type of delegation and its instances are very rare.

1.4.4.4 Principles of Delegation

The following principles may be considered as essential for effective delegation of authority:

- i. **There must be Proper Planning:** An executive must plan as to what is to be achieved, if delegation of authority is made. He should define clearly the objectives to be achieved and the functions to be performed by delegating the authority. The job should be designed and divided in such a way as to achieve the objectives. The subordinates must understand clearly what activities they must undertake and what delegator expects from him.
- ii. **Select appropriate subordinate of delegation:** The subordinate should be selected in the light of the work to be achieved. The qualification of the individual concerned may influence the nature of the delegation of authority. This is the purpose of the managerial function of staffing, most carefully considered.
- iii. **Maintain purity of authority and responsibility:** Authority should be delegated commensurate with responsibility. This is on the assumption that where subordinates are held responsible for performance of certain duties it is fair that they should be vested with the necessary authority to carry out such duties.
- iv. **Ensure unity of command:** This is one of the common principles of organization advocated by Henry Fayol which stresses that subordinates should have only one boss to whom he should be accountable, to avoid confusion and friction. Of course, in practice, it is not possible to follow this principle.
- v. **Maintain adequate communication:** There should be free and continuous flow of information between the superior and the subordinate with a view to furnish the subordinate with relevant information to help him make decisions and also to interpret properly the authority delegated to him. Plans may change and decisions have to be taken in the light of the changed conditions.
- vi. **Reward effective delegation:** Effective delegation and successful assumption of authority must be rewarded. This will provide a proper environmental climate for fuller delegation and effective assumption of authority.
- vii. **Establish a climate of confidence:** The subordinate to whom authority is delegated must generally feel free from fear and have a feeling of confidence that delegation will not result in punishment but is an opportunity for his own

self-development and growth.

- viii. **Establish a strong belief in delegation:** For delegation to be successful, the man who delegates must himself be convinced of the need and benefits of delegation. He must also be willing to allow his subordinates to make mistakes although he can be strict if the same mistake is repeated.
- ix. **Proper Selection and Training of Personnel:** Selection of personnel to various jobs should be fair and just. It should not be arbitrary but it must be based on certain principles. Only right persons should be placed on the right job. The person selected must also be given proper training to enable him to handle the post efficiently and to perform the assigned job properly. Proper selection and training helps to develop their self-confidence and morale.
- x. **Proper Control Techniques be Developed:** In a good organization proper control techniques be developed and major deviations from standard should be checked. There should be no interference in day – to – day functioning of subordinates.

1.4.4.5 Steps in the Process of Delegation

The following steps are essential and they must be kept in mind while delegating:

1. The delegation should define the result expected from his subordinates.
2. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates. They may be described either in terms of activity or set of activities to be performed by a subordinate or in terms of results that are expected from the performance of activities.
3. Adequate authority must be given to sub-ordinates – The delegator confers upon the subordinate the right to act in a specified way within limited boundaries. It decides what actions we may take and what action we cannot take. Proper authority to any sub-ordinate not given in time, will not give or produce expected results.
4. The subordinate must produce expected results from the task assigned to him – It is obligatory on the part of the subordinate that he must give satisfactory performance from the tasks assigned. He becomes answerable for the proper performance of the assigned duties and for the exercise of the delegated authority. Authority without accountability is likely to be misused. Accountability without authority may be frustrating to the subordinates. The extent of accountability depends upon the extent of delegated authority and responsibility. A subordinate cannot be held responsible for acts not assigned to him by his

superior. He is accountable only to his immediate superior.

5. Proper Evaluation of the Performance must be made – In the end, information and control system must be established to check and evaluate the performance of the subordinates to whom authority has been delegated.

An executive according to *Louise A. Allen* can follow the Under mentioned rules while delegating :

1. Established goals that are to be attained.
2. Define and enumerate the authority which the delegatee can exercise and the responsibility he is to shoulder.
3. Motivate the subordinate and provide him sufficient guidance. If necessary proper and adequate training should also be given to the delegatee before authority is delegated to him.
4. Ask for the completed work. In between if any help is needed by the delegatee he should be provided with such help either directly through someone who knows the work and is writing of help.
5. Establish an adequate control so as to supervise and provide necessary guidance.

1.4.4.6 Merits of Delegation

- i. *It avoids wastage of time:* Present-day management is a complicated process. A manager has to perform various functions as a matter of routine work. It is not possible for him to give proper attention to all matters coming to him. Delegation helps him in transferring the less important subject to his juniors and attends to more important works.
- ii. *It helps in training the new incumbents:* The lower units that use the delegated power, get a spontaneous feel of their future responsibility. They become aware of the works at the higher level to which they may be promoted. Delegation also helps in developing the managerial personnel within the organization.
- iii. *It avoids over-work :* Delegation shifts some portions of the responsibility and work from the shoulders of the manager. To quote Beach: "The over worked

manager who learns the art of delegation, is at one and the same time able to relieve himself of some of his burden, increase the competence of his men, and raise the level of accomplishment of his unit.

- iv. *It develops increased sense of responsibility* : Delegation generates an increased sense of responsibility in the subordinate personnel. It also increases their working capacity and helps in enhancing their unspotted caliber which could be helpful for management. Delegation also helps in avoiding any kind of act at a higher level which may, otherwise undermine the powers vested in the lower level units.
- v. *It avoids delay* : Delegation helps in taking timely and accurate decisions. The personnel at lower level, being delegated, act quickly which serves the organization with due economy, efficiency and rapidly.

1.4.5 Span of Control

Span of control (also referred to as Span of Management) refers to the number of employees who report to one manager. It is the number of direct reportees that a manager has and whose results he is accountable for. Span of control is critical in understanding organizational design and the group dynamics operating within an organization. Span of control may change from one department to another within the same organization.

The span may be wide or narrow. A wide span of control exists when a manager has a large number of employees reporting to him. Such a structure provides more autonomy. A narrow span of control exists when the number of direct reportees that a manager has is small. Narrow spans allow managers to have more time with direct reports, and they tend to spark professional growth and advancement.

The numbers of persons which can be effectively supervised by single executive is 6 to 8 in an average firm. However when activities are routine then executive can supervise 20 to 30. If span is small, an executive may tend to over supervise & may even do span leading to his subordinates. If span is large, executive may not be able to supervise his subordinates effectively & they may become careless or feel neglected.

1.4.5.1 Determinants of Span of Control:

Colonel Urwick stated that the number of subordinates under one superior should range between 4 and 12 depending upon various determinants of the span of control.

- i. **Competence of Superior:** Competence of Superior is capable enough to handle more subordinates.
- ii. **Competence of the subordinates:** Competent subordinates disturb less to superior.
- iii. **Nature of work:** In case of repetitive work, more subordinates can be handled by one superior.
- iv. **Means of communication:** If subordinates use appropriate media then one superior can handle more number of supervisors.
- v. **Leadership Style:** In case of autocratic style, the frequency of meeting of subordinates with superior is high

1.4.5.2 Merits of Span of Control:

1. Superior can supervise effectively and competently
2. Specialization is encouraged and utilized.
3. Superior can concentrate on limited area of operations.
4. Higher degree of disciplines can be exercised,
5. It results into all the advantages of tall structure.

1.4.5.3 Demerits of Span of Control:

1. It increases the scalar chain from top to bottom.
2. It demotivates the employees as the contacts between top and bottom is lengthened.
3. It results into all disadvantages of tall structure.

1.4.5.4 The advantages of a narrow span of control are:

A narrow span of control allows a manager to communicate quickly with the employees under them and control them more easily. Feedback of ideas from the workers will be more effective. It requires a higher level of management skill to control a greater number of employees, so there is less management skill required

1.4.5.5 The advantages of wide span of control are:

There are less layers of management to pass a message through, so the message reaches more employees faster.

It costs less money to run a wider span of control because a business does not need to employ as many managers.

1.5 Organizational Structure

An organization is a social unit of individuals that is designed and managed to achieve collective goals. As such organizations are open systems that are greatly affected by the environment they operate in. Every organization has its own typical management structure that defines and governs the relationships between the various employees, the tasks that they perform, and the roles, responsibilities and authority provided to carry out different tasks. An organization that is well structured achieves effective coordination, as the structure delineates formal communication channels, and describes how separate actions of individuals are linked together.

Organizational structure defines the manner in which the roles, power, authority, and responsibilities are assigned and governed, and depicts how information flows between the different levels of hierarchy in an organization. The structure an organization designs depends greatly on its objectives and the strategy it adopts in achieving those objectives.

An **organizational chart** is the visual representation of this vertical structure. It is therefore very important for an organization to take utmost care while creating the organizational structure. The structure should clearly determine the reporting relationships and the flow of authority as this will support good communication – resulting in efficient and effective work process flow.

1.5.1 Building Blocks of Structure

What exactly do we mean by organizational structure? Which elements of a company's structure make a difference in how we behave and how work is coordinated? We will review four aspects of structure that have been frequently studied in the literature: centralization, formalization, hierarchical levels, and departmentalization. We view these four elements as the building blocks, or elements, making up a company's structure.

Centralization is the degree to which decision-making authority is concentrated at higher levels in an organization. In centralized companies, many important decisions are made at higher levels of the hierarchy, whereas in decentralized companies, decisions are made and problems are solved at lower levels by employees who are closer to the problem in question.

Decentralized companies give more authority to lower-level employees, resulting in a sense of empowerment. Decisions can be made more quickly, and employees often believe that decentralized companies provide greater levels of procedural fairness to employees. Job candidates are more likely to be attracted to decentralized organizations. Because centralized organizations assign decision-making responsibility to higher-level managers, they place greater demands on the judgment capabilities of CEOs and other high-level managers. Centralization of operations leads to inefficiencies in decision making.

However, centralization also has its advantages. Centralization lead to more efficient operations, particularly if the company is operating in a stable environment.

Formalization is the extent to which an organization's policies, procedures, job descriptions, and rules are written and explicitly articulated. Formalized structures are those in which there are many written rules and regulations. These structures control employee behaviour using written rules, so that employees have little autonomy to decide on a case-by-case basis. An advantage of formalization is that it makes employee behaviour more predictable. Whenever a problem at work arises, employees know to turn to a handbook or a procedure guideline. Therefore, employees respond to problems in a similar way across the organization; this leads to consistency of behaviour.

While formalization reduces ambiguity and provides direction to employees, it is not without disadvantages. A high degree of formalization may actually lead to reduced innovativeness because employees are used to behaving in a certain manner. In fact, strategic decision making in such organizations often occurs only when there is a crisis. A formalized structure is associated with reduced motivation and job satisfaction as well as a slower pace of decision making.

Hierarchical Levels: Another important element of a company's structure is the number of levels it has in its hierarchy. Keeping the size of the organization constant, **tall structures** have several layers of management between frontline employees and the top level, while **flat structures** consist of only a few layers. In tall structures, the number of employees reporting to each manager tends to be smaller, resulting in greater

opportunities for managers to supervise and monitor employee activities. In contrast, flat structures involve a larger number of employees reporting to each manager. In such a structure, managers will be relatively unable to provide close supervision, leading to greater levels of freedom of action for each employee.

Departmentalization: Organizational structures differ in terms of departmentalization, which is broadly categorized as either functional or divisional.

Organizations using **functional structures** group jobs based on similarity in functions. Such structures may have departments such as marketing, manufacturing, finance, accounting, human resources, and information technology. In these structures, each person serves a specialized role and handles large volumes of transactions. For example, in a functional structure, an employee in the marketing department may serve as an event planner, planning promotional events for all the products of the company.

In organizations using **divisional structures** departments represent the unique products, services, customers, or geographic locations the company is serving. Thus each unique product or service the company is producing will have its own department. Within each department, functions such as marketing, manufacturing, and other roles are replicated. In these structures, employees act like generalists as opposed to specialists. Instead of performing specialized tasks, employees will be in charge of performing many different tasks in the service of the product. For example, a marketing employee in a company with a divisional structure may be in charge of planning promotions, coordinating relations with advertising agencies, and planning and conducting marketing research, all for the particular product line handled by his or her division.

In reality, many organizations are structured according to a mixture of functional and divisional forms. For example, if the company has multiple product lines, departmentalizing by product may increase innovativeness and reduce response times. Each of these departments may have dedicated marketing, manufacturing, and customer service employees serving the specific product; yet, the company may also find that centralizing some operations and retaining the functional structure makes sense and is more cost effective for roles such as human resources management and information technology. The same organization may also create geographic departments if it is serving different countries.

