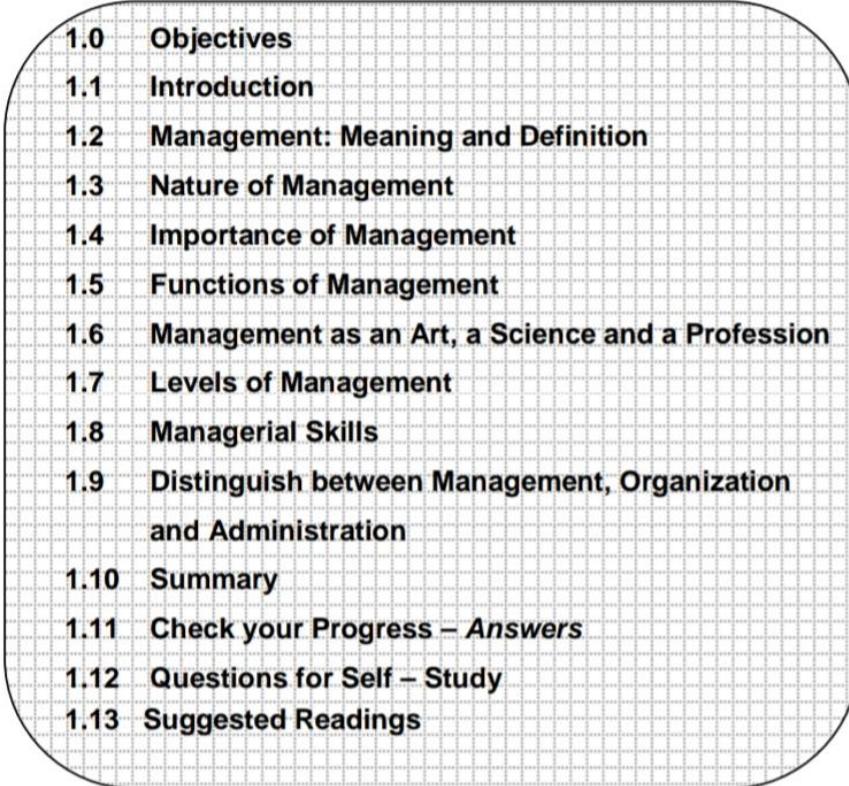


NATURE OF MANAGEMENT

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- 1.0 Objectives**
 - 1.1 Introduction**
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1.0 OBJECTIVES

After studying this chapter you will be able to -

- Explain the concept of business management
- State the functions of management
- Describe the nature and Importance of management.
- Discuss whether Management is an Art, Science or Profession.

1.1 INTRODUCTION

In the modern times one of the most important human activities is managing group of people. Ever since people began forming groups to accomplish aims they could not achieve as individuals, managing has been essential to ensure the co-ordination of individual efforts. As society has come to rely increasingly on group effort and as many organized groups have become large the task of managers has been rising in importance.

Management is the process of designing and maintaining an environment in which individuals working together in groups efficiently accomplish selected aims.

The basic definition of Management explain that

- * As managers, people carry out the managerial functions of planning organizing, staffing, leading and controlling.
- * Management applies to any kind of organization.
- * It applies to managers at all organizational levels.
- * The aim at all managers is the same to create a surplus.
- * Managing is concerned with productivity, which implies effectiveness and efficiency.

Thus it may be concluded that management plays a key role in improving standard of living of the people in the society through developing an ideal organizational structure and making economic use of available resources.

The knowledge of management theory and practice enables managers to take more realistic view about organizational and social problems and to find out their effective solution.

Check your Progress - 1.1

a. Fill in the blanks.

1. One of the most important human is managing.
2. Management is the of designing and maintaining an environment in which individual working together in groups efficiently accomplish selected aims.

b. True or false.

1. Management applies to small organization.
2. Management applies to managers at all organizational levels.

1.2 MANAGEMENT

Meaning:

Management is an important factor for the success of any organized activity. Today management basically concern with changes and challenges, and it is difficult to manage.

Management is an art of getting things done through others. Management is to plan, organize, direct and control the resources of the organization for obtaining common objectives or goals. It is related with resources like material, money, machinery, methods, manufacturing and marketing.

Management principles are universal in nature. Management is necessary for all types of organization, such as public sector, private sector, govt. department, hotel, hospital, hostels, educational institutes, require management for several growth and expansion.

Definitions:

1) According to Taylor:-

"Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way."

2) According to Lawrence:-

"Management is the accomplishment of results through the efforts of other people."

3) According to Henry Fayol:-

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

Check Your Progress - 1.2

Fill in the blanks:

1. is an art of getting things done through others.
2. Management principles are in nature.

4. Management applies economic principles.
5. Management involves decision making.
6. Management is getting things done through others.
7. Management is an integrating process.
8. Management co-ordinates all activities and resources.
 1. Management is a universal activity.
 2. Management is dynamic not rigid.

1.4 IMPORTANCE OF MANAGEMENT

1] Management is goal oriented:-

Management is concern with achievement of specific goals. It is always directed towards achievement of objectives. The success of management is measured by the extent to which objectives are achieved.

2] Management is associated with group efforts:-

The business comes into existence with certain objectives which are to be achieved by a group and not by one person alone. Management gets things done by, with and through the efforts of group members. It co-ordinates the activities and actions of its members towards a common goal.

3] Management is intangible:-

It is an unseen force, its presence can be evidence by the result of its efforts up to date order but they generally remain unnoticed, Where as mismanagement is quickly noticed.

4] Management is an activity and not a person or group of person:-

Management is not people or not a certain class but it is the activity, it is the process of planning, organizing, directing and controlling to achieve the objectives of the organization.

5] Management is situational:-

Management does not advice best way of doing things. Effective management is always situational. A manager has to apply principles, approaches and techniques of management after taking into consideration the existing situations.

6] Management is universal:-

Most of the principles and techniques of management are universal in nature. They can be applied to government organization, military, educational institutes, religious institutes etc. They provide working guidelines which can be adopted according to situations.

7] Management is concern with people:-

Since management involves getting things done through others only human being performed this activity with the help of planning and control. The element man can not be separated from the management.

8] Management is the combination of art, science and profession:-

Management makes use of science as well as art. It is science because it collects knowledge with the methods and data, analyzes and measures it and decision is taken with the help of experiment. It is a systematic body of knowledge. Art means application of knowledge for solving various problems. In modern times there is separation of ownership and management, so professional experts are appointed.

1.4. Check your progress:

a) State True or False:

1. Management is intangible.
2. Management is concerned with people.
3. Management is not a combination of an art, a science and a profession.

1.5 FUNCTIONS OF MANAGEMENT

The major functions of management are discussed below:

Planning :

It includes forecasting, formation of objectives, policies, programmes, producer and budget. It is a function of determining the methods or path of obtaining there objectives. It determines in advance what should be done, why should be done, when, where, how should be done. This is done not only for organization as a whole but also for every division, section and department. Planning is thinking before doing.

Organizing:-

It includes departmentation, delegation of authority, fixing of responsibility and establishment of relationship.

It is a function of providing every thing useful to the business organization. There are certain resources which are mobilize i.e. man, machine, material, money, but still there are certain limitations on these resources. A manager has to design and develop a structure of various relations. This structure, results from identification and grouping work, delegation of authority and responsibility and establishing relationship.

Staffing:-

It includes man power planning, recruitment, selection, placement and training.

People are basically responsible for the progress of the organization. Right man should be employed for right job. It also involved training of personnel and proper remuneration.

Directing:-

It includes decision making, supervising, guidance etc. It reflects providing dynamic leadership. When the manager performs these functions, he issues orders and instructions to supervisors. It also implies the creation of a favorable work, environment motivation, managing managers, managing workers and managing work environment.

Communication:-

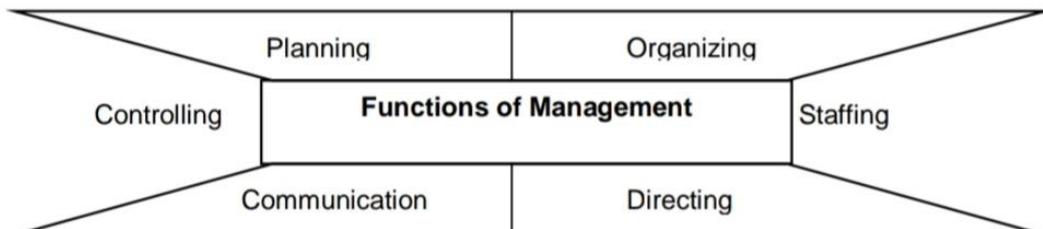
Communication provides the vital link in any organization. Every successful manager has to develop an effective system of communication.