Each type of departmentalization has its advantages. Functional structures tend to be effective when an organization does not have a large number of products and services requiring special attention. When a company has a diverse product line, each product

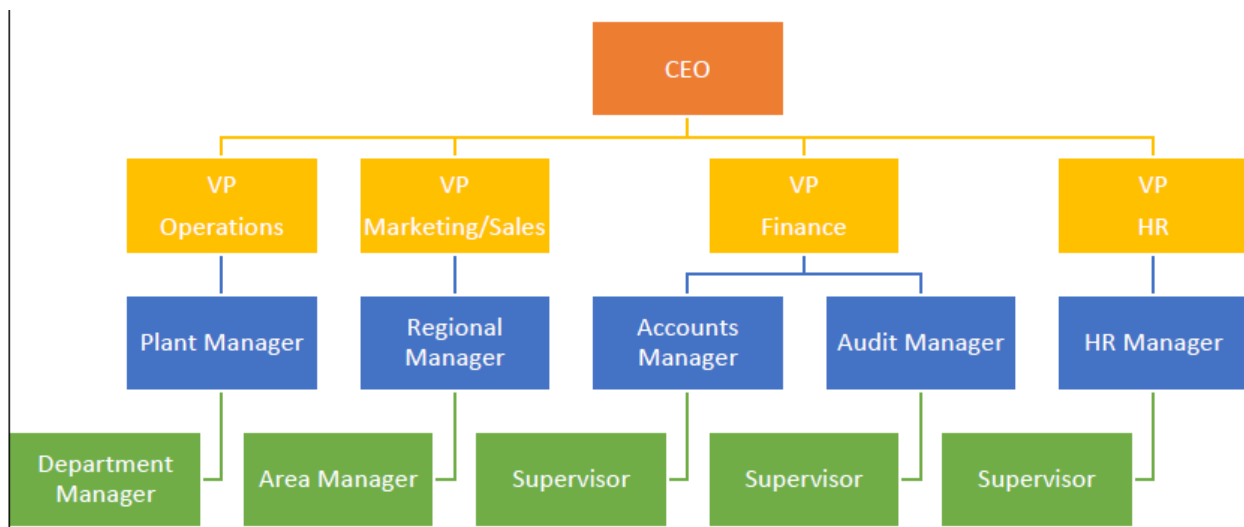
will have unique demands, deeming divisional (or product-specific) structures more useful for promptly addressing customer demands and anticipating market changes. Functional structures are more effective in stable environments that are slower to change. In contrast, organizations using product divisions are more agile and can perform better in turbulent environments. The type of employee who will succeed under each structure is also different.

1.5.2 Common Organization Structures

1.5.2.1 Functional Organization Structure

Functional structure is set up so that each portion of the organization is grouped according to its purpose. In this type of organization, for example, there may be a marketing department, a sales department and a production department. The functional structure works very well for small businesses in which each department can rely on the talent and knowledge of its workers and support itself. However, one of the drawbacks to a functional structure is that the coordination and communication between departments can be restricted by the organizational boundaries of having the various departments working separately.

The functional structure is the most common model found in most organizations. Organizations with such a structure are divided into smaller groups based on specialized functional areas, such as operations, finance, marketing, Human Resources, IT, etc.



The organization's top management team consists of several functional heads (such as the VP Operations, VP Sales/Marketing). Communication generally occurs within

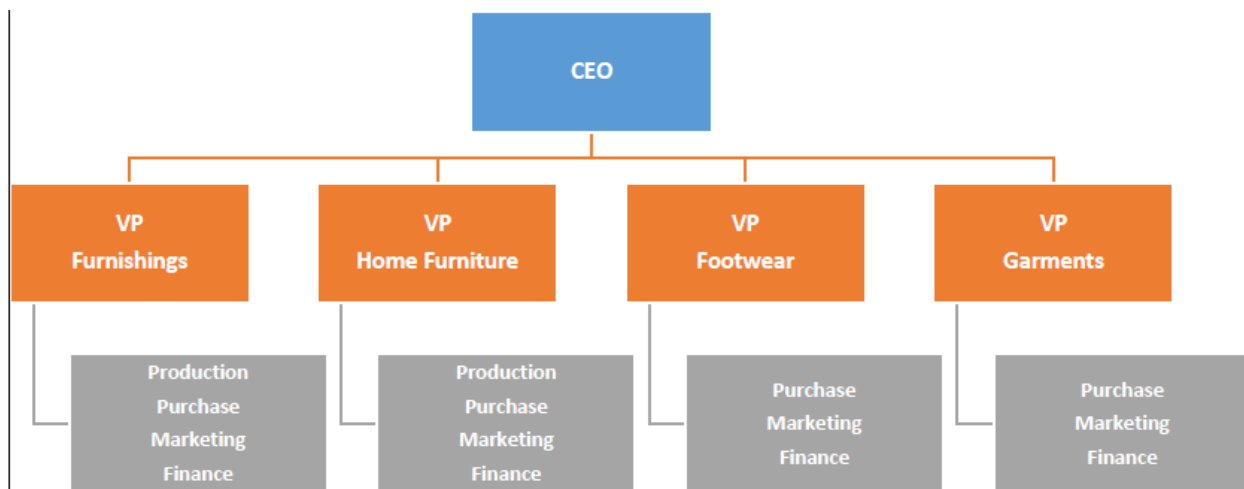
each functional department and is communicated across departments through the department heads.

This structure provides greater operational efficiency as employees are functionally grouped based on expertise and shared functions performed. It allows increased specialization as each group of specialists can operate independently.

In spite of the above benefits there are some issues that arise with this structure. When different functional areas turn into silos they focus only on their area of responsibility and do not support other functional departments. Also expertise is limited to a single functional area allowing limited scope for learning and growth.

1.5.2.2 Product Organizational Structure

This is another commonly used structure, where organizations are organized by a specific product type. Each product category is considered a separate unit and falls within the reporting structure of an executive who oversees everything related to that particular product line. For example, in a retail business the structure would be grouped according to product lines.



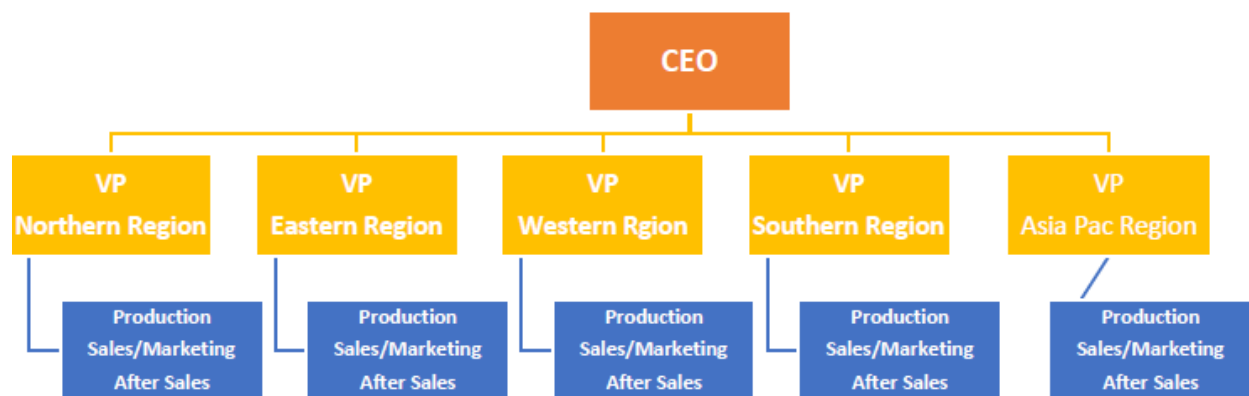
Organization structured by product category facilitates autonomy by creating completely separate processes from other product lines within the organization. It promotes depth of understanding within a particular product area and also promotes innovation. It enables clear focus with accountability for program results.

As with every model, this model also has a few downsides like requirement of strong skills specializing in the particular product. It could lead to functional duplication and

potential loss of control; each product group becomes a heterogeneous unit in itself.

1.5.2.3 Geographic Organizational Structure

Organizations that cover a span of geographic regions structure the company according to the geographic regions they operate in. This is typically found in organizations that go beyond a city or state limit and may have customers all across the country or across the world.



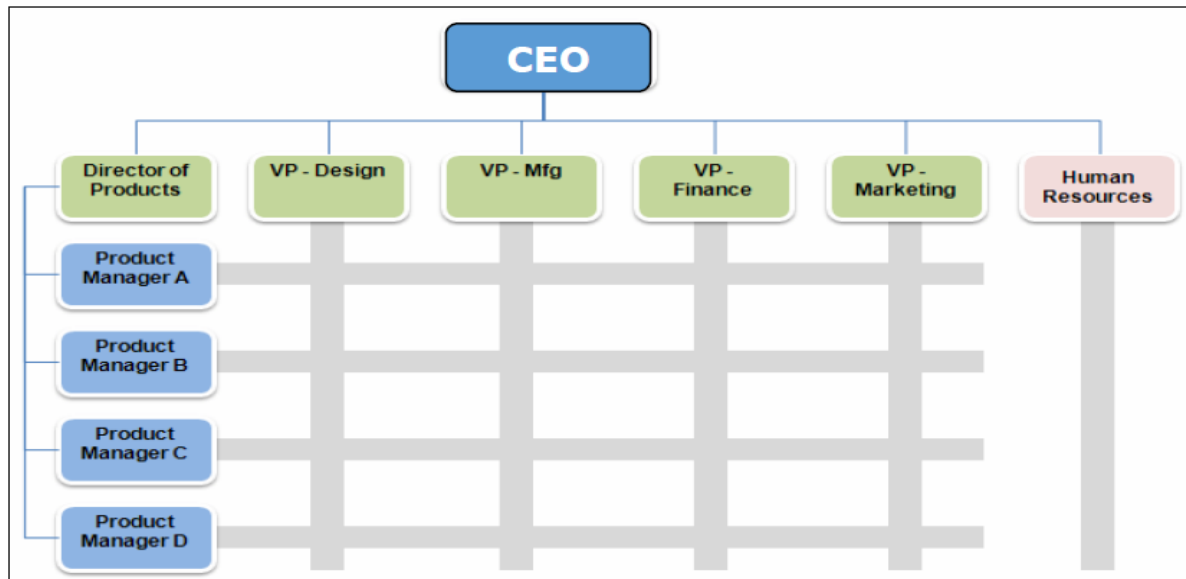
It brings together employees from different functional specialties and allows geographical division. The organization responds more quickly and efficiently to market needs, and focuses efforts solely on the objectives of each business unit, increasing results.

Though this structure increases efficiency within each business unit, it reduces the overall efficiency of the organization, since geographical divisions duplicate both activities and infrastructure. Another main challenge with this model is that it tends to be resource intensive as it is spread across and also leads to duplication of processes and efforts.

1.5.2.4 Matrix Organizational Structure

A matrix structure is organized to manage multiple dimensions. It provides for reporting levels both horizontally as well as vertically and uses cross-functional teams to contribute to functional expertise. As such employees may belong to a particular

functional group but may contribute to a team that supports another program.



This type of structure brings together employees and managers across departments to work toward accomplishing common organizational objectives. It leads to efficient information exchange and flow as departments work closely together and communicate with each other frequently to solve issues. This structure promotes motivation among employees and encourages a democratic management style where inputs from team members are sought before managers make decisions.

However, the matrix structure often increases the internal complexity in organizations. As reporting is not limited to a single supervisor, employees tend to get confused as to who their direct supervisor is and whose direction to follow. Such dual authority and communication leads to communication gaps, and division among employees and managers.

CHAPTER TWO

MANAGEMENT

2.1 Definitions

Many management experts have tried to define management. But, no definition of management has been universally accepted. Let us discuss some of the leading definitions of management:

Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions".

According to Terry, "Management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders."

Ralph C. Davis "Management is the function of executive leadership anywhere."

According to Mc Farland, "Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort."

Henry Fayol, "To manage is to forecast and plan, to organize, to compound, to co-ordinate and to control."

Harold Koontz says, "Management is the art of getting things done through and within formally organized group."

William Spriegal, "Management is that function of an enterprise which concerns itself

with direction and control of the various activities to attain business objectives. Management is essentially an executive function; it deals with the active direction of the human effort."

Kimball and Kimball, "Management embraces all duties and functions that pertain to the initiation of an enterprise, its financing, the establishment of all major policies, the provision of all necessary equipment, the outlining of the general form of organization under which the enterprise is to operate and the selection of the principal officers."

Sir Charles Reynold, "Management is the process of getting things done through the agency of a community. The functions of management are the handling of community with a view of fulfilling the purposes for which it exists."

E.F.L. Brech, "Management is concerned with seeing that the job gets done, its tasks all centre on planning and guiding the operations that are going on in the enterprise."

Koontz and O'Donnel, "Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively toward the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups."

James Lundy, "Management is principally a task of planning, coordinating, motivating and controlling the efforts of other towards a specific objective. It involves the combining of the traditional factors of production land, labour, capital in an optimum manner, paying due attention, of course, to the particular goals of the organization."

Wheeler, "Management is centered in the administrators or managers of the firm who integrate men, material and money into an effective operating limit."

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

Oliver Scheldon, "Management proper is the function in industry concerned in the execution of policy, within the limits set up by the administration and the employment of the organization for the particular objectives set before it."

Keith and Gubellini, "Management is the force that integrates men and physical plant into an effective operating unit."

Newman, Summer and Warren, "The job of Management is to make co-operative endeavour to function properly. A manager is one who gets things done by working with people and other resources in order to reach an objective."

G.E. Milward, "Management is the process and the agency through which the execution of policy is planned and supervised."

Ordway Tead, "Management is the process and agency which directs and guides the operations of an organization in the realizing of established aims."

Mary Parker Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesman to meet the organization's objectives.

A somewhat more elaborate definition of management is given by George R. Terry. He defines management as a process "consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources". According to this definition, management is a process – a systematic way of doing things. The four management activities included in this process are: planning, organizing, actuating and controlling. Planning means that managers think of their actions in advance. Organizing means that managers coordinate the human and material resources of the organization. Actuating means that managers motivate and direct subordinates. Controlling means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organization is on the wrong track, managers take action to remedy the situation.

To conclude, we can say that various definitions of management do not run contrary to one another. Management is the sum-total of all those activities that:

- (i) determine objectives, plans, policies and programmes;
- (ii) secure men, material, machinery cheaply
- (iii) put all these resources into operations through sound organization
- (iv) direct and motivate the men at work,
- (v) supervises and control their performance and
- (vi) provide maximum prosperity and happiness for both employer and employees and public at large.

2.2 Levels of Management

Levels of management refer to a line of demarcation between various managerial positions in an enterprise. The levels of management depend upon its size, technical facilities, and the range of production. We generally come across two broad levels of management, viz. (i) administrative management (i.e., the upper level of management) and (ii) operating management (i.e., the lower level of management). Administrative management is concerned with "thinking" functions such as laying down policy, planning and setting up of standards. Operative management is concerned with the "doing" function such as implementation of policies, and directing the operations to attain organizational objectives.

But in actual practice, it is difficult to draw any clear cut demarcation between thinking function and doing function. Because the basic/fundamental managerial functions are performed by all managers irrespective of their levels or, ranks. For instance, wage and salary director of a company may assist in fixing wages and salary structure as a member of the Board of Directors, but as head of wages and salary department, his job is to see that the decisions are implemented.

The real significance of levels is that they explain authority relationships in an organization. Considering the hierarchy of authority and responsibility, one can identify three levels of management namely:

- i. **Top management** of a company consists of owners/shareholders, Board of Directors, its Chairman, Managing Director, or the Chief Executive, or the General Manager or Executive Committee having key officers.
- ii. **Middle management** of a company consists of heads of functional departments viz. Purchase Manager, Production Manager, Marketing Manager, Financial controller, etc. and Divisional and Sectional Officers working under these Functional Heads.

- iii. **Lower level or operative management** of a company consists of Superintendents, Foremen, Supervisors, etc.

2.2.1 Top management

Top management is the ultimate source of authority and it lays down goals, policies and plans for the enterprise. It devotes more time on planning and coordinating functions. It is accountable to the owners of the business of the overall management. It is also described as the policy making group responsible for the overall direction and success of all company activities. The important functions of top management include:

- i. To establish the objectives or goals of the enterprise.
- ii. To make policies and frame plans to attain the objectives laid.
- iii. To set up an organizational frame work to conduct the operations as per plans.
- iv. To assemble the resources of money, men, materials, machines and methods to put the plans into action.
- v. To exercise effective control of the operations.
- vi. To provide overall leadership to the enterprise.

2.2.2 Middle management

The job of middle management is to implement the policies and plans framed by the top management. It serves as an essential link between the top management and the lower level or operative management. They are responsible to the top management for the functioning of their departments. They devote more time on the organization and motivation functions of management. They provide the guidance and the structure for a purposeful enterprise. Without them the top management's plans and ambitious expectations will not be fruitfully realized. The following are the main functions of middle management:

- i. To interpret the policies chalked out by top management.
- ii. To prepare the organizational set up in their own departments for fulfilling the objectives implied in various business policies.
- iii. To recruit and select suitable operative and supervisory staff.
- iv. To assign activities, duties and responsibilities for timely implementation of the plans.
- v. To compile all the instructions and issue them to supervisor under their control.

- vi. To motivate personnel to attain higher productivity and to reward them properly.
- vii. To cooperate with the other departments for ensuring a smooth functioning of the entire organization.
- viii. To collect reports and information on performance in their departments.
- ix. To report to top management
- x. To make suitable recommendations to the top management for the better execution of plans and policies.

2.2.3 Lower or operative management

It is placed at the bottom of the hierarchy of management, and actual operations are the responsibility of this level of management. It consists of foreman, supervisors, sales officers, accounts officers and so on. They are in direct touch with the rank and file or workers. Their authority and responsibility is limited. They pass on the instructions of the middle management to workers. They interpret and divide the plans of the management into short-range operating plans. They are also involved in the process of decisions-making. They have to get the work done through the workers. They allot various jobs to the workers, evaluate their performance and report to the middle level management. They are more concerned with direction and control functions of management. They devote more time in the supervision of the workers.

2.3 Principles of Management

A body of principles of management has been developed by Henri Fayol, the father of modern management. Fayol wrote perceptibly on the basis of his practical experience as a manager. Although, he did not develop an integrated theory of management, his principles are surprisingly in tune with contemporary thinking in management theory.

Fayol held that there is a single "administrative science", whose principles can be used in all management situations no matter what kind of organization was being managed. This earned him the title of "Universality". He, however, emphasized that his principles were not immutable laws but rules of thumb to be used as occasion demanded.

Fayol held that activities of an industrial enterprise can be grouped in six categories:

- (i) technical (production),
- (ii) commercial (buying, selling and exchange),

- (iii) financial (search for and optimum use of capital),
- (iv) security (protection of property and persons),
- (v) accounting (including statistics); and
- (vi) managerial.

However, he devoted most of his attention to managerial activity. He developed the following principles underlying management of all kinds of organizations:

1. **Authority and Responsibility are Related:** Fayol held that authority flows from responsibility. Managers who exercise authority over others should assume responsibility for decisions as well as for results. He regarded authority as a corollary to responsibility. Authority is official as well as personal. Official authority is derived from the manager's position in organizational hierarchy and personal authority is compounded of intelligence, experience, moral worth, past services, etc. A corollary of the principle that no manager should be given authority unless he assumes responsibility is that those who have responsibility should also have commensurate authority in order to enable them to initiate action on others and command resources required for the performance of their functions.
2. **Unity of Command:** This principle holds that one employee should have only one boss and receive instructions from him only. Fayol observed that if this principle is violated authority will be undermined, discipline will be jeopardy, order will be disturbed and stability will be threatened. Dual command is a permanent source of conflict. Therefore, in every organization, each subordinate should have one superior whose command he has to obey.
3. **Unity of Direction:** This means that all managerial and operational activities which relate a distinct group with the same objective should be directed by "one head and one plan. According to Fayol, there should be, "one head and one plan for a group of activities having the same objective". It, however, does not mean that all decisions should be made at the top. It only means that all related activities should be directed by one person. For example, all marketing activities like product strategy and policy, advertising and sales promotion, distribution channel policy, product pricing policy, marketing research, etc., should be under the control of one manager and directed by an integrated plan. This is essential for the "unity of action, coordination of strength and focusing of effort". Violation of this principle will cause fragmentation of action and effort, and wastage of resources.
4. **Scalar Chain of Command:** According to Fayol scalar chain is the chain of superiors ranging from the ultimate authority to the lowest ranks. The line of

authority is the route followed via every link in the chain by all communication which start from or go to the ultimate authority.

5. **Division of Work:** This is the principle of specialization which, according to Fayol, applies to all kinds of work, managerial as well as technical. It helps a person to acquire an ability and accuracy with which he can do more and better work with the same effort. Therefore, the work of every person in the organization should be limited as far as possible to the performance of a single leading function.
6. **Discipline:** Discipline is a *sine qua non* for the proper functioning of an organization. Members of an organization are required to perform their functions and conduct themselves in relation to others according to rules, norms and customs. According to Fayol, discipline can best be maintained by: (i) having good superiors at all levels; (ii) agreements (made either with the individual employees or with a union as the case may be) that are as clear and fair as possible; and (iii) penalties judiciously imposed.
7. **Subordination of Individual Interest to General Interest:** The interest of the organization is above the interests of the individual and the group. It can be achieved only when managers in high positions in the organization set an example of honesty, integrity, fairness and justice. It will involve an attitude and a spirit of sacrificing their own personal interests whenever it becomes apparent that such personal interests are in conflict with organizational interests. It may, however, be emphasized that social and national interests should have precedence over organizational interests whenever the two run counter to each other.
8. **Remuneration:** Employees should be paid fairly and equitably. Differentials in remuneration should be based on job differentials, in terms of qualities of the employee, application, responsibility, working conditions and difficulty of the job. It should also take into account factors like cost of living, general economic conditions, and demand for labour and economic state of the business.
9. **Centralisation:** Fayol believed in centralisation. He, however, did not contemplate concentration of all decision making authority in the top management. He, however, held that centralisation and decentralisation is a question of proportion. In a small firm with a limited number of employees, the owner-manager can give orders directly to everyone. In large organizations, however, where the worker is separated from the chief executive through a long scalar chain, the decision making authority has to be distributed among various managers in varying degrees. Here one generally comes across a situation of decentralisation with centralised control. The degree of centralisation and decentralisation also depends on the quality of managers.

10. **Order:** Order, in the conception of Fayol, means right person on the right job and everything in its proper place. This kind of order depends on precise knowledge of human requirements and resources of the concern and a constant balance between these requirements and resources.
11. **Equity:** It means that subordinates should be treated with justice and kindliness. This is essential for eliciting their devotion and loyalty to the enterprise. It is, therefore the duty of the chief executive to instill a sense of equity throughout all levels of scalar chain.
12. **Stability of Tenure of Personnel:** The managerial policies should provide a sense of reasonable job security. The hiring and firing of personnel should depend not on the whims of the superiors but on the well-conceived personnel policies. He points out that it takes time for an employee to learn his job; if they quit or are discharged within a short time, the learning time has been wasted. At the same time those found unsuitable should be removed and those who are found to be competent should be promoted. However, "a mediocre manager who stays is infinitely preferable to outstanding managers who come and go".
13. **Initiative:** It focuses on the ability, attitude and resourcefulness to act without prompting from others. Managers must create an environment which encourages their subordinates to take initiative and responsibility. Since it provides a sense of great satisfaction to intelligent employees, managers should sacrifice their personal vanity in order to encourage their subordinates to show initiative. It should, however, be limited, according to Fayol, by respect for authority and discipline.
14. **Esprit de Corps:** Cohesiveness and team spirit should be encouraged among employees. It is one of the chief characteristics of organized activity that a number of people work together in close cooperation for the achievement of common goals. An environment should be created in the organization which will induce people to contribute to each other's efforts in such a way that the combined effort of all together promotes the achievement of the overall objectives of enterprise. Fayol warns against two enemies of *esprit de corps*, viz. (i) divide and rule, and (ii) abuse of written communication. It may work to the benefit of the enterprise to divide its enemy but it will surely be dangerous to divide one's own workers. They should rather be welded in cohesive and highly interacting work-groups. Overreliance on written communication also tends to disrupt team spirit. Written communication, where necessary, should always be supplemented by oral communication because face-to-face contacts tend to promote speed, clarity and harmony.

Criticism: Fayol's work has been criticized on the following grounds:

- i. His theory is said to be too formal. There is no single classification of managerial functions acceptable to all the functional theorists. There is also lack of unanimity about the various terms such as management, administration etc.
- ii. He did not pay adequate attention to workers.
- iii. The fundamentalists considered their principles to be universal in nature. But many of the principles have failed to deliver the desired results in certain situations.
- iv. There is a vagueness and superficiality about some of his terms and definition.

The other important principles of management as developed by pioneer thinkers on the subject are:

- a. Separation of planning and execution of business operations.
- b. Scientific approach to business problems.
- c. Adoption of technological changes.
- d. Economizing production costs and avoiding the wastage of resources.
- e. Fuller utilization of the operational capacity and emphasis on higher productivity.
- f. Standardisation of tools, machines, materials, methods, timings and products.
- g. Evaluation of results according to criteria of standard levels of performance.
- h. Understanding and co-operation among the members of the organization set-up.

2.4 Significance of Management

Management is concerned with acquiring maximum prosperity with a minimum effort. Management is essential wherever group efforts are required to be directed towards achievement of common goals. In this management conscious age, the significance of management can hardly be over emphasized. It is said that, anything minus management amounts to nothing. Koontz and O' Donnel have rightly observed "there is no more important area of human activity than management since its task is that of getting things done through others."