Communication means exchange of facts, ideas and information between two or more person. It helps in building up high moral.

Controlling:-

It is a process of checking actual performance against standard performance. If there is any difference or deviation then these differences should be detected and necessary steps should be taken. It involves three elements:

1. Establishing standard of performance.
2. Measuring actual performance with establishment.
3. Finding out reasons for deviation.



Management includes planning, organizing, staffing and decision making, motivation, communication, co-ordination and so on.

The other functions of management are as follows:

Motivation:-

In a well organization unforeseen problems are created. It becomes necessary for the workers to have a leader, to whom they can consult for the guidance. One must help the worker to solve their problems. The manager is the leader for them. So he should accept the problems, should appreciate the workers for the work done by them. He has to act as a well motivation source for the workers.

Decision Making:-

It is the process in which a lot of actions are involved and lot of alternatives are available. A manager has to choose right alternative for attainment of his goals. There are many decisions which include marketing decision, cost price decision and capital investment decision.

Forecasting:-

Correct sales forecasting is essential for manufacturing organization. This helps in production, by making available right workers and right material at right place and at right time. It also helps manager for purchasing of raw materials, equipments and labours. Many times production is made in advance to meet future demands and forecasting is essential because of short supply of raw material, lack of proper control, to fix up sales targets and to meet future financial needs. It also helps to give ideas about expansion of business; and for giving training to the personnel of the organization.

1.5. Check your progress:

a) Fill in the blanks.

1. determines in advance what should be done, why, where and how it should be done.
2. includes man power planning, recruitment, selection, placement etc.
3. is a function of providing everything useful to the business organization.
4. means exchange of ideas, facts and information.
5. is a process of checking actual performance against standard performance.
6. means prediction about future.
7. involves selection of the best alternative.

1.6 MANAGEMENT IS AN ART, A SCIENCE AND A PROFESSION

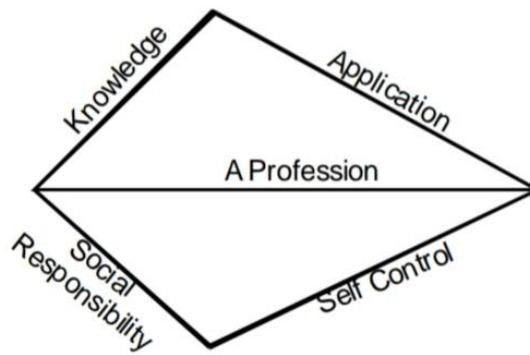
Management is treated as art, science and profession because it has some characteristics of an art, a science and a profession.

Art is personal skill. It is created by nature. It does not possess by all. Art is bringing about desired results with the help of skills. Management is one of the most creative arts. It requires a lot of knowledge.

Management is an art because:

- 1] It is creative
- 2] It involves use of skill.
- 3] It involves use of technical know how.
- 4] It is directed towards getting results.
- 5] It is personalized.

Management is a profession because:-



Profession is an occupation carried by professionals like doctor, lawyer, architect, chartered accountant, cost accountant etc.

It involves knowledge and application of it.

Management as a profession is modern concept different from traditional one.

Characteristics of a profession :-

1. Systematic body of knowledge:-

Professionals require expert knowledge in a particular discipline.

E.g. a doctor requires knowledge of medicine; Chartered Accountant needs to have knowledge of Income Tax.

2. Formal Education:-

A true professional needs to have formal education from the institution.

E.g. Lawyer needs degree of law.

3. Social Responsibility:-

The professionals are socially responsible while handling their tasks and responsibilities. Their aim should not be only profit maximization, but they have to follow certain rules for social responsibilities.

4. Independent Office:-

Normally professionals practice from their independent office.

5. Specialization:-

The professionals may specialize in a particular field.

E.g. heart specialist, child specialist and ENT surgeon.

6. Fees:-

The professionals required license or a permission to practice.

E.g. a doctor requires license to practice as a medical practitioner.

The modern concept of management has developed as a profession because:-

1. Organization is a systematic body of knowledge.
2. Formal methods of acquiring knowledge and skill with the help of different institution.
3. Rise in professional management consultant.
4. Need for honesty.

Management as a Science:-

Science is a systematic body of knowledge based on certain principles and which are universally approved.

F. W. Taylor was the first person who considered management as a science. Science is divided into two parts.

1. Physical science.

2. Social science.

Management is a social science because it deals with human being.

Management is a social science due to the following reasons:-

1. **Systematic collection and processing of information:-**

Management collects information either by observation or experiment and practice. E.g. Marketing people collect information about expected sales on the basis of observation, experiment and practice. The data is collected. Then it is process and with the help of computer and statistical tools and then the data is analyzed and decisions are taken.

2. **Output may change though the inputs are same:-**

In management the output may change even when the input remains the same because it deals with human being. Subordinates working under one manager may give different result though resources are same. Process of management is universally followed i.e. planning, organizing, staffing, directing, controlling and reporting. Every manager while performing his job must use his knowledge to get better results.

3. **Principles of Management are universally accepted:-**

All successful organizations must follow established principles of management, such as division of work, unity of command, authority and responsibilities, discipline etc.

So it is said that management is not only an art, a science or a profession but combination of all.

1.6 Check Your Progress

Q.1. Fill in the blanks:

1. Profession involves and application of it.
2. A is a systematic body of knowledge.
3. An art is a skill.
4. Management is a science.

Q.2. Answer the following:

1. Define the term Management.

.....

.....

2. What are the characteristics of Management?

.....

.....

1.7 LEVELS OF MANAGEMENT

There are several types of managers. However it is useful to divide them on the basis of three managerial levels.

There are three levels of management:

- Top level management
- Middle level management
- Lower level management

Administrative level consists of top or upper level of management.

Operative level consists of middle level and lower management.

Lower level management includes supervisor and foreman.

The level of management depends upon the size of the organization.

If there is large number of levels it will difficult to communicate and co-ordinate and control. So the levels must be restricted.

1.8 MANAGERIAL SKILLS

1. Conceptual Skills:-

Conceptual skills are the abilities to think about the creative terms understand and visualize the future, to organize and translate observation into ideas & concepts. Conceptual skills are essential to identify and diagnose the problems. This will helpful in determining the goals.

2. Analytical Skills:- [Decision making]

Analytical skills mean ability to work out a complex problem or situation into component. Analytical skills are required for solving problems and decision making. This is also helpful for evaluation of performance and arriving at judgment.

3. Human relation Skills:-

Human relation skills represent the ability to understand the behavior of people, their problems, their needs, working conditions and motivation to people. These skills are essential in directing the people and for better co-ordination.

4. Administrative Skills:-

It involves the implementation of plan and use of available resources to get the desired output that is profit and to regularize a performance in orderly manner. It is also helpful in co-ordination of activities.

5. Technical Skills:-

These skills are essential for first line managers. He requires knowledge of a job, ability to apply the methods and techniques of job. He is responsible for providing technical guidance and instructions to subordinates.

6. Computer Skills:-

Computer knowledge is essential for today's manager i.e. knowledge of hardware & software. Hardware is technical term & software is ability to adopt the system in an organization to attempt goals. In modern days computer is widely used in organization. Hence today's manager should possess the knowledge of computer. This is helpful in decision making. It also helps to increase the productivity in the organization.

7. Communication Skills:-

Communication is systematic process of telling, listing and understanding. This skill requires the ability of listening and speaking in an effective manner. The manager is responsible for getting the things done by others. He should be expert in oral and written communication. Communication skill is essential for getting success. It is depend upon the manager who achieves the results with efforts of others. Co-ordination can be attained with the help of proper communication. Success is depends upon proper communication.

Check your progress - 1.8

Fill in the blanks:

1. skills are the abilities to think about creative terms.
2. skills represent the ability to understand the behavior of people, their needs and problems.
3. skills involve the implementation of plan and use of available resources.
4. Knowledge of hardware and software is concerned with skills.