The significance of management in business activities is relatively greater. The inputs of labour, capital and raw material never become productive without the catalyst of management. It is now widely recognized that management is an important factor of growth of any country. The following points further highlight the significance of management:

1. **Achievements of group goals:** Management makes group efforts more effective. The group as a whole cannot realise its objectives unless and until there is mutual co-operation and co-ordination among the members of the group. Management creates team work and team spirit in an organization by developing a sound organization structure. It brings the human and material resources together and motivates the people for the achievement of the goals of the organization.
2. **Optimum utilization of resources:** Management always concentrates on achieving the objectives of the enterprise. The available resources of production are put to use in such a way that all sort of wastage and inefficiencies are reduced to a minimum. Workers are motivated to put in their best performance by the inspiring leadership. Managers create and maintain an environment conducive to highest efficiency and performance. Through the optimum use of available resources, management accelerates the process of economic growth.
3. **Minimisation of cost:** In the modern era of intense competition, every business enterprise must minimise the cost of production and distribution. Only those concerns can survive in the market, which can produce goods of better quality at the minimum cost. A study of the principles of management helps in knowing certain techniques used for reducing costs. These techniques are production control, budgetary control, cost control, financial control, material control, etc.
4. **Change and growth:** A business enterprise operates in a constantly changing environment. Changes in business environment create uncertainties and risk and also produce opportunities for growth. An enterprise has to change and adjust itself in the ever changing environment. Sound management moulds not only the enterprise but also alters the environment itself to ensure the success of the business. Many of the giant business corporations of today had a humble beginning and grew continuously through effective management.
5. **Efficient and smooth running of business:** Management ensures efficient and smooth running of business, through better planning, sound organization and effective control of the various factors of production.
6. **Higher profits:** Profits can be enhanced in any enterprise either by increasing the sales revenue or reducing costs. To increase the sales revenue is beyond the control of an enterprise. Management by decreasing costs increases its profits and thus provides opportunities for future growth and development.
7. **Provide innovation:** Management gives new ideas, imagination and visions to an enterprise.
8. **Social benefits:** Management is useful not only to the business firms but to the society as a whole. It improves the standard of living of the people through higher production and more efficient use of scarce resources. By establishing

cordial relations between different social groups, management promotes peace and prosperity in society.

9. **Useful for developing countries:** Management has to play a more important role in developing countries. In such countries, the productivity is low and the resources are limited. It has been rightly observed, "There are no under-developed countries. They are only under-managed ones".
10. **Sound organization structure:** Management establishes proper organization structure and avoids conflict between the superiors and subordinates. This helps in the development of spirit of cooperation and mutual understanding, and a congenial environment is provided in the organization.

2.5 Evolution of School of Management Thoughts

Management has been practiced in some form or the other since the dawn of civilization. Ever since human beings started living together in groups, techniques of organization and management were evolved. The Egyptian pyramids, the Chinese Civil Service, The Roman Catholic Church, the military organizations and the Great Wall of China, for instance, are tangible evidence that projects of tremendous scope, employing tens of thousands of people, were undertaken well before the modern times.

The pyramids are particularly interesting examples. The construction of a single pyramid occupied more than 100,000 workers for 20 years. Who told each worker what to do? Who ensured that there would be enough stones at the site to keep the workers busy? The answer is Managers, regardless of what managers were called at that time. He had to plan what was to be done, organize people and material to do it, lead and direct the workers, and impose some controls to ensure that everything was done as planned. This example from the past demonstrates that organizations have been around for thousands of years and that management has been practiced for an equivalent period. However, two pre-twentieth-century events played significant roles in promoting the study of management. First is Adam Smith's contribution in the field of management and second is influence of Industrial Revolution in management practice.

1. **Adam Smith's** name is typically cited in field of economics for his contribution to classical economic doctrine, but his contribution in *Wealth of Nations* (1776) outlined the economic advantage that organization and society can gain from the *division of labour*. He used the pin-manufacturing industry for his example. Smith noted that 10 individuals, each doing a specialized task, could produce about 4800 pins a day. However, if each worked separately and had to perform each task, it would be quite an accomplishment to produce even 10 pins a day.

Smith concluded that division of labour increased productivity by increasing each worker's skill and dexterity, by saving time lost in changing tasks, and by creating labour-saving inventions and machinery.

2. ***Industrial Revolution*** is another most important aspect that influences management in pre-twentieth century. The major contribution of the industrial revolution was the substitution of machine power for human power, which in turn, made it more economical to manufacture goods in factories. The advent of machine power, mass production, the reduced transportation costs that followed a rapid expansion of the railroads and lack of governmental regulation also fostered the development of big organization.

Now, a formal theory to guide managers in running their organization was needed. However, it was not until the early 1900s that the first major step toward developing such a theory was taken. The periods of evaluation of management thoughts are highlighted in the *Table 2.1*.

Table 2.1: Evolution of School of Management Thoughts

MANAGEMENT THOUGHTS	PERIOD
Early Contributions	Up to 19 th century
Scientific Management	1900-1930
Administrative/operational management	1916-1940
Human relations approach	1930-1950
Social systems approach	1940-1950
Decision theory approach	1945-1965
Management science approach	1950-1960

Human behaviour approach	1950-1970
Systems approach	1960s onwards
Contingency approach	1970s onwards

2.6 Forces Backing School of Management Thoughts

Management thoughts have taken birth/evolved under the anxiety of political, social and economic forces. These are explained as follows:

1. ***Political Forces*** : Management thoughts have been shaped by the political forces manifested through the administration of political institutions and government agencies.
2. ***Social Forces*** : These evolve from the values and beliefs of a particular culture of people. The needs, education, religion and norms of human behaviour dictate the relations among people, which form social contracts. *Social contracts* , is that unwritten but understood set of rules that govern the behaviour of the people in their day-to-day interrelationships. The same happens between corporations and their constituents- labour, investors, creditors, suppliers and consumers. These social contracts defined relationships, responsibilities and liabilities that influence the development of management thoughts. It gives the society a sense of order and trust in which human affairs can be conducted in relative security and confidence.
3. ***Economic Forces*** : These forces determine the scarcity, transformation and distribution of goods and services in a society. Every social institution competes for a limited amount of human, financial, physical and information resources. This competition over scarce resources allocates them to their most profitable use and is the motivator of technological innovation by which resource availability can be maximized.

2.7 School of Management Thoughts

In the past, the business houses, particularly corporate, did not have a high academic stature and position in the society and it certainly compelled the scholars inculcate the academic interest in the study of business management so that its real fruits could be

realized for the stakeholders under reference. There was a widespread belief that management process consisted of hidden tricks, mysterious clues and intuitive knowledge that could be mastered only by a few divinely gifted people. Moreover, the businessmen were very much afraid that through the study of management their tricks and secrets would be exposed.

But the advent of industrial revolution and the introduction of large scale mechanized production and the resultant growth of trade, industry and commerce necessitated the study of management. In the beginning there were two classical schools of management thoughts. These were – the scientific management school and the organizational school. Later on, behavioural school and the quantitative school came into existence. These four schools merged into integration school which led to the contemporary school of management thoughts.

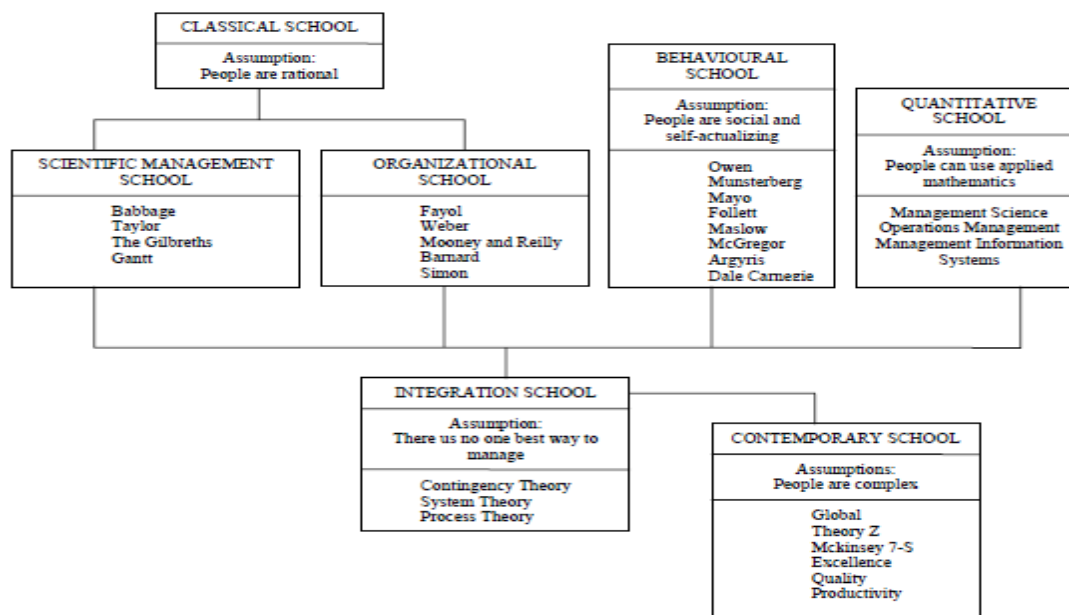


Fig. 2.1: School of Management Thoughts

1. **Classical School:** The classical development of management thoughts can be divided into – the scientific management, the organizational management, the behavioural management and the quantitative management. The first two (scientific management school and organizational) emerged in late 1800s and early 1900s were based on the management belief that people were rational, economic creatures choose a course of action that provide the greatest economic gain. These schools of management thoughts are explained as below:

a. **Scientific Management School:** Scientific management means application of the scientific methods to the problem of management. It conducts a business or

affairs by standards established by facts or truth gained through systematic observation, experiments, or reasoning. The followings individuals contribute in development of scientific management school of management thoughts. They dedicated to the increase in efficiency of labour by the management of the workers in the organization's technical core. They are:

- i. **Charles Babbage (1792-1871):** He was Professor of mathematics at Cambridge University from 1828 to 1839. He concentrated on developing the efficiencies of labour production. He, like Adam Smith, was a proponent of the specialization of labour, and he applied mathematics to the efficient use of both production materials and facilities. He wrote nine books and over 70 papers on mathematics, science and philosophy. He advocated that the managers should conduct time studies data to establish work standards for anticipated work performance levels and to reward the workers with bonuses to the extent by which they exceed their standards. His best known book is 'On the Economy of Machinery and Manufacturers' published in 1832. He visited many factories in England and France and he found that manufacturers were totally unscientific and most of their work is guess work. He perceived that methods of science and mathematics could be applied to the operations of factories. His main contributions are as follows:

- He stressed the importance of division of and assignment to labour on the basis of skill.
- He recommended profit-sharing programs in an effort to foster harmonious management – labour relations.
- He stressed the means of determining the feasibility of replacing manual operations with machines.

- ii. **Fredrick W. Taylor (1856-1915):** He is known as 'father of scientific management'. His ideas about management grew out of his wide – ranging experience in three companies: Midvale Steel Works, Simonds Rolling Mills and Bethlehem Steel Co. As an engineer and consultant, Taylor observed and reported on what he found to be inexcusably inefficient work practices, especially in the steel industry. Taylor believed that workers output was only about one-third of what was possible. Therefore, he set out to correct the situation by applying scientific methods. Taylor's philosophy and ideas are given in his book, 'Principles of Scientific Management' published in 1911. Taylor concluded that scientific management involves a completer mental revolution on the part

of both workers and management, without this mental revolution scientific management does not exist. Taylor gave the following principles of scientific management.

- Develop a science for each job with standardized work implements and efficient methods for all to follow.
- Scientifically select workers with skills and abilities that match each job, and train them in the most efficient ways to accomplish tasks.
- Ensure cooperation through incentives and provide the work environment that reinforces optimal work results in a scientific manner.
- Divide responsibility for managing and for working, while supporting individuals in work groups for what they do best. Some people are more capable of managing, whereas others are better at performing tasks laid out for them.

iii. **Henry Gantt (1861-1919):** He was a consulting engineer who specialized in control system for shop scheduling. He sought to increase workers efficiency through scientific investigation. He developed the *Gantt chart* that provides a graphic representation of the flow of the work required to complete a given task. The chart represents each planned stage of work, showing both scheduled times and actual times. Gantt Charts were used by managers as a scheduling device for planning and controlling work. Gantt devised an incentive system that gave workers a bonus for completing their job in less time than the allowed standards. His bonus systems were similar to the modern *gain sharing* techniques whereby employees are motivated to higher levels of performance by the potential of sharing in the profit generated. In doing so, Gantt expanded the scope of scientific management to encompass the work of managers as well as that of operatives.

iv. **Frank (1868-1924) and Lillian (1878-1972) Gilbreth:** Frank Gilbreth, a construction contractor by back ground, gave up his contracting career in 1912 to study scientific management after hearing Taylor's speak at a professional meeting. Along with his wife Lillian, a psychologist, he studied work arrangements to eliminate wasteful hand-body-motion. Frank specialized in research that had a dramatic impact on medical surgery and, through his time and motion findings, surgeons saved many lives. Lillian is known as 'first lady of management' and devoted most of her research to the human side of management. Frank Gilbreth is probably best known for his experiments in reducing the number of

motions in bricklaying.

The man and wife team developed a classification scheme for the various motions (17 basic hand motions) used to complete a job referring a motion as *atherblig*. Their classification design covered such motions as grasping, moving, and holding. This scheme allowed him to more precisely analyze the exact elements of worker's hand movements. Their scientific motion scheme noted the relationship between types and frequencies of motions and the creation of workers fatigue, identifying that unnecessary or awkward motions were a waste of workers energy. By eliminating inappropriate motions and focusing on appropriate motion, the Gilbreth methodology reduces work fatigue and improves workers performance.

Gilbreth were among the first to use motion pictures films to study hand-and-body motions. They devised a micro chronometer that recorded time to 1/2,000 of a second, placed it in the field of the study being photographed and thus determined how long a worker spent enacting each motion. Wasted motions missed by the naked eyes could be identified and eliminated. Gilbreths also experimented with the design and use of the proper tools and equipments for optimizing work performance.

- b. **Organizational School:** The organizational school of management placed emphasis on the development of management principles for managing the complete organization. The contributors of organizational schools are:
 - i. **Henri Fayol (1841-1925):** was a Frenchman with considerable executive experience who focused his research on the things that managers do. He wrote during the same period Taylor did. Taylor was a scientist and he was managing director of a large French coal-mining firm. He was the first to envisage a functional process approach to the practice of management. His was a functional approach because it defined the functions that must be performed by managers. It was also a process approach because he conceptualized the managerial job in a series of stages such as planning, organizing and controlling. According to Fayol, all managerial tasks could be classified into one of the following six groups:
 - Technical (related to production);
 - Commercial (buying, selling and exchange);

- Financial (search for capital and its optimum use);
- Security (protection for property and person);
- Accounting (recording and taking stock of costs, profits, and liabilities, keeping balance sheets, and compiling statistics);
- Managerial (planning, organizing, commanding, coordinating and control);

He pointed out that these activities exist in every organization. He focused his work on the administrative or managerial activities and developed the following definition:

- Planning meant developing a course of action that would help the organization achieve its objectives.
- Organizing meant mobilizing the employees and other resources of the organization in accordance with the plan.
- Commanding meant directing the employees and getting the job done.
- Coordinating meant achieving harmony among the various activities.
- Controlling meant monitoring performance to ensure that the plan is properly followed.

ii. **Max Weber (1864-1920):** He was a German sociologist. Writing in the early 1900s, Weber developed a theory of authority structures and described organizational activities on the basis of authority relations. He described an ideal type of organization that he called a bureaucracy, a form of organization characterized by division of labour, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. Weber recognized that this ideal bureaucracy didn't exist in reality. He used it as a basis for theorizing about work and the way that work could be done in large groups. His theory became the model structural design for many of today's large organizations. The features of Weber's ideal bureaucratic structure are outlined in *Figure 2.2*

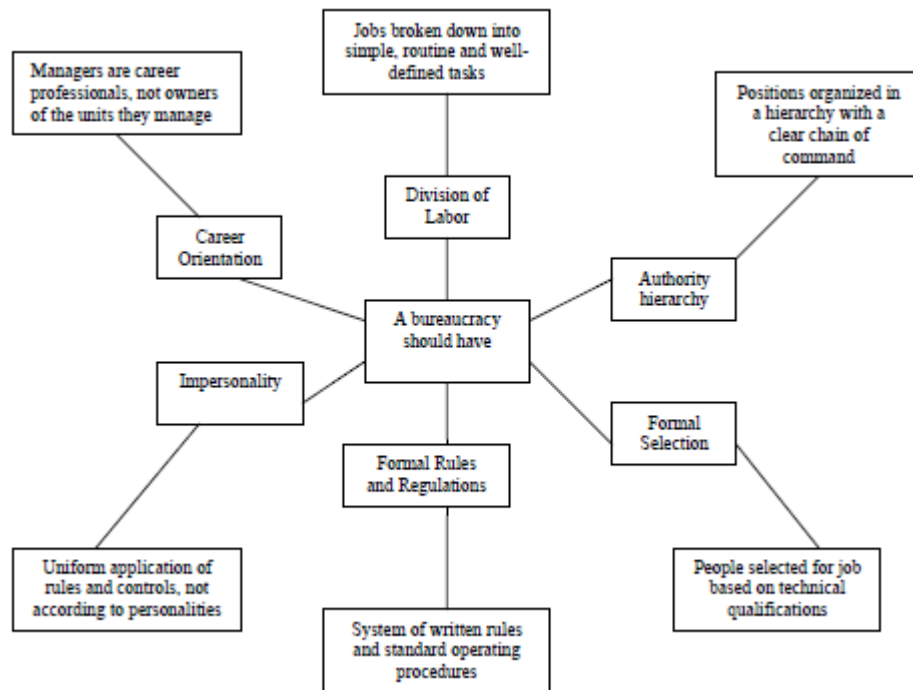


Fig. 2.2: Weber's Ideal Bureaucracy

The Elements of Bureaucracy are:

- Labour is divided with clear definition of authority and responsibility that are legitimized as official duties.
- Positions are organized in a hierarchy of authority, with each position under the authority of a higher one.
- All personnel are selected and promoted based on technical qualifications, which are assessed by examination or according to training and experience.
- Administrative acts and decisions are recorded in writing. Recordkeeping provides organizational memory and continuity over time.
- Management is separate from the ownership of the organization.
- Management is subject to rules and procedures that will insure reliable, predictable behaviour. Rules are impersonal and uniformly applied to all employees.

iii. **James D. Mooney and Alan C. Reilly:** James Mooney was a General Motors executive who teamed-up with historian Alan Reilly to expose the true principles of an organization in their books. They wrote a book 'Onward Industry' in 1931 and later revised and renamed it as 'Principles of

Organization' which had greatly influenced the theory and practice of management in USA at that time. They contended that an efficient organization should be based on certain formal principles and premises. They contended that organizations should be studied from two view points:

- a. The employees who create and utilize the process of organization; and
- b. The objective of the process

With respect to first aspect, their contributions to some fundamental principles of organization are:

- The Coordination Principle: It was considered to be the single basic principle that actually encompassed the other two principles. They defined coordination as the orderly arrangement of work group effort that provides unity of action in pursuit of common goals.
- The Scalar Principle: It was borrowed from the Fayol's work, was the device for grading duties in accordance with the amount of authority possessed at the different organizational levels.
- The Functional Principle: The functional distinction is those unique differences in organizational operations that the manager must perceive in order to effectively integrate and coordinate all the functions of the organization.

In essence, Mooney and Reilley made an attempt to offer a rigid framework of management theory with emphasis on hierarchical structure, clear division and definition of authority and responsibility, specialization of tasks, coordination of activities and utilization of staff experts.

- iv. **Chester Barnard (1886-1961):** Chester Barnard, president of Bell Telephone Company, developed theories about the functions of the manager as determined by constant interaction with the environment. Barnard saw organizations as social systems that require human cooperation. He expressed his view in his book *The Function of the Executive* . He proposed ideas that bridged classical and human resource view points. Barnard believes that organizations were made up of people with interacting social relationships. The manager's major functions were to communicate and stimulate subordinates to high level of efforts.

He saw the effectiveness of an organization as being dependent on its ability

to achieve cooperative efforts from a number of employees in a total, integrated system. Barnard also argued that success depended on maintaining good relations with the people and institutions with whom the organization regularly interacted. By recognizing the organization's dependence on investors, suppliers, customers, and other external stakeholders, Barnard introduced the idea that managers had to examine the external environment and then adjust the organization to maintain a state of equilibrium. Barnard also developed set of working principles by which organizational communication systems can maintain final authority for the management team. These principles are:

- Channels of communication should be definitely known.
- Objective authority requires a definite formal channel of communication to every members of an organization.
- The line of communication must be as direct or short as possible.
- The complete line of communication should usually be used.
- Competence of the persons serving at communication centers that is officers, supervisory heads, must be adequate.
- The line of communication should not be interrupted during the time the organization is to function.

- v. **Herbert A. Simon:** Simon, the Noble Laureate in economics (1978), is an American political and social scientist. He started his career in local government. He analyzed the classical principles of management. Due to their ambiguous and contradictory nature, he criticized these principles as 'myths'. He analyzed the problems of management from the socio-psychological view point. But he is best known for his work in the field of decision making and administrative behaviour. He perceived the modern manager as being limited in his knowledge of a problems and the number of alternative available to him is also limited. Thus, the manager is an administrative man, not an economic man, who makes decision amid bounded rationality and selects not the maximizing alternative. Simon's arguments for the administrative man concept of a manager are highlighted in *Table 2.2* :

Economic Man – Full Rationality	Administrative Man – Bounded Rationality
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Economic man maximizes- selects the best alternative from among all those available to him.	Administrative man satisfies- looks for a course of action that is satisfactory or good enough.
Economic man deals with the real world in all its complexity. He is rational.	Administrative man recognizes that the world he perceives is a drastically simplified model of the buzzing, blooming confusion that constitute the real world.
Rationality requires a complete knowledge and anticipation of the consequences that will follow on each choice.	Knowledge of consequences is always fragmentary. Since these consequences lies in the future, imaginations must supply the lack of experienced feeling.
Rationality requires a choice among all possible alternative behaviour.	In actual behaviour only a very few of all possible alternatives ever come to mind.

- c. **Behavioural School:** The school of behavioural management theory involved in recognition on the importance of human behaviour in organization. The major contributors were:

- i. **Robert Owen (1771-1858)** was a British industrialist who was the first to speak out on behalf of the organization's human resources. He carried out experiments and introduced many social reforms. He believed that workers' performance was influenced by the total environment in which they worked. He criticized industrialists who spent huge sums of money repairing their production machines, but did little to improve the lot of their human machines. Owen worked for the building up of a spirit of co-operation between the workers and managers. He introduced new ideas of human relations e.g. shorter work hours, housing facilities, education of children, provision of canteen, training of workers in hygiene etc. He suggested that proper treatment of workers pays dividends and is an essential part of every manager's job.

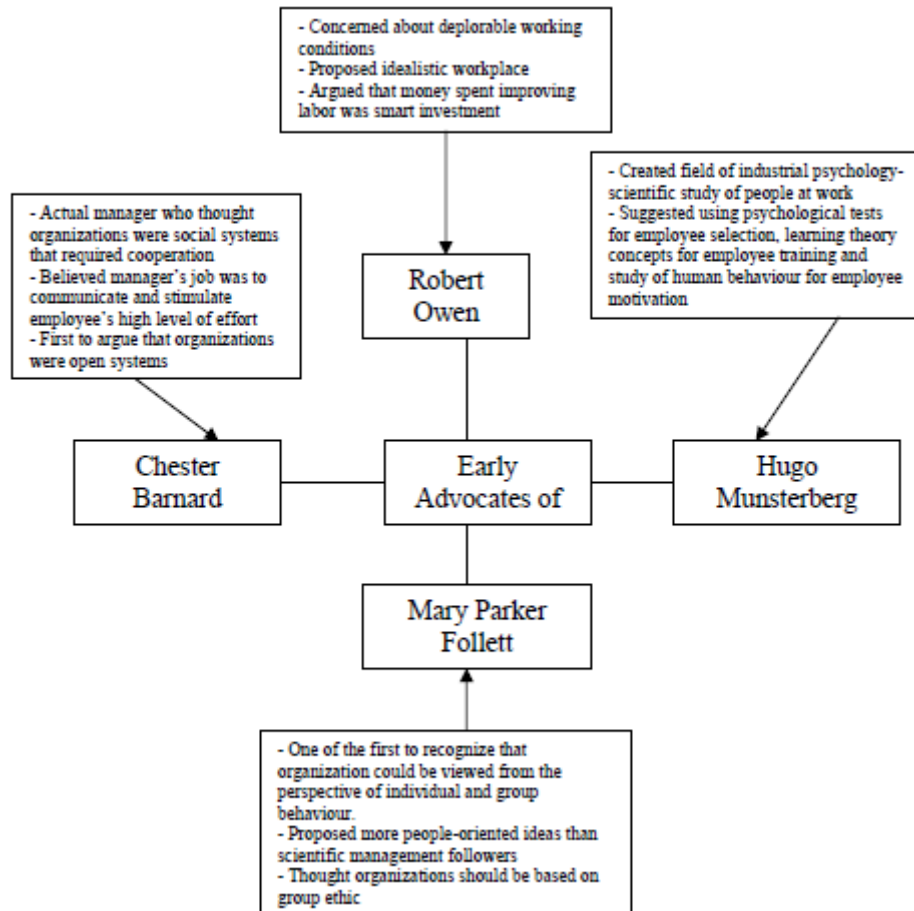


Fig 2.3: Early Advocates of Organization Behaviour

- II. **Hugo Munsterberg (1863-1916):** developed a psychology laboratory at Harvard University where he studied the application of psychology to the organizational settings. Psychology and Industrial Efficiency he argued for the study of scientific study of human behaviour to identify the general patterns and to explain individual differences. Thus, his concern for the human side of business led his peers to consider him to be father of industrial psychology. He successfully documented the psychological conditions associated with varying levels of work productivity, and he instructed managers on ways to match workers with jobs and also how to motivate them. Munsterberg suggested the use of psychological tests to improve employee selection, the value of learning theory in the development of training methods, and the study of human behaviour to determine what techniques are most effective for motivating workers.
- III. **George Elton Mayo (1880-1949):** Mayo was a professor at the Harvard Business School. He served as the leader of the team which carried out the famous Hawthorne Experiments at the Hawthorne plant of the Western

Electric Company (USA) during 1927-32. Originally the research was an application of Taylor's management science techniques designed to improve production efficiency. Mayo discussed in detail the factors that cause a change in human behaviour. Mayo's first study involved the manipulation of illumination for one group of workers and comparing their output with that of another group whose illumination was held constant. He concluded that the cause of increase in the productivity of workers is not a single factor like changing working hours or rest pauses but a combination of these several other factors. Considerate supervision, giving autonomy to the workers, allowing the formation of small cohesive groups of workers, creating conditions which encourage and support the growth of these groups and the cooperation between workers and management lead to increase in productivity.