1.9 DISTINGUISH BETWEEN: MANAGEMENT AND ORGANIZATION

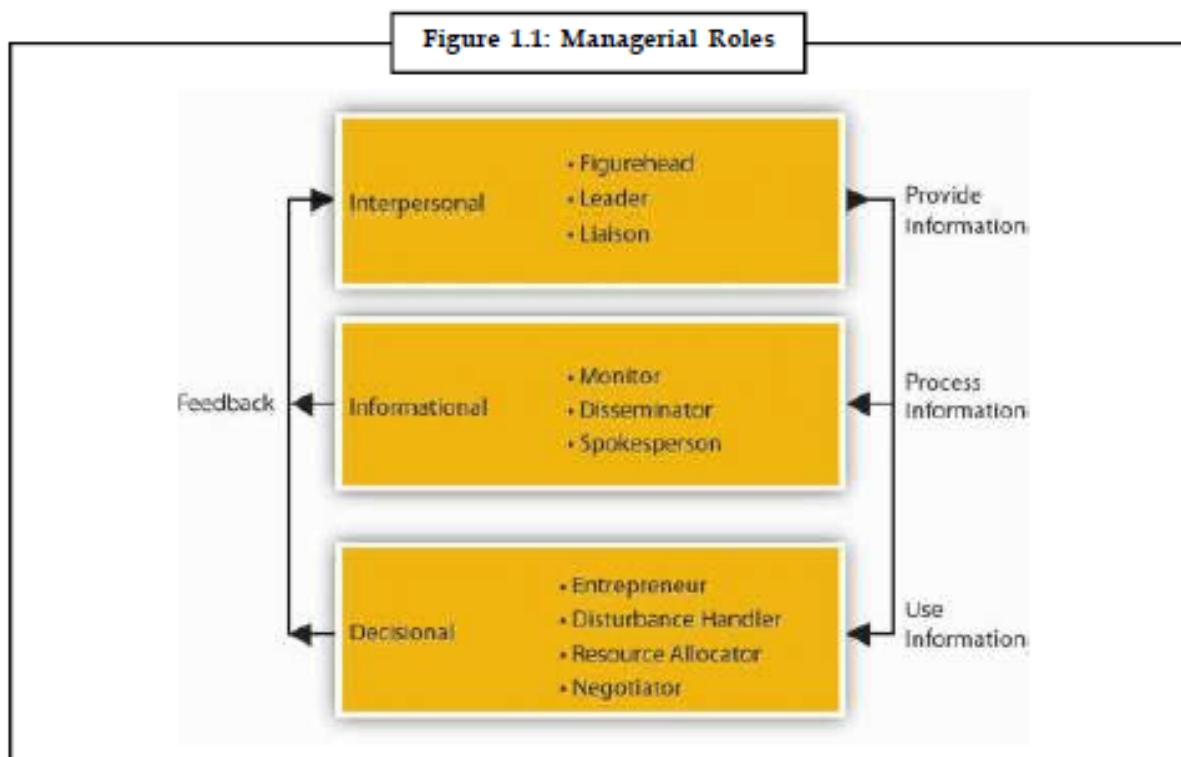
Points	Management	Organization
Meaning:	It is an executive function which is primarily concerned with getting the things done by others.	It is an organic function of putting together the different parts of an enterprise into working order.
Types:	Planning, organizing, staffing, motivation, direction, co-ordination and control are the functions of management.	Organization is one of the important functions of management.
Nature:	It is like the entire body of human being.	It is like a nervous system of human body.
Levels:	There are different levels in management, e.g. top, middle and lower level.	There are no such levels in organization.
Scope:	Management uses the organization.	Organization is the machine of management.

Distinguish between: Management and Administration

Points	Administration	Management
Policy making:	It is concerned with policy making; it determines the goals to be achieved.	Management is concerned with the implementation of the policy.
Implementation of the policies :	It is not directly concerned with the implementation of policies.	It is directly concerned with the implementation of policies.
Functions:	Its functions are legislative.	Its functions are executive.
Main functions:	Planning and organizing	Motivation and controlling
Management level:	It relates to apex or top level management.	It relates to middle and lower level management.
Sector:	It is mostly used in government or public sector.	It is mostly used in the private sector.
Illustrations:	Collectors, commissioner, Vice chancellor, registrar, sales tax and income tax officer etc.	General manager , managing director, director etc.

1.8 Roles of a Manager

To achieve results, they shift gears and restructure and reorganise things continually. The diverse roles played by managers in discharging their duties have been summarised by Henry Mintzberg in the late 1960s, under three broad headings: interpersonal roles, informational roles and decisional roles. Let us understand them one by one.



Source: www.static.flatworldknowledge.com

1. *Interpersonal roles:* Three interpersonal roles help the manager keep the organisation running smoothly. Managers play the figurehead role when they perform duties that are ceremonial and symbolic in nature. These include greeting the visitors, attending social functions involving their subordinates (like weddings, funerals), handing out merit certificates to workers showing promise etc. The leadership role includes hiring, training, motivating and disciplining employees. Managers play the liaison role when they serve as a connecting link between their organisation and others or between their units and other organisational units. Mintzberg described this activity as contacting outsiders who provide the manager with information. Such activities like acknowledgements of mail, external board work, etc., are included in this category.
2. *Informational roles:* Mintzberg mentioned that receiving and communicating information are perhaps the most important aspects of a manager's job. In order to make the right decisions, managers need information from various sources. Typically, this activity is done through reading magazines and talking with others to learn about changes in the customers' tastes, competitors' moves and the like. Mintzberg called this the monitor role. In the disseminator role, the manager distributes important information to subordinates that would otherwise be inaccessible to them. Managers also perform the spokesperson role when they represent the organisation to outsiders.
3. *Decisional roles:* There are four decision roles that the manager adopts. In the role of entrepreneur, the manager tries to improve the unit. He initiates planned changes to adapt to environmental challenges. As disturbance handlers, managers respond to situations that are beyond their control such as strikes, shortages of materials, complaints,

grievances, etc. In the role of a resource allocator, managers are responsible for allocating human, physical and monetary resources. As negotiators, managers not only mediate in internal conflicts but also carry out negotiations with other units to gain advantages for their own unit.



Task

Analyse your performance in different roles of managers that you have to play in day to day activities.

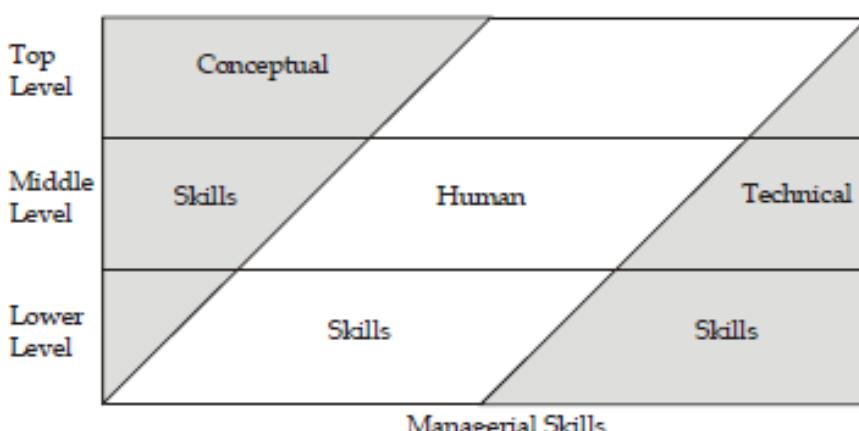
1.9 Skills of an Effective Manager

An effective manager must possess certain skills in the areas of planning, organising, leading, controlling and decision-making in order to process activities that are presented to him from time to time.

In order to be effective, a manager must possess and continuously develop several essential skills. Robert L. Katz has identified three basic types of skills - technical, human and conceptual - which he says are needed by all managers.