Mayo's contribution to management thoughts lies in the recognition of the fact that worker's performance is related to psychological, sociological and physical factors. Mayo and his associates concluded that a new social setting created by their tests had accounted for the increase in productivity. Their finding is now known as the Hawthorne Effect or the tendency for people, who are singled out for special attention, to improve their performance. Hawthorne study was an important landmark in studying the behaviour of workers and his relationship to the job, his fellow workers and organization. He highlighted that workers were found to restrict their output in order to avoid displeasure of the group, even at the sacrifice of incentive pay. Thus, Hawthorne studies were a milestone in establishing the framework for further studies into the field of organizational behaviour.

- IV. **Mary Parker Follett (1868-1933):** She was a social philosopher whose ideas had clear implications for management practice. Her contribution towards the understanding of group is of immense value. She believed that groups were the mechanisms through which people could combine their differing talents for the greater good of the organization, which she defined as the community in which managers and subordinates could work in harmony. The Managers and workers should view themselves as partners and as a part of common group. She was convicted that the traditional and artificial distinction between the managers who give the orders and the workers who take the orders obscured their natural relationships. Manager should rely more on their expertise and knowledge to lead subordinates than on the formal authority of their position. Thus, her humanistic ideas influenced the way we look at motivation, leadership, power and authority. The Follett Behavioural Model of control being sponsored by an oriented towards the

group, while self-control exercised by both individuals and the group ultimately result in both sharing the power. In the Follett Holistic Model of Control, Follett captured the interactive, integrative nature of self control groups being influenced by the forces within the work environment.

- V. **Abraham Maslow:** He was a humanistic psychologist, proposed a hierarchy of five needs: physiological, safety, social, esteem and self actualization. He proposed that man was a wanting animal whose behaviour was calculated to serve his most pressing needs. A need can be described as a physiological or psychological deficiency that a person is motivated to satisfy. Maslow further proposed that man's need could be placed in a hierarchy of needs. The study shows that a man has various needs and their order can be determined. The moment the first need of man is satisfied he starts thinking of the second need, and then follows his worry about the third need and the sequence continues till all the needs are satisfied. Maslow's theory is operationalized through two principles.

- The *deficit principle* holds that a relatively well-satisfied need is not a strong motivator of behaviour.
- The *progression principle* holds that, once a need is fairly-well satisfied, behaviour is dominated by the next level in the need hierarchy.

- i. **Physiological Needs:** This category includes those needs which a man needs to satisfy first of all in order to remain alive. It includes food to eat, house to live in, clothes to wear and sleep for rest.
- ii. **Safety Needs:** After having satisfied the physical needs a man thinks of his safety. Safety needs mean physical, economic and psychological safety. *Physical safety* means saving him from accidents, diseases and other unforeseen situations. *Economic safety* means security of employment and making provision for old age. *Psychological safety* means maintaining his prestige.
- iii. **Social Needs:** Man is a social being and wants to live in society with honour. It is, therefore, necessary that he should have friends and relatives with whom he can share his joys and sorrows.
- iv. **Esteem and Status Needs:** They are called ego needs of man. It means everybody wants to get a high status which may increase his power and authority.
- v. **Self Actualization Needs:** Last of all man tries to satisfy his self actualization need. It means that a man should become what he is

capable of. For example- a musician wants to be proficient in the art of music, an artist wants to gain proficiency in creating works of art and similarly, a poet wants to be an expert in the art of writing poems.

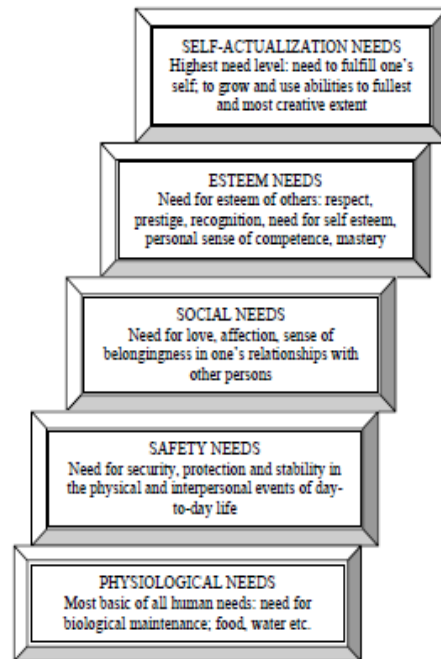


Fig. 2.4: Maslow's Hierarchy of Human

Needs

- VI. **Douglas McGregor (1906-1964):** He is best known for his formulation of two sets of assumptions- Theory X and Theory Y. McGregor argued that managers should shift their traditional views of man and work (which he termed Theory X) to a new humane views of man and work (which he termed Theory Y).

According to McGregor, Theory X attitudes, that man was lazy and work was bad were both pessimistic and counter productive. Theory X assumes that people have little ambition, dislike work, want to avoid responsibility, and need to be closely supervised to work effectively.

Theory Y, view that man wanted to work and work was good should become the standard for humanizing the workplace. Theory Y offers a positive view, assuming that people can exercise self-direction, accept responsibility and consider work to be as natural as rest of play. McGregor believed that Theory Y assumptions best captured the true nature of workers and should guide management practice. *Table 2.3* depicts the assumptions of both these theories:

Table 2.3: Theory X and Y Theory

Traditional Theory 'X'	Modern Theory 'Y'
Man by nature is sluggish and shirker.	Man wants to work provided the conditions are favourable.
Mostly people are not ambitious and are afraid to take responsibility.	This theory takes people as enthusiastic, responsible and full of effort.
Under this people want to be directed, meaning thereby that they want somebody to tell them to work and only they will work.	It is thought that the employee has the quality of self-direction and they do not feel the necessity of being directed by somebody else.
Motivation is limited to only physical and security needs.	According to this, physical and security needs motivate for a short time
Strict control, threat and punishment are used in order to get work.	If proper environment is provided a person himself performs his work laboriously.

- VII. **Chris Argyris:** He was an eminent social scientist and a professor of industrial administration at Yale University. He conducts research into personality and organizational life factors and developed the theory that both traditional management practices and organizational structure are inconsistent with the growth and development of the matured personality. Further he argued that the continuing incongruence between one's work environment and one's personality will result in conflict, frustration and failure.
- d. **Quantitative School:** With the revolutionary change in the application of information technology came the quantitative school of thoughts, which finds its foundation in decision theory, the application of statistics in decision making and the evolution of mathematical/econometric models that are nurtured by

computer technology. This approach is based upon the assumption that mathematical techniques can help the manager in solution of problems. The features of quantitative management school were:

- **Primary Focus on Decision Making:** The end result of problem analysis will include direct implications for managerial action.
- **Based on Economic Decision Theory:** Final actions are chosen criteria as costs, revenue and rates of return on investment.
- **Use of Formal Mathematical Models:** Possible solutions to problems are specified as mathematical equations and then analyzed according to mathematical rules and formulas.
- **Frequent Use of Computers:** Heavy reliance is placed on computers and their advanced processing capabilities.

The quantitative approach has found favor through the following applications:

- i. Management Science.
- ii. Operations Management
- iii. Management Information System.

2. Integration School

In recent years, an attempt has been made to integrate the classical theories with the modern behavioural and quantitative theories into an overall framework that use the best of each approach. These approaches assumed that there is no best way to manage, and all theories have application to the practice of management. Two such integrative developments are explained as follows:

- i. **Contingency Theory:** It is based on the notion that the proper management technique in a given situation depends upon the nature and conditions of that situation. The contingency view of management contends that an organizational phenomenon exists in logical patterns which managers can come to understand. Along with this organizational understanding comes the development of unique behaviours that have proven successful in particular situations. However, there are no universal solution techniques because every problem situation is unique in itself.

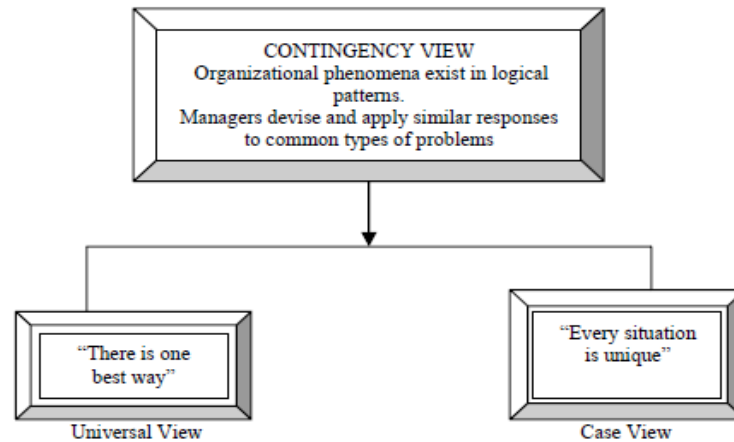


Fig. 2.5

- ii. **Systems Theory:** It shall be explained later under systems approach.

3. Contemporary School

The contemporary school of management thoughts outlines the framework for studying the more recent trends in management practices, such as the impact of global business, Theory Z concepts, McKinsey 7-S approach, the search for excellence, and the concern for quality and productivity. These are explained as follows:

- i. **Global:** The recent emergence of a truly global economy is affecting every manager in the world. In today's environment, success in the long run demands that the manager think globally, even if he can still limit his actions to local market.
- ii. **Theory Z:** These firms are those which are highly successful American firms that use many of the Japanese management practices. The Type Z firm features long-term employment with a moderately specialized career path and slow evaluation and promotion. Lifetime employment would not be especially attractive to America's mobile work force and the slow evaluation and promotion processes would not meet the high expectations of American workers.
- iii. **McKinsey 7-S:** The 7-S factors are as follows:
 - **Strategy:** The plans that determine the allocation of an organization's scarce resources and commit the organization to a specified course of action.
 - **Structure:** The design of the organization that determines the number of levels in its hierarchy and the location of the organization's authority.

- **Systems:** The organizational processes and proceduralized reports and routines.
- **Staff:** The key human resource groups within an organization, described demographically.
- **Style:** The manner in which manager behave in pursuit of organizational goals.
- **Skills:** The distinct abilities of the organization's personnel.
- **Super ordinate Goals (shared values):** The significant meanings or guiding concepts that an organization instill in its members.

iv. **Excellence:** The firms that qualified as excellent companies shared the following characteristics:

- A successful firm makes things happen.
- Successful firms make it a point to know their customers and their needs.
- Autonomy and Entrepreneurship is valued in each employee.
- Productivity through people is based on trust.
- Hands on, value driven management is mandatory.
- A firm must always deal with strength.
- A firm leads to cost effective works teams.
- A firm can decentralize many decisions while retaining tight controls, usually through the function of finance.

v. **Quality and Productivity:** In today's dynamic marketplace, consumers are encouraged to buy a product that demonstrates the highest level of quality at the optimum price. This requires a dedicated and skilled work force that places utmost importance on quality workmanship.

2.8 Approaches to the Study of Management

2.8.1 Classical Approach

The classical approach is also known as traditional approach, management process approach or empirical approach. The main features of this approach are as follows:

- i. It laid emphasis on division of labour and specialization, structure, scalar and

functional processes and span of control. Thus, they concentrated on the anatomy of formal organization.

- ii. Management is viewed as a systematic network (process) of interrelated functions. The nature and content of these functions, the mechanics by which each function is performed and the interrelationship between these function is the core of the classical approach.
- iii. It ignored the impact of external environment on the working of the organization. Thus, it treated organization as closed system.
- iv. On the basis of experience of practicing managers, principles are developed. These principles are used as guidelines for the practicing executive.
- v. Functions, principles and skills of management are considered universal. They can be applied in different situations.
- vi. The integration of the organization is achieved through the authority and control of the central mechanism. Thus, it is based on centralization of authority.
- vii. Formal education and training is emphasized for developing managerial skills in would be managers. Case study method is often used for this purpose.
- viii.Emphasis is placed on economic efficiency and the formal organization structure.
- ix. People are motivated by economic gains. Therefore, organization controls economic incentives.

The Classical approach was developed through three mainstreams- Taylor's Scientific Management, Fayol's Administrative Management and Weber's Ideal Bureaucracy. All the three concentrated on the structure of organization for greater efficiency.

2.8.1.1 Merits of Classical Approach

- i. The classical approach offers a convenient framework for the education and training of managers.
- ii. The observational method of case study is helpful in drawing common principles out of past experience with some relevance for future application
- iii. It focuses attention on what managers actually do.
- iv. This approach highlights the universal nature of management.
- v. It provides scientific basis for management practice.

- vi. It provides a starting point for researchers to verify the validity and to improve the applicability of management knowledge. Such knowledge about management is effectively presented.

2.8.1.2 Shortcomings of Classical Approach

- i. Weber's ideal bureaucracy suggested strict adherence to rules and regulations, this lead to redtapism in the organization.
- ii. It offers a mechanistic framework that undermines the role of human factor. The classical writers ignored the social, psychological and motivational aspect of human behaviour.
- iii. The environmental dynamics and their effect on management have been discounted. Classical theory viewed organization as closed system i.e. having no interaction with environment.
- iv. There is positive danger in relying too much on past experiences because a principle or technique found effective in the past may not fit a situation of the future.
- v. The classical principles are mostly based on the personal experience and limited observations of the practitioners. They are not based on personal experience.
- vi. The totality of real situation can seldom be incorporated in a case study.

2.8.2 Scientific Management Approach

The impetus for the scientific management approach came from the first industrial revolution. Because it brought about such an extraordinary mechanization of industry, this revolution necessitated the development of new management principles and practices. The concept of scientific management was introduced by Frederick Winslow Taylor in USA in the beginning of 20th century. He defined scientific management as," *Scientific management is concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way*".

2.8.2.1 Elements and Tools of Scientific Management

The features of various experiments conducted by Taylor are as follows:

- i. *Separation of Planning and doing* : Taylor emphasized the separation of planning aspects from actual doing of the work. The planning should be left to the supervisor and the workers should emphasize on operational work.

- ii. *Functional Foremanship* : Separation of planning from doing resulted into development of supervision system that could take planning work adequately besides keeping supervision on workers. Thus, Taylor evolved the concept of functional foremanship based on specialization of functions. This involve activities of workers as depicted in Figure 2.6:

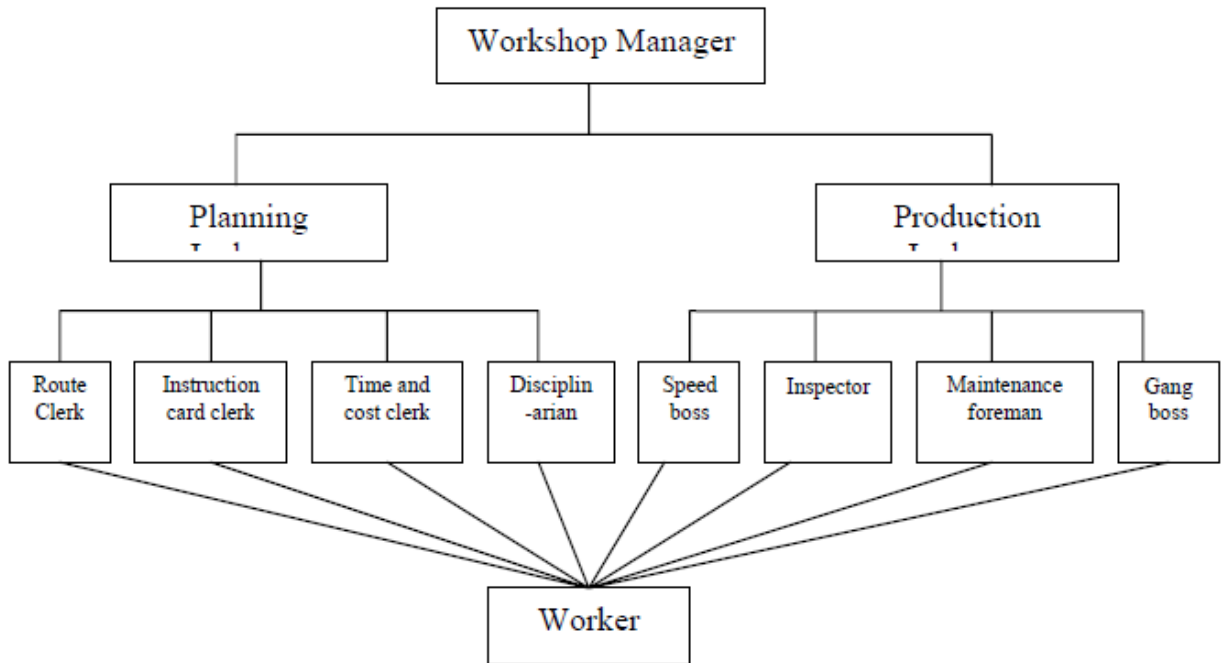


Fig. 2.6: Functional Foremanship

- iii. *Job Analysis* : It is undertaken to find out the best way of doing things. The best way of doing a job is one which requires the least movement consequently less time and cost.
- iv. *Standardization* : Standardization should be maintained in respect of instruments and tools, period of work, amount of work, working conditions, cost of production etc.
- v. *Scientific Selection and Training of Workers* : Taylor has suggested that the workers should be selected on scientific basis taking into account their education, work experience, aptitudes, physical strength etc.
- vi. *Financial Incentives* : Financial incentives can motivate workers to put in their maximum efforts. Thus, monetary (bonus, compensation) incentives and non monetary (promotion, up gradation) incentives should be provided to employees.

2.8.2.2 Criticism of Scientific Management

The main grounds of criticism are given below:

- i. Taylor advocated the concept of functional foremanship to bring about specialization in the organization. But this is not feasible in practice as a worker can't carry out instructions from eight foremen.
- ii. Workers were hired on a first-come, first-hired basis without due concern for workers ability or skills.
- iii. Scientific management is production oriented as it concentrates too much on the technical aspects of work and undermines the human factors in industry. It resulted in monotony of job, loss of initiative, over speeding workers, wage reductions etc.
- iv. Training was haphazard at best, with only minimal use of basic apprentice system.
- v. Tasks were accomplished by general rule of thumb without standard times, methods or motion.
- vi. Managers worked side-by-side with the workers, often ignoring such basic managerial function of planning and organizing.

2.8.3 Administrative Approach to Management

The advocates of this school perceive management as a process involving certain functions such as planning, organizing, directing and controlling. That's why it is called as 'functional approach' or 'management process' approach. Fayol's contributions were first published in book form titled 'Administration Industrielle at Generale' in French Language, in 1916. He defined management in terms of certain functions and then laid down fourteen principles of management (see section 2.3) which according to him have universal applicability. Thus, he was a pioneer in the field of management education. In brief, Fayol's views on management command acceptability even today because they are much in tune with the requirements of management in the present day world.

2.8.4 Human Relation Approach to Management

The criticism of the Scientific and Administrative Management as advocated by Taylor and Fayol, respectively, gave birth to Human Relation Approach. The behavioural scientists criticized the early management approaches for their insensitiveness to the human side of organization. The behavioural scientists did not view the employees mechanically in work situation, but tried to show that the employees not only have economic needs but also social and psychological needs like need for recognition,

achievement, social contact, freedom, and respect. Human relations school regards business organization as a psycho-social system. Elton Mayo of Harvard and his associates conducted a famous study on human behaviour at the Hawthorne plant of the Western Electric Company and this study formed the foundation of this school of management thoughts. The basic hypotheses of this study as well as the basic propositions of the Human Relation Approach are the following:

- i. The business organization is a social system.
- ii. The employees not only have economic needs but also psychological needs and social needs, which are required to be served properly to motivate them.
- iii. Employees prefer self-control and self-direction.
- iv. Employee oriented democratic participative style of management is more effective than mechanistic task oriented management style.
- v. The informal group should be recognized and officially supported.

The human relations approach is concerned with recognition of the importance of human element in organizations. It revealed the importance of social and psychological factors in determining worker's productivity and satisfaction. It is instrumental in creating a new image of man and the work place. However, this approach also did not go without criticism. It was criticized that the approach laid heavy emphasis on the human side as against the organizational needs. However, the contribution of this approach lies in the fact that it advises managers to attach importance to the human side of an organization.

2.8.5 Social System Approach to Management

It is developed during social science era, is closely related to Human Relation Approach. It includes those researchers who look upon management as a social system. Chester I. Barnard is called as the spiritual father of this approach. According to this approach, an organization is essentially a cultural system composed of people who work in cooperation. The major features of this approach are as follows:

- i. Organization is a social system, a system of cultural relationships.
- ii. Relationships exist among the external as well as internal environment of the organization.
- iii. Cooperation among group members is necessary for the achievement of organizational objectives.
- iv. For effective management, efforts should be made for establishing harmony

between the goals of the organization and the various groups therein.

2.8.6 Decision Theory Approach to Management

Decision Theory is the product of management science era. The decision theorists emphasize on rational approach to decisions, i.e. selecting from possible alternatives a course of action or an idea. Major contribution in this approach has come from Simon. Other contributors are March, Cyert, Forrester etc. The major emphasis of this approach is that decision making is the job of every manager. The manager is a decision maker and the organization is a decision making unit.

Therefore, the major problem of managing is to make rational decision. The main features of this approach are:

- i. Management is essentially decision-making. The members of the organization are decision makers and problem solvers.
- ii. Organization can be treated as a combination of various decision centers. The level and importance of organizational members are determined on the basis of importance of decisions which they make.
- iii. All factors affecting decision making are subject matter of the study of management. Thus, it covers the entire range of human activities in organization as well as the macro conditions within which the organization works.

2.8.7 Management Science Approach to Management

Management science is an approach to management that applies mathematical analysis to decision making. It involves the use of highly sophisticated techniques, statistical tools and complex models. The primary focus of this approach is the mathematical model. Through this device, managerial and other problems can be expressed in basic relationships and where a given goal is sought, the model can be expressed in terms which optimize that goal. The management science approach found its origins during World War II, when highly technical military/production problems become far too complex for traditional management methodology. The major features of this approach are:

- i. Management is regarded as the problem-solving mechanism with the help of mathematical tools and techniques.

- ii. Management problems can be described in terms of mathematical symbols and data. Thus every managerial activity can be quantified.
- iii. This approach covers decision making, system analysis and some aspect of human behaviour.
- iv. Operations research, mathematical tools, simulation, model etc, are the basic methodologies to solve managerial problems.

2.8.8 Human Behavioural Approach to Management

Human Behavioural approach is a modified version of Human Relation approach. Human Behavioural approach is devoid of any emotional content, which is the core of Human Relation Approach. This approach stresses the individual performing the jobs. Here the attention is directed towards the human aspects of management. The neglect of human factor and the over emphasis on machines and materials led to the development of this approach. The Behavioural approach emphasizes synchronization of group goals within the broader framework of management. It does not consider the goals of the different groups as conflicting with others.

Many sociologists, psychologists and social psychologists have shown considerable interest in studying the problems of management. The sociologists who have contributed to management are Blak, Selznick, Homans, Dubin, Dalton, and Katz and Kahn. The social psychologist who have contributed to management are McGregor, Argyris, Leavitt, Blake and Mouton, Sayles, Tannenbaum and his associates, Bennis, Fielder, Stogdill and Herzberg. The behavioural theories have drawn heavily on the work of Maslow. Douglas McGregor built on Maslow's work in explaining his 'Theory X' and 'Theory Y'. Frederick Herzberg develops a two factor theory of motivation. To sum up, many conclusions of the contributions made by behaviouralists can presented as follows:

- i. People do not dislike work. If they have helped to establish objectives, they want to achieve them. In fact, job itself is a source of motivation and satisfaction to employees.
- ii. Most people can exercise a great deal of self-direction and self-control than are required in their current job. Therefore, there remains untapped potential among them.
- iii. The manager's basic job is to use the untapped human potential in the service organization.
- iv. The managers should create a healthy environment wherein all the subordinates contribute to the best of their capacity. Te environment should provide healthy,

safe, comfortable and convenient place to work.

- v. The manager should provide for self direction by subordinates and they must be encouraged to participate fully in all important matters.
- vi. Operating efficiency can be improved by expanding subordinate influence, direction and self control.
- vii. Work satisfaction may improve as a by product of subordinates making use of their potential.

2.8.8.1 Merits of Behavioural Approach

It generated an awareness of the overwhelming role of the human element in organizations. It recognizes the quality of leadership as a critical factor in management success. It recognizes the role of individual psychology and group behaviour in organizational effectiveness.

2.8.8.2 Shortcomings of Behavioural Approach

Conclusions of behavioural approach discounts theory and stress radical empiricism. This approach neglects the economic dimension of work satisfaction. It is group oriented and anti-individualistic.

2.8.9 Mathematics or Quantitative Approach to Management

It emphasizes that the organization or decision making is a logical process and it can be expressed in terms of mathematical symbols and relationships, which can be used to solve corporate problems and conduct corporate affairs. This approach focuses attention on the fundamentals of analysis and decision making. This brings together the knowledge of various disciplines like Operation Research and Management Science for effective solution of management problems. The Quantitative School quantifies the problem; generate solution, tests the solution for their optimality and then it recommends. The decisions are optimum and perfect as distinguished from the human behavioural approach, in which decisions are 'satisfying'. This approach is devoid of any personal bias, emotions, sentiments, and intuitiveness. The main postulates of the quantitative approach are as follows:

- i. Management is a series of decision making. The job of a manager is to secure the best solution out of a series of interrelated variables.
- ii. These variables can be presented in the form of a mathematical model. It

consists of a set of functional equation which set out the quantitative interrelationship of the variable.