1. **Technical skill:** It is the ability to use the tools, procedures or techniques of a specialised field. Technical skill is considered to be very crucial to the effectiveness of lower level managers because they are in direct contact with employees performing work activities within the firm. For instance, the success of a drilling supervisor of an oil rig depends a great deal on his technical knowledge of drilling. However, as one moves to higher levels of management within the organisation, the importance of technical skill diminishes because the manager has less direct contact with day-to-day problems and activities. Thus, the president of an oil company does not need to know much of the technical details of drilling for oil or how to refine it.
2. **Human skill:** It is the ability to work with, understand and motivate other people. This skill is essential at every level of management within the organisation, but it is particularly important at lower levels of management where the supervisor has frequent contact with operating personnel.
3. **Conceptual skill:** It is the mental ability to coordinate and integrate the organisation's interests and activities. It refers to the ability to see the 'big picture', to understand how a change in any given part can affect the whole organisation. The relationship between management levels and managerial skills is shown in Figure 1.2.

Figure 1.2: Katz-managerial Skills and Level of Management



Technical skill is the most important at the lower levels of management; it becomes less important as we move up the chain of command.



Example: A production supervisor in a manufacturing plant, for example, is likely to need more technical skill than the company president, because he or she will have to deal with the day-to-day manufacturing problems that arise.

On the other hand, the importance of conceptual skill increases as we rise in the ranks of management. The higher the manager is in the hierarchy, the more he or she will be involved in the broad, long-term decisions that affect large parts of the organisation. For top management which is charged with the responsibility for overall performance, conceptual skill is probably the most important skill of all. Human skill is very important at every level of the organisation. One reason this is so is because to get the work done through others; high technical or conceptual skills are not very valuable if they cannot be used to inspire and influence other organisation members.

Supporting Katz's contention that specific skills are more important at some levels than at others is a study of managerial roles and behaviour by Jerdee and Carroll. More than four hundred managers from all levels of management and a variety of types and sizes of business are asked to estimate how much time they spent on eight management tasks: planning, investigating, coordinating, evaluating, supervising, staffing, negotiating and representing. Lower and middle-level managers replied that supervising was their dominant activity, while top managers claimed to spend proportionately more time on planning.

4. *Design skill:* Koontz and Wehrich added one more skill to the above list. Design skill is the ability to solve problems in ways that will help the organisation. At higher levels, managers should be able to do more than see a problem, to design a workable solution to a problem in the light of realities they face. If managers merely see a problem and become problem watchers they will fail.
5. *Institution building skills:* According to Prof. Pareek (1981), top level executives perform eight key roles while building institutions of lasting value, as indicated below:
 - (a) *Identity creating role:* Top level executives must create an identity for their organisations in the market place. Such an impact can be created by serving employees through excellent welfare measures, developing enviable marketing skills or fostering technological innovations. In short, they must 'carve out a niche' for themselves in the market place.
 - (b) *Enabling role:* Top level executives must develop their resources (men, materials, equipment and other facilities) in the service of an organisation. A good work atmosphere must be created where employees would feel like contributing their best to the organisation.
 - (c) *Synergising role:* Synergy means that the whole is greater than the sum of the parts. In organisational terms, synergy means that as separate departments within an organisation cooperate and interact, they become more productive than if each had acted in isolation.



Example: It is more efficient for each department in a small firm to deal with one financing department than for each department to have a separate financing department of its own. Top executives must try to combine their human as well as non-human resources in such a way that the goals of the organisation are met in an effective and efficient manner.

- (d) *Balancing role:* The top executive must be able to strike a harmonious balance between conformity and creativity within the organisation. Conformity to rules when carried out in a rigid and scrupulous manner, may affect employee behaviour in a negative way and destroy the creative potential of employees.
- (e) *Linkage building role:* The chief executive must be able to develop appropriate linkages between the organisation and outside constituencies such as government, financial institutions, community and society at large.
- (f) *Futuristic role:* The chief executive must prepare the organisation for future challenges.
- (g) *Creating an impact:* This means making an impact of one's organisation on others, by way of superior technology, marketing skills, innovative abilities, etc.
- (h) *Provide superordination:* The chief executive must be able to create a sense of pride and importance in the subordinates – making them feel that they are working in a very important field of work which is very useful for the society.

Scientific Management theory

F.W. Taylor (1865-1915) was the first person who insisted on the introduction of scientific methods in management. He launched a new movement during the last decade of 19th century which is known as 'Scientific Management'. That is why, Taylor is regarded as the father of scientific management. Taylor was an American engineer who responded to the challenges of management around the turn of the century. During that period, productivity was very low, labour became extremely dissatisfied and industries had to face frequent strikes and lockouts. Taylor's contribution was a system based on science whereby lower labour cost could be achieved simultaneously with higher wages. He suggested the change in the mental attitudes of the workers and the management to bring harmony in the industry.

Scientific management means application of scientific methods to the problems of management. Taylor advocated scientific task setting based on time and motion study, standardization of materials, tools and working conditions, scientific selection and training of workers and so on. It is to be noted that Taylor's thinking was confined to management at the shop level. However, he demonstrated the possibility and significance of the scientific analysis of the various aspects of management. To sum up, he laid emphasis on the following principles:

of management. To put the philosophy of scientific management into practice, Taylor and his associates suggested the following techniques:

1. Scientific task setting to determine a fair days; work.
2. Work study to simplify work and increase efficiency. This involves methods study, time study and motion study.
3. Standardization of materials, tools equipment, costing system, etc.
4. Scientific selection and training of workers.
5. Differential piece-wage plan to reward the highly efficient workers.
6. Specialization in planning and operations through 'functional foremanship'. Foremen in the planning department include: route clerk, instruction card clear, time and cost clerk and shop disciplinarian and those in the operations department include: gang boss, speed boss, repair boss and inspector.
7. Elimination of wastes and rationalization of system of control.

APPROACHES TO MANAGEMENT

I. Early Classical Approach

F.W. Taylor's scientific Management

Fredrick Winslow Taylor is called "father of scientific management." He joined as a labour at Midvale steel company in U.S.A at 1878. He became chief engineer in the year 1884 in the same company. He published papers on "price rate system" and shop management. He published a book on "the principles of scientific management" in 1911.

Taylor attempted a more scientific approach to management as well as the problems and the approach was based upon four basics principles.

- Observation and measurement should be used in the Organizations.
- The employees should be scientifically selected and trained.

- Due to scientific selection and training of employee has the opportunity of earning a high rate of pay.

A mental revolution in the form of constant cooperation between the employer and employees should be given the benefits of scientific management.

Principles of scientific management

Taylor conducted various experiments at the work place to find out how human beings could be made more efficient by standardization the work. The following are the features of scientific management.

1 .Separation of planning and doing:

- ❖ Taylor suggests the separation of planning from actual doing.
- ❖ Taylor says that supervisor should be done the planning.
- ❖ The workers only concentrate on doing the work.

2. Functional foremanship:

- ❖ Taylor developed a theory called functional foremanship based on specialization of functions.
- ❖ In this system eight foreman were involved to direct and control the activities of the workers.

3 .Job analysis:

Every job that requires minimum movements and less cost and least time is the best way of doing the job. This can be determined by motion, time and fatigue study.

(a)Time study:

The movement, which takes minimum time, is the best one. This helps in firms the fair work for a period.

(b) Motion study:

Taylor suggested that eliminating wasteful movements and performing only necessary movements.

(c)Fatigue study:

Employees are both physical as well as mental fatigue easily. Fatigue study indicates the amount and frequency of rest required in completing the job. Taylor suggests a fair day's work requiring certain movements and periods to complete it.

4. Standardization:

Standards must be maintained in respect a instruments and tools, period of work, amount of work, working conditions, cost of production etc. Normally these standards will be fixed in advance on the basis of various experiments

5. Scientific selection and training:

- Taylor has suggested that workers should be selected on scientifically.
- A worker should be physically and technically most suitable.
- After selection should be given on the training of workers which makes them more efficient and effective.

6. Financial incentives:

- Financial incentives can motivate the workers to put in their maximum efforts.
- According to this scheme a worker who completes the normal work gets wages at higher rate.
- Who does not complete gets at a lower rate.
- Taylor has suggested that wages should be based on individual performance and not on the position which he occupies.

7. Economy:

- Scientific management enhances profit and economy.
- The economy and profit can be achieved by making the resources more productive as well as by eliminating the wastages.

8. Mental Revolution:

- Scientific management is based on co-operation between management and workers.
- Co-operation enhances the effective managerial activities.
- Mutual conflict should be replaced by mutual co-operation which is beneficial to both.

Henry Fayol's Contribution

Henry Fayol, a French industrialist concentrated on that administrative aspect of scientific management. His contributions are concentrated in his famous book "The general and industrial administration". Fayol's famous book into two parts. The first is concerned with the theory of administration in which Fayol divided the total industrial activities into six categories which are given below:

- 1. Technical (Production, Manufacture)**
- 2. Commercial (Buying, Selling, Exchange)**
- 3. Financial (Search for and optimum use of capital)**
- 4. Security (Protection of property and person)**
- 5. Accounting (Balance sheets, Cost statistics)**

Criticism of Scientific Management

Taylor's scientific management was criticized not only by the workers and managers but also by the psychologists and the general public. The main grounds of criticism are given below:

1. The use of the word 'Scientific' before 'Management' was objected because what is actually meant by scientific management is nothing but a scientific approach to management.
2. Taylor advocated the concept of functional foremanship to bring about specialization in the organisation. But this is not feasible in practice as a worker can't carry out instructions from eight foremen.
3. Scientific management is production-centered as it concentrates too much on the technical aspects of work and undermines the human factor in industry.
4. Scientific Management ignores social and psychological needs of workers as it treats them as extension of machines devoid of any feelings and emotions.
5. Trade unionists regarded the principles of scientific management as the means to exploit labour because the wages of the workers were not increased in direct proportion to productivity increases.

Management Process or Administrative Management Theory (Henry Fayol)

6. Management (Planning, Organizing, Coordinating, Directing, Controlling)

The second is concerned with the fourteen principles of management .They are

- 1. Division of work.**
- 2. Authority and Responsibility.**
- 3. Discipline**
- 4. Unity of Command.**
- 5. Unity of Direction.**
- 6. Subordination of individual interest to general interest.**
- 7. Remuneration of personnel.**
- 8. Centralization.**
- 9. Scalar chain.**
- 10. Order.**
- 11. Equity.**
- 12. Stability of tenure of personnel.**
- 13. Initiative**
- 14. Esprit de corps.**

1. Division of work:

Work should be divided in a proper way with reference to the available time. In general worker on the same job and the managers on the same duty acquire ability sureness and accuracy which increase their output.

2. Authority and Responsibility:

Authority: It is the power given to a person to get work from his subordinates.

Responsibility: It is the kind and amount of work expected of from a man by his superior. One of the essential elements of a good management is delegation of authority to the lower levels of management and fixing responsibility on town.

3. Discipline:

Discipline is very essential for the smooth running of organizations. To Fayol, discipline will result from good leadership at all levels of the organization, fair agreements and judiciously enforced penalties for infractions.

4. Unity of command:

An employee must receive orders and instructions from one supervisor only. Multiple commands will cause conflicts and confusions. A sound management should avoid dual commands.

5. Unity of Direction

Unity of direction signifies each group of activities having the same objectives must have one head and one plan. All the groups should coordinate and work together to achieve the common goal.

6. Subordination of individual interest to general interest:

Every employee is working in an organization and his interest is to earn money to meet his personal needs. The general interest of the organization is development and the progress of the organization.

The employees should give importance first to the general interest than his individual interest. It will lead to effective management of the organization.

7. Remuneration of personnel:

Remuneration should be fair for both the employees and employers. The wage Payment systems should satisfy the employees.

8. Centralization:

The organization is centralized when the power is connected with one person. If the power is fully distributed to the subordinates of the organization is fully decentralized. For effective management of people decentralization is necessary. Decentralization helps to take a quick decision on all important problems.

9. Scalar chain:

Scalar chain principles states that instructions and orders should be sent from the top management to the lower management.

10. Order:

Two types of order 1) Materials order 2) Social order.

In any organization materials and for men are correct places provided. So that materials can be easily taken out and men easily located and also save time.

Materials order: "A place for everything in its place"

Social order: "A place for everyone and everyone in place".

11. Equity:

Equity refers to the treatment of employees equally. Equal treatment of the employees helps to achieve organizational goals.

12. Stability of staff:

A high employee turnover rate is not good for the efficient functioning of any organization.

13. Initiative:

It is concerned with thinking and execution of a plan. When employees come forward with new ideas, they must be encouraged by the superiors. It will create the morale of the employees.

14. Esprit-de-corps:

This means union is strength. In organization employees should be harmony and unity. It improves employee morale.

Behaviouristics Management

2.5 Neo-classical Theory

Human Relations Approach

The classical writers including Weber, Taylor and Fayol neglected the human relations aspect. The neo-classicists focussed on the human aspect of industry. They modified the classifical theory by emphasizing the fact that organisation is a social system and the human factor is the most important element within it. They conducted some experiments (known as Hawthorne Experiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of informal leadership, etc. This led to the development of human relations approach. Elton Mayo is generally recognized as the father of the Human Relations School. Other prominent contributors to this schools include Roethlisberger, Dickson, Dewey, Lewin, etc.

The human relations approach is concerned with recognition of the importance of human element in organisations. It revealed the importance of social and psychological factors in determining workers' productivity and satisfaction. It was instrumental in creating a new image of man and the work place. The neo-classical or human relations approach put stress on inter-personal relations and informal groups at the work-place.

The human relationists argued that achievement of organisational objectives is impossible without the willing cooperation of people and such cooperation cannot be automatically secured or ordered. It has to be consciously achieved. The neo-classical approach advocated people-oriented organisation structure which will integrate both informal and formal organisations.

The basic tenets of neo-classical theory or human relations approach are as under:

1. The business organisation is a social system.
2. The behaviour of an individual is dominated by the informal group of which he is a member.
3. An individual employee cannot be motivated by economic incentives alone. His social and psychological needs must be satisfied to improve the level of motivation.
4. In an organisation, it is ultimately cooperative attitude and not the more command which yields result.
5. Management must aim at developing social and leadership skills in addition to technical skills. It must take interest in the welfare of workers.
6. Morale and productivity go hand in hand in an organisation.

Hawthrone Studies

In 1927, a group of researchers led by George Elton Mayo and Fritz J. Roethlisberger at the Harvard Business School were invited to join in the studies at the Hawthorne Works of Western

Electric Company, Chicago. The experiment lasted upto 1932. Earlier, from 1924 to 1927, the National Research Council made a study in collaboration with the Western Electric Company to determine the effect of illumination and other conditions upon workers and their productivity.

1. *Illumination Experiment:* This experiment was conducted to establish relationship between output and illumination. The output tended to increase every time as the intensity of light was improved. But the output again showed an upward trend when the illumination was brought down gradually from the normal level. Thus, it was found that there is no consistent relationship between output of workers and illumination in the factory. There were some other factors which influenced the productivity of workers when the intensity of light was increased or decreased.
2. *Relay Assembly Room Experiment:* In this experiment, a small homogeneous work-group of girls was constituted. Several new elements were introduced in the work atmosphere of this group. These included shorter working hours, rest pauses, improved physical conditions, friendly and informal supervision, free social interaction among group members, etc. Productivity and morale increased considerably during the period of the experiment. Morale and productivity were maintained even if improvements in working conditions were withdrawn. The researches concluded that socio-psychological factors such as feeling of being important, recognition, attention, participation, cohesive work-group, and non-directive supervision held the key for higher productivity.
3. *Bank Wiring Observation Room Experiment:* This experiment was conducted to study a group of workers under conditions which were as close as possible to normal. This group comprised of 14 workers. After the experiment, the production records of this group were compared with their earlier production records. There were no significant changes in the two because of the maintenance of 'normal conditions'. However, existence of informal cliques in the group and informal production norms were observed by the researchers.

The Bank Wiring Experiment led to the following observations:

- (a) Each individual was restricting output.
 - (b) The group had its own "unofficial" standards of performance.
 - (c) Individual output remained fairly constant over a period of time.
 - (d) Departmental records were distorted due to differences between actual and reported output or between standard and reported working time.
4. *Mass Interview Programme:* The researchers interviewed a large number of workers with regard to their opinions on work, working conditions and supervision. Initially, a direct approach was used whereby interviewers asked questions considered important by managers and researchers. Later, this approach was replaced by an indirect technique where the interviewer simply listed to what the employees had to say. The findings confirmed the importance of social factors at work in the total work environment.

Scientific Management Theory

Scientific management theory is a theory of management. It synthesizes and analyzes workflows. Its major purpose is improving especially labour productivity, economic efficiency. It was an old effort which is to apply science to the engineering of the procedure and to management. However, there is given a definition. For example:

Scientific Management is an art of knowing exactly what you want your men to do and seeing that they do it in the best and cheapest way.

— **Frederick W. Taylor**

Firstly, its name adopted as “shop management” and “process management”, then took this name. Its other name is Taylorism or Essentials of Scientific Management or Aspects of Scientific Management. Although Taylor is a pioneer of this theory, another seven leaders extended Taylor's effort. They were Henry Laurence Gantt, Carl Georg Lange Barth, Horace King Hathaway, Morris Llewellyn Cooke, Sanford Eleazer Thompson, Frank Bunker Gilbreth, and Harrington Emerson.

Objectives of Scientific Management Theory by Taylor:

The major objectives of Scientific Management Theory by Taylor are a maximum improvement of workers. This improvement shows on efficiency and effectiveness performance. Such development is the revolution in management procedure and employee's actual performance.

If the procedures and principles of scientific management theory by Taylor apply, it can huge change on the following things. For instance: -

- Prevent the wastage of time.
- Reduce the cost of production.
- Secure the labor in industry.
- Increase the efficiency of the workers.
- Develop the relationship between workers and managers.

Principles of Scientific Management Theory by Taylor:

Frederick Winslow Taylor mentioned core principles of management in his *Principles of Scientific Management* book. These principles refer to the scientific management theory by Taylor. Such as: -

1. **Science, not the Rule of Thumb:** The basic principles of scientific management theory by Taylor is the adoption of a scientific approach to decision making. Even abandons the all unscientific approach from managerial activities. So, we can say that these principles suggest *thinking before doing*.
2. **Harmony, not Discord:** An organization constitutes by two groups i.e. 'workers' and 'management'. They must create the 'Give and Take' relationship in the workplace. Therefore, Taylor emphasized on Mental Revolution which means a change of attitude of both groups based on this principle. They should share the opinions and ideas of each other.
3. **Co-operation, not Individualism:** It shows the importance of each other (management and workers). Management should reward and appreciate the

employees for their helpful suggestions. At the same time, employees also cooperate with the management for the improvement of the organization.

4. **Development of Each and Every Person to his/her Greatest Efficiency and Prosperity:** Employees should be properly trained and selected in a scientific manner. And it is essential for each organization. For implementing this task, Taylor arranged some techniques, for instance, work-study, time study, motion study, fatigue study and method study.
5. **Maximum, not Restricted Output:** Maximum productivity is the basic purpose of an organization. In this case, Taylor has emphasized the production maximization in his principles.

Functions of Scientific Management Theory by Taylor:

From Taylorism, we can find some significant functions. These functions help positively the administrators in their organization's leading. Such as: -

- According to the skills and abilities, an employee must be selected.
- Incentives and wages have to install for enhancing their output and encouraging them.
- Implemented those methods which are based on the scientific tasks.
- Carefully observe on eradicating interruptions when plan runs.
- In an organization, leadership should develop and standard.

Features of Scientific Management Theory by Taylor:

According to Taylor, we can find some important features in Scientific Management Theory. Here has described those important features. Such as:

- **Universal:** Its principles are applicable to all kinds of organizations, business, non-business, all levels of management. Therefore, they are all-pervasive or universal.
- **Flexible:** Here available some flexible features. For example, dynamic guidelines, non-static rules, sufficient room for managerial discretion, Modification and improvement
- **Cause & Effect Relationship:** It indicates what will be the result of particular actions. So, if one is known, the other can be detected.
- **Aims at Influencing Human Behavior:** Human behavior is not simple and predictable. It always tries to deal with human behavior so that employe can able to give the best result.
- **Equal Importance:** For achieving the goal of the organization, we have to give equal priorities to all things. These principles are the best examples of equal importance.
- **Scientific Selection, Training, and Development of Workers:** In the organization, workers must select, train and develop through scientific way.
- **Equal Division of Responsibility between Management and Workers:** Each business environment has to ensure the equal division of responsibility between management and workers.

Techniques of Scientific Management Theory by Taylor:

For ensuring any method or process, need proper technique. Principles of scientific management theory by Traylor has effective techniques to implement. There are included those techniques. Such as: -

1. Work-Study (time study, method study, motion study, and fatigue study)
2. Development of Functional Foremanship
3. Standardization of Tools and Equipment
4. Scientific Selection, Placement, and Training
5. Introducing Costing System
6. Mental Revolution

Criticism of Scientific Management Theory by Taylor:

Although it appreciates in the organizational process, yet it has not spared of severe criticism. The criticism of scientific management theory by Taylor divide into two categories. Such as: -

1. Workers Viewpoint

- For increasing productivity, replace the machine instead of the man. Therefore, it may be an unemployment tool.
- Exploitation thinking arises in workers. So, they are not engaged in creative working.
- These principles enforce on over speeding in the work. So, These have an adverse effect on the health of employees.
- Due to extreme specialization, the employees are not capable to take a drive on their own. Their position decrease mere cogs in the wheel. As a result, job become dull. Employees disappoint in working.
- Workers feel that these principles make to weak of Trade Union. So, workers don't attract these principles.

2. Employer's Viewpoint

- It is an expensive system.
- Here enforces on the work, study, standardization, and specialization. As a result, it is a time-consuming process.
- This procedure is one kind of deterioration of quality.

Importance of Scientific Management Theory in Office:

Scientific Management Theory by Taylor is perfectly suitable in an office. It can change dramatically the office environment in positive mode. So, every office should adopt this theory for their actual success. However, there are mentioned some important reason why taken this theory in office. For example: -

- Planning or Deciding the work in advance.
- Posting right man for the right job.
- Initiating of incentive or reward wage plan.
- Confirmation of ideal of performance.
- Advise the right development of work.
- The removal of de trop flow of work.
- The upgrade of worker-management affair.

Henry Fayol's and the Modern Management Theory

Almost simultaneously with Taylor, Henry Fayol (1841 – 1925), a French industrialist and manager, developed his theory of management.

He is regarded as the 'Father of Modern Management Theory', for he was the first to suggest the functions of management which are recognised as the essential part of a manager's work by the modern authorities on management.

He was a mining engineer of a large coal mining company and subsequently became its managing director. When he joined the company, it was almost bankrupt. When he retired after 30 years, the company was among the most successful enterprises with a long history of handsome profits and dividends. During his successful career he searched for sound management principles. In 1916 he published his famous work, 'General and Industrial Management.'

Fayol's work is concerned with the higher level of the organisation.

He identified the following six activities which, he believed, had to be accomplished in all industrial undertakings:

- (i) Technical (relating to production and manufacturing);
- (ii) Commercial (buying, selling and exchange);
- (iii) Financial (search for capital and its optimum use);
- (iv) Security (protection of property and persons);
- (v) Accounting (record keeping, preparation of balance sheet, costing and statistics);
- (vi) Managerial (functions of planning, organising, commanding, coordinating, controlling etc.).

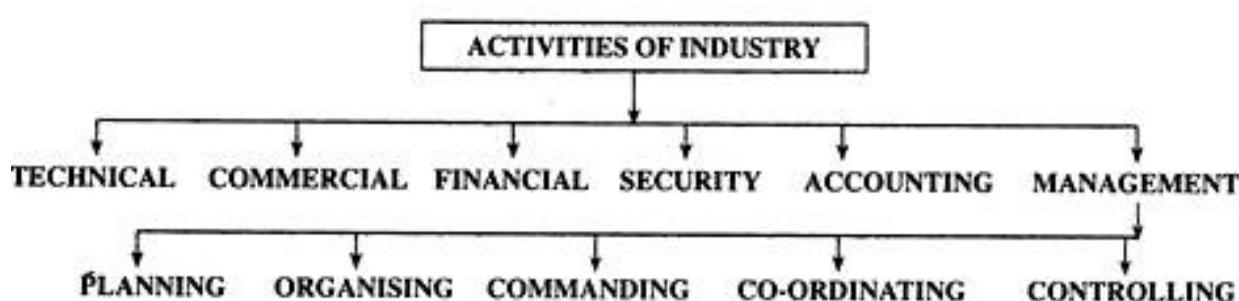


Fig. 2.1: Division of the Activities of Industrial Organisations

Pointing out that the first five activities are well-known and found in all organisations, Fayol devoted most of his discussion to the analysis of managerial activities.

He divided his approach of studying management into three parts:

- (a) Managerial qualities and training,
- (b) General principles of management, and
- (c) Elements of management.

(A) Managerial Qualities and Training:

Fayol was the first person to identify the qualities required in a manager.

According to him, there are six types of qualities that a manager requires. These are as follows:

- (i) Physical (health, vigour);
- (ii) Mental (ability to understand and learn, judgement, mental vigour and adaptability);
- (iii) Moral (energy, firmness, initiative, loyalty, tact, and dignity);
- (iv) Educational (general acquaintance with the matters not belonging exclusively to the function performed);
- (v) Technical (peculiar to the function being performed); and
- (vi) Experience (arising from the work).

Fayol observed that the most important ability for a worker is technical and the relative importance of managerial ability increases as one goes up the scalar chain. He recognised a widespread need for the principles of management and managerial teaching.

He held that managerial ability should be acquired first in school and later in the workshop. In order to acquire managerial knowledge, he developed the principles of management to be taught in academic institutions.

(B) General Principles of Management:

Fayol laid down some basic principles of management. He believed in the flexibility of these principles. According to him, the light of principles, like that of light-houses guides, only those who know the way into port. He listed and described fourteen principles of management.

However, a brief summary of them is given below for quick reference:

(i) Division of Work:

Fayol has advocated it to take the advantages of specialisation. This principle can be applied at all levels of the organisation for higher productivity.

(ii) Authority and Responsibility:

Responsibility is the corollary of authority and arises from it.

(iii) Discipline:

Discipline is essential for successful management and, to ensure it, Fayol suggested good supervision at all levels, agreements with the employees as clear and fair as possible, and judicious imposition of penalties.

(iv) Unity of Command:

It means that an employee should get orders from only one superior. Fayol has considered unity of command as an important aspect in managing an organisation. He suggested firmness and goodness on the part of the superiors, fair agreements with the workers and constant supervision by the managers to ensure good management.

(v) Unity of Direction:

Each group of activities having the same objectives must have one head and one plan.

(vi) Subordination of Individual Interest to Group Interest:

This principle reveals that the interest of the group should always prevail over the individual interest.

(vii) Remuneration of Personnel:

Remuneration and methods of payment should be just and fair so that maximum satisfaction can be attained by both the employers and the employees.

(viii) Centralisation:

“Everything which goes to increase the importance of the subordinates’ role is decentralisation, everything which goes to reduce it is centralisation.” The degree of centralisation of authority should vary according to the needs of the situation.

(ix) Scalar Chain:

It is the chain of the superiors from the ultimate authority to the lowest rank. A subordinate should follow the line of authority.

(x) Order:

According to Fayol, order means “a place for everything and everything in its place” and “a place for everyone and everyone in his place”; i.e., the right man in the right job.

(xi) Equity:

Equity is a combination of justice and kindness. The managers should exercise kindness and justice in dealing with the subordinates. This will create loyalty and devotion among the employees.

(xii) Stability of Tenure of Personnel:

It is a big factor for the success of an organisation. Fayol pointed out that instability in tenure of service is both the cause and effect of bad management.

(xiii) Initiative:

Managers should permit the subordinates to take some initiative in thinking out and executing plans to keep up their zeal and energy.

(xiv) Esprit de Corps:

This is the principle of ‘Union is Strength’. Team-work and proper communication among the members of the group are important for the success of an organisation. Fayol wanted the managers to encourage cohesiveness and esprit de corps among their subordinates.

(C) Elements of Management:

Fayol opines that management should be viewed as a process consisting of five elements. He has regarded these elements as the functions of management. These are planning, organisation, command, co-ordination and control. According to him, ‘planning’ is the most important managerial function. Creation of ‘organisation structure’ and execution of commanding function are necessary to implement plans.

‘Co-ordination’ is necessary to make sure that everyone is working together, and ‘control’ ensures that everything is proceeding according to the plan. Fayol holds the view that these functions are required at all levels of management and in all types of organisations.

The contribution of Fayol has made the real beginning of the development of management as a separate field of study. It is true that, as a practical man, Fayol only set down the principles that he had observed and practiced; yet his observations are admirably fit for the currently developing theory of or approach to management.

Fayol was thus the first man to develop a comprehensive theory of management capable of universal application. His concepts and principles are generally accepted even today. He is, therefore, ‘the real founder of modern management’.

Criticism:

The contribution of Henry Fayol in the field of management thought is very important. He was the first person who pointed out the functions of management separately. However, in spite of such importance, his theory of management is not beyond criticism.

The management theory of Henry Fayol is criticised in the following aspects:

1. Higher Level Management:

The most important criticism regarding Fayol’s concept is that he has analysed management mainly from the view point of the top level managers. He considers that the top level managers only plan vital role in making an enterprise successful. But, practically it is not true.

He has not considered the role and significance of the lower level managers of the organisation. It should be remembered that the operative employees work under the supervision and control of the lower level managers who actually get things done through the group activities of their subordinate workers.

2. Less Emphasis on Human Aspect:

Fayol has not given proper emphasis on the utilisation of human resource. In his management theory human relation aspect is neglected.

3. Negligence of Joint Management:

There is no place for joint management in Fayol’s concept of management. Modern age is the age of joint management. At present the workers also participate in management through their trade union leaders.

4. Controversial Universality of Management:

Fayol opines that the elements, principles and methods of management indicated by him are applicable to all types of enterprises—trading or non-trading. But the principle of universality of management is very controversial. Because the principles of management depend on time, place, and situation of application and these are changed accordingly.

5. Ineffective in Culture-bound Management:

In recent times there is a tendency to establish culture-oriented management. Henry Fayol states that his principles can be changed, extended and rectified according to need and situation. If it can be done, the general theory do not have its utility and effectiveness.

Behavioural science approach- :

Under behavioural science approach, the knowledge drawn from behavioural science, namely, psychology, sociology and anthropology, is applied to explain and predict human behaviour. It focuses on human behaviour in organisations and seeks to promote verifiable propositions for scientific understanding of human behaviour in organisations. It lays emphasis on the study of motivation, leadership, communication, group dynamics, participative management, etc.

The essential characteristics of behavioural science approach are as under:

1. Data must be objectively collected and analyzed.
2. Findings must be presented so that the distinction between cause and effect, as opposed to chance occurrences, is clear.
3. Facts must be systematically related to one another within a systematic framework. Data collection alone does not constitute a science.
4. The findings of a study must always be open to further examination and question.

The distinguishing feature of the behavioural sciences approach is the methodology employed in developing the research in the management discipline. The crux of the methodology lies in the collection and analysis of the relevant data. It is in this sense that this approach differs from the human relations approach. Further, the behavioural scientists made the following propositions:

1. An organisation is a socio-technical system.
2. Individuals differ with regard to attitudes, perceptions and value systems. As a result, they behave differently to different stimuli under different conditions.
3. People working in the organisation have their needs and goals which may differ from the organisational goals. Attempts should be made to achieve fusion between organisational goals and human needs.
4. A wide range of factors influence inter-personal and group behaviour of people in organisations.

The behaviour school has drawn heavily on the work of Maslow. His development of need hierarchy to explain human behaviour and the dynamics of motivation process is an important contribution. Douglas McGregor built on Maslow's work in explaining his 'Theory X' and 'Theory Y'. Frederick Herzberg developed a two-factor theory of motivation. He made a distinction between the factors which either cause or prevent job dissatisfaction (hygienic factors), and those factors which actually lead to motivation (motivational factors).

In the area of leadership, Robert Blak and Jane Mouton developed and popularized the 'Managerial Grid'. Rensis Likert has identified and extensively researched four Management Systems ranging from System 1: Exploitive-Authoritative to System 4 :Group Participative. Each system characterizes an organisational climate by employing several key dimensions of effectiveness such as communication, motivation, leadership and others.

To sum up, the behavioural sciences approach gives emphasis on increasing productivity through motivation and leadership. The central core of this approach lies in the following aspects of human behaviour: motivation, leadership, communication, participative management and group dynamics. The behavioural sciences have provided managers with a systematic understanding of one of the most critical factors in the process of management-the human element. Insights evolving from that understanding have been used to design work situations that encourage increased productivity. It has enabled organisations to formulate programmes to more efficiently train workers and managers, and it has effects in numerous other areas of practical significance.

Appraisal of Behavioural Science Approach

1. The study of human behaviour is of great significance in management. Since an individual is a product of social system, his behaviour is not determined by organisational forces alone, but many forces like perception, attitudes, habits, and socio-cultural environment also shape his behaviour. Therefore, in understanding human behaviour in the organisation, all these factors must be taken into account.
2. The behavioural approach suggests how the knowledge of human behaviour can be used in making people more effective in the organisation.
3. Behaviourists have enriched management theory through their contributions in the areas of group dynamics, motivation communication and leadership. However, they have failed in developing an integrated theory of management. Although, study of human behaviour in organisations is extremely important yet management cannot be confined only to this area.
4. There are other variable such as technology and environment which have an important bearing on the effectiveness of an organisation.
5. The behavioural science, refined as they might be, have not achieved the precision of the physical sciences.
6. Often the complexities of the human factor and the organisational setting make exact predictions impossible. It is not uncommon for programmes based on sound behavioural principles to have unexpected results.
7. It should also be noted that the finding of behavioural science research are tentative and require further investigation. They should not be treated as applicable to all situations.
8. Behavioural guidelines can be helpful and profitable, but are not complete, valid and applicable to all situations.

System Approach

A system is a set of interrelated but separate parts working towards a common purpose. The arrangement of elements must be orderly and there must be proper communication facilitating interaction between the elements and finally this interaction should lead to achieve a common goal. **Churchman West** is one of the pioneers of system approach of management.

Thus, systems approach to management views the organisation as a unified, purposeful system composed of interrelated parts. Hence, managers have to deal with the organisation as a whole rather than dealing separately with various segments of an organisation. This approach also gives the managers to see the organisation as a whole and as a part of the larger external environment. Systems theory reveals to us that the activity of any segment of an organisation affects, in different degrees, the activity of every other segment.

Systems-oriented managers would make decisions only after they have identified impact of these decisions on all other departments and the entire organisation. The essence of the systems approach is that each manager cannot function in isolation and within his organisational boundary of authority and responsibility of the traditional organisational chart. They must intertwine their departments with the total organisation and communicate with all other departments and employees and also with other organisations.

Systems approach helps the dynamic and interrelated nature of organisations to plan for actions and anticipate consequences and mutual effects. It helps the general managers to maintain balance among various subsystems and the organisation.

Following is the diagrammatic representation of system approach (as shown in figure 1.6):

- 1) Inputs:** A system has flows of information, materials and energy. These enter the system from the environment as inputs like human, capital and raw materials.

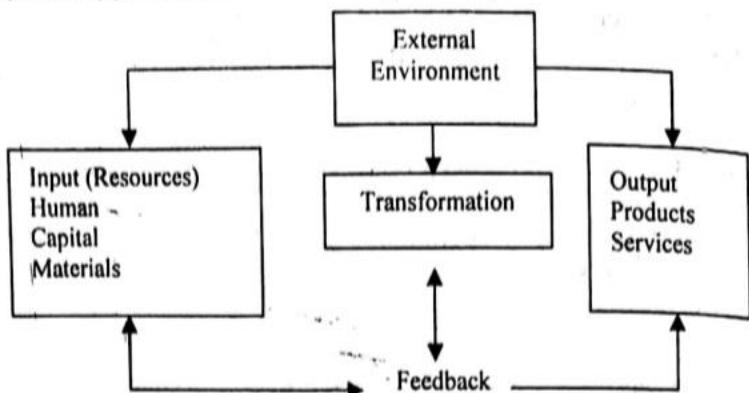


Figure 1.6: System Approach to Management

- 2) Transformation Process:** System transforms inputs into outputs. This transformation has three processes. They are inputs, mediator and outputs. This process is essential for the survival of the system. The reason is that there is a restoring the inputs in this process. Here, restoring refers to earning profit.
- 3) Outputs:** Outputs are the final products after the transformation process. Outputs vary with the enterprise; they usually include products, services, profits, satisfaction, and integration of the goals of various claimants to the enterprise.
- 4) External Environment:** It includes the analysis of the strength and weakness prevailing in the environment. Effective managers should regularly scan the external environment.
- 5) Feedback:** The reaction of the outputs environment is known as feedback. Feedback is useful in evaluating and improving the functioning of the system.

Thus a major contribution of the systems approach results from its strong emphasis on the interrelatedness or mutuality of various subsystems of the organisation. Treatment of the organisation as an open system is another contribution of systems viewpoint.

Types of Systems

Systems may be broadly classified into four categories, which are:

- 1) Physical Systems:** Physical systems are a part and parcel of nature or the sub-system of it. These are totally governed and regulated by Mother Nature, e.g., the solar system, seasons, rivers, etc.
- 2) Mechanical Systems:** Mechanical systems refer to those devices that are based on technology. These systems have been innovated by human beings for their betterment but are totally closed systems in nature. They do not interact with the external environment such as machines, motor cars, electric appliances, consumer durables, etc.
- 3) Biological Systems:** Biological systems are those systems that regulate and control the existence and survival of all living species. Humans and plants are good examples. Biological systems do operate in a particular life-cycle having several sequential stages such as conception, birth, growth, maturity, decay, death, etc.
- 4) Social Systems:** Lastly, social systems may be defined as a system which has been developed by human beings to facilitate cooperative working and to overcome the problem of isolation and desolation. All kinds of small and big, formal and informal and economic and non-economic organisations are examples of social systems.

The system described above may be either an **open system** or a **closed system** or a **partially open** and **partially closed** one. Mostly, physical and mechanical systems are relatively closed systems. It is because they depend much on other systems for the supply of inputs such as a battery powered digital watch. On the other hand, biological and social systems are relatively open systems. They interact with the external environment on a regular basis and depend on it for the supply of necessary inputs. In turn, after having processed these inputs they supply back these to the environment. The open and closed systems cannot be separated from each other. How much open or closed it is, depends on the amount of interaction between the system and its external environment.

Being a social system, the organisation is a relatively open system. It is because it interacts with the external environment and its survival depends on its ability to cope with the changing environment. Organisations get power, strength and inputs from the environment and in turn strengthen and contribute to the functioning of the environment. But an organisation may not be considered as a completely open system. It is because to some extent it has to preserve its identity, maintain stability and protect autonomy. In this connection, Kreitner has rightly pointed out that just as no person is an island, similarly no organisation or organisational sub-system is an island.

Assessment of Systems Approach

The system approach encourages meaningful analysis of an organisation and its various sub-systems or components and facilitates their management. It provides a sound basis for understanding organisations and their problems. System theorists strongly believe that the actions and decisions of managers' influence and in turn are influenced by many organisational and environmental variables. Managers must take into account interdependencies, interactions and interrelationships among the various components of the system at the time of taking decisions.

They should also base decisions on the ground realities of both internal and external environment. Thus, the system approach facilitates the application of both the process of analysis and synthesis and differentiation and integration by relating the sub-systems of an organisation from the lowest to the highest level of the organisation. Another positive aspect of system approach is that it integrates various management approaches in a meaningful way. Although the classical and behavioural approaches place an emphasis on different aspects, these two are greatly influenced by the system approach.

In addition, some management scientists criticise the system approach as being purely theoretical, conceptual, vague and abstract. They argue that it has only an intellectual appeal and cannot be applied to practical situations. In the context of management of a modern organisation it is considered simply a way of thinking rather than one providing solutions to problems. The system approach neither offers any tool or technique for analysis and synthesis nor does it recognise the differences that exist between the various systems. Nevertheless, it represents a significant departure from the past and provides a new style of thinking to management knowledge.

1.6.4. Contingency Approach

Contingency or situational approach is an important addition to the paradigm of modern management theory and approach. In one way, this is an extension of systems approach. The basic idea of contingency approach is that there cannot be a particular management action which will be suitable for all situations. Rather, an appropriate action is one which is designed on the basis of external environment