- iii. If the model is properly formulated and the equations are correctly solved, one can secure the best solution to the model.
- iv. Organizations exist for the achievement of specific and measurable economic goals.
- v. In order to achieve these goals, optimal decisions must be made through scientific formal reasoning backed by quantification.
- vi. Decision making models should be evaluated in the light of set criteria like cost reduction, return on investment, meeting time schedules etc.
- vii. The quality of management is judged by the quality of decisions made in diverse situations.

2.8.10 System Approach to Management

In the 1960s, a new approach to management appeared which attempted to unify the earlier school of thoughts. This approach is commonly referred to as 'System Approach'. The system approach is based on the generalization that an organization is a system and its components are inter-related and inter-dependent.

"A system is composed of related and dependent elements which, when in interactions, form a unitary whole. On other words, a system may be defined as an organized and purposeful entity of inter-related, inter-dependent and inter-acting elements. It is a goal oriented organism that is composed of parts interrelated in such a way that the total system is greater than the sum of its parts. The elements of each system may themselves be sub systems. These sub-systems are functionally related to each other and to the total system. The basic postulates of the system approach are as follows:

- An organization is a system consisting of several subsystems. For example, in a business enterprise production, sales and other departments re the subsystem
- The position and function of each subsystem can be analyzed only in relation to other subsystem and to the organization as a whole rather than in isolation.
- An organization is a dynamic system because it is responsive or sensitive to its environment. It is vulnerable to changes in its environment.

Systems are of several types. *Astatic system* , e.g. a petrol engine operates repetitively completing the same cycle of functions without change or deviation. On the other hand,

the *dynamic system*, undergoes change, it grows or decays. Biological systems, e.g., plants, animals and human being are dynamic. A *closed system* is self-dependent and does not have any interaction with the external environment. Physical and mechanical systems are closed systems. A closed system concentrates completely on internal relationships, i.e. interaction between sub-systems only. An *open system* approach recognizes the dynamic interaction of the system with its environment.

2.8.11 Contingency or Situational Approach to Management

Another important approach which has arisen because of the inadequacy of the Quantitative, Behavioural and System Approach to management is the Contingency Approach. Pigors and Myers propagated this approach in 1950. Other contributors include Joan Woodward, Tom Burns, G.W. Stalker, Paul Lawrence, Jay Lorsch and James Thompson. They analyzed the relationship between organization and environment. They concluded that managers must keep the functioning of an organization in harmony with the needs of its members and the external forces. Management is situational and lies in identifying the important variables in a situation. The basic theme of contingency approach is that organizations have to cope with different situations in different ways. There cannot be particular management action which will be suitable for all situations. The management must keep the functioning of an organization in harmony with the needs of its members and the external forces.

According to Kast and Rosenzweig, "The contingency view seeks to understand the interrelationships within and among sub-system as well as between the organization and its environment and to define patterns of relationships or configurations of variables. Contingency views are ultimately directed towards suggesting organizational designs and managerial actions most appropriate for specific situations".

The approach has been used in important sub systems of management like organization, design, leadership, behaviour change and operation. The main features of contingency approach are:

- i. Management is entirely situational. The application and effectiveness of any techniques is contingent on the situation.
- ii. Management action is contingent on certain action outside the system or subsystem as the case may be.
- iii. Management should, therefore, match or fit its approach to the requirements of the particular situation. To be effective management policies and practices must respond to environmental changes.

- iv. Organizational action should be based on the behaviour of action outside the system so that organization should be integrated with the environment.
- v. Management should understand that there is no one hard way to manage. They must not consider management principles and techniques universal.

In order to operationalize the contingency approach, managers need to know the alternatives for different situations. It may be operationalized as a 'if then' approach to management. The environment (If) is an independent variable where as management (when) is a dependent variable. In this model, a manager has to take four sequential steps:

- i. Analyze and understand the situation,
- ii. Examine the applicability or validity of different principles and techniques to the situation at hand,
- iii. Make the right choice by matching the techniques to the situations,
- iv. Implement the choice.

Self Assessment Exercise

1. What are some early evidences of management practice? Explain why division of labour and the industrial revolution are important to the study of management?
2. "F. W. Taylor is said to be the father of scientific management and Henri Fayol, the father of principles of management". Critically examine the statement.
3. Why is it important for every manager to understand the many different management theories that have been develop? Describe various School of Thoughts prevalent from time to time. Which school of management thoughts makes the most sense to you? Why?
4. Write a note on the evolution of management thought. What are the recent trends in management thoughts?
5. Write short note on the following:
 - a. "Human Behavioural School of thought is a modified version of Human Relations School of thought". Comment.
 - b. What is the System Approach to management? Explain the salient features of this approach.
6. Assess the role of the following in development of management thoughts:

- a. Henry Gantt
- b. Weber
- c. Maslow
- d. Elton Mayo

2.9 Management by Objectives (MBO)

Management guru Peter Drucker is credited with being the first to introduce Management by Objectives (MBO) as an approach for increasing organizational effectiveness. He observes that every manager, from the highest to the lowest levels in the organisation, should have clear objectives to pursue. According to him, such a process would enable each manager to have a clear understanding of what the organisation expects of him or her and how their individual objectives are integrated with the overall organizational objectives. George Odiorne has done substantial research work on MBO and further popularized the concept.

To quote George Odiorne, *"MBO is a process whereby the superior and subordinate managers of an organisation jointly identify the common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these resources as guides for operating the unit and assessing the contribution of each of its members"*.

Different goals are sought to be achieved by the introduction of MBO in organizations. MBO, as a management tool, is so versatile that it is used;

- to integrate the organizational goals with the individual goals;
- as a motivational technique wherein individuals are driven towards the achievement of goals;
- to appraise the performance of managers; and
- to control the activities as they are performed.

Drucker suggests that objectives are to be specified in the key result areas of business (KRAs). A key result area may be understood as one of the performance of which, directly and vitally affect the success and survival of the business. Accordingly, for a manufacturing firm production, productivity, profitability, market share, social responsibilities, employer and employee relations, manager and worker development, development of physical resources, constitute the important key result areas. It may be understood that the KRAs vary from business to business. Since MBO involves a

systematic effort towards the achievement of objectives, utmost care has to be exercised in setting the objectives for all the key result areas.

2.9.1 Prerequisites of MBO

- i. MBO is not merely a goal-setting tool. It is a philosophy and has to be understood thoroughly by the managers concerned with achievement of objectives.
- ii. Top management must be willing to implement the system wholeheartedly. Its support and encouragement are crucial for the success of MBO. The necessary democratic climate has to be created in the organisation for setting the goals in a realistic way.
- iii. Goals have to be spelt out in specific and clear terms. To the extent possible, they must be made realistic because goals motivate employees towards better performance.
- iv. The key result areas (KRAs) of the business have to be identified and appropriate goals have to be specified for these areas. All the important areas of the business must be covered with meaningful goals.
- v. It has to be realized that goal-setting in the MBO process is not an end by itself. It is only a means to achieve organizational effectiveness. Otherwise, goal-setting becomes the primary task rather than their achievement.
- vi. Appropriate organisation structure has to be designed with well understood relationships among people such that every goal becomes some individual's responsibility.
- vii. Besides clarifying the organizational roles by adopting a suitable organisation structure, attention has to be paid on the resources required by the people to achieve the goals. Otherwise, goals by themselves, however effective they are, do not assure performance. Performance depends on the timely availability of resources. Non availability or inadequate access to the resources frustrates the individuals concerned with the achievement of goals.

2.9.2 Nature of Objectives

'Objectives' are the end points of management action. They provide meaning to the existence of an organisation. Objectives are the specific targets to be achieved by an organisation. They are the end-points towards which all management activities like

organising, staffing, directing and controlling are directed. In other words, only after defining the basic objectives for which an organisation exists, can the manager determine the kind of organisation, the type of personnel and their skills, the kind of motivation and direction and the nature of control techniques which may be employed to achieve the ends.

1. **Objectives may be in quantitative or qualitative terms.** For example, in the areas of market standing, productivity and physical and financial resources quantification is possible. On the other hand, worker's morale, social responsibility, etc. cannot exactly quantify. However, objectives in the latter category may be expressed in qualitative terms. Thus, quantitative objectives are gauged by *'how much'* while qualitative objectives by *'how well'*.
2. **Objectives have hierarchy** in that objectives which have wider scope and are relevant for the whole organisation are known as enterprise objectives. These objectives are split into unit level or departmental objectives. Thus, objectives at all levels in the organisation are interrelated and form a network.
3. **Short-term and Long-term Objectives:** Short-term objectives are those which are sought to be achieved by the organisation in the immediate future, while long-term objectives are those which are aimed to be achieved over a longer period, say five to ten years or even more. However, both are not mutually exclusive and are interrelated.
4. **Objectives sometimes may be in conflict with each other** as the goals of the various departments at times may clash. Each department considers that its goals are more important. For example, the production goal of low unit cost achievable through mass production may be in conflict with the sales goal of offering high quality goods. Such conflicts have to be resolved amicably.

2.9.3 Process of MBO

Having understood the basic characteristics of the objectives, let us examine the process of MBO. As a process, management by objectives begins at the top of the organisation with the establishment of specific organizational objectives. Subsequently, objectives at various levels down the hierarchy are decided by mutual discussions and consultations by both superiors and subordinates.

The process of MBO includes the following steps:

- I. Establishment of goals for the whole organisation,
- II. Preparation by subordinates, of specific goals within the framework provided by

the superior,

- III. Joint discussion of an agreement upon the goals by the superior and subordinate,
- IV. Joint review of progress at regular intervals in the light of the predetermined goals, and
- V. Corrective measures, if necessary, as revealed by the review.

In the whole process, setting of goals for the subordinate positions is the crucial step. Unlike in the traditional system where goals are decided for the subordinates by the superiors, in the MBO system, goals are set on the basis of consensus reached in the discussions between superiors and subordinates. They are set in a democratic way. Superiors act as facilitators and create a favourable climate where subordinates freely express their opinions, viewpoints and perceptions about what they believe could be achieved. The process ensures meeting of minds between superiors and subordinates. As a result, there is ample possibility for the subordinates to feel that they are working for their own goals and not for somebody else's. Consequently, they strive to achieve the goals. As they participate in the goal setting exercise actively, they in turn get motivated to achieve them. Once they achieve the goals that contribute for the satisfaction of their ego needs. Thus, MBO serves as a motivational technique.

2.9.4 Advantages of MBO

An organization can benefit in the following ways by implementing MBO.

- I. Accomplishes consistency in objectives as each department's objectives are consistent with the organizational objectives, the possibility for the various departments working at cross purposes is very less.
- II. Contributes for effective management by providing lot of clarity in the objectives and the organisation that is necessary to achieve them;
- III. Forces the management to plan the activities in a systematic way.
- IV. Facilitates objective performance appraisal. As the goals themselves become the standards against which the actual performance is measured, MBO system itself acts as an effective performance appraisal tool.
- V. Contributes for the installation of a democratic and participative setup essential for the success of an organisation in a complex business environment of today. The interaction that takes place between the superiors and subordinates is a good sign of human resource development in the organisation.

2.9.5 Reasons why MBO Fail

Inspite of many advantages, MBO may not be considered as a panacea for all the evils of the organisation. The success of the program depends on several factors. If the program fails, it is largely due to the following reasons:

- i. Lack of top management involvement and support. For MBO program to succeed, it must have the complete support of top management.
- ii. Lack of understanding of the philosophy behind MBO. MBO program in some organizations meet the resistance of employees because it is imposed on them as 'control device' to curb their freedom.
- iii. Difficulty in setting realistic and meaningful objectives. Some jobs and areas of performance cannot be quantified and hence are not amenable for objective evaluation.
- iv. Increased time pressure. To use MBO program, managers must learn to establish priorities and use the time effectively.
- v. Lack of relevant skills. Managers may not have the requisite skills for identifying objectives, communication and interpersonal interaction such as counselling and receiving feedback.
- vi. Lack of individual motivation. The rewards and incentives for superior performance have to be specified clearly. Ambiguity or uncertainty regarding the outcome of the efforts is one of the reasons for the non-performance.
- vii. Poor integration with other systems. Objective setting and review phases must be performed in conjunction with other activities such as budgeting, forecasting and the like. Often managers are neither taught how to set the objectives nor familiarized with the various plans and policies of the organisation. In such cases, each department ends up going its own way, and the results are counterproductive to the overall organisation.

Review Questions

1. Explain the characteristics of objectives and how well defined objectives influence business success.
2. Distinguish between short term and long term objectives.
3. Explain the process of Management by Objectives. Also bring out the relative merits and demerits of MBO.
4. Explain how you go about in installing the MBO program in a fast growing medium size organisation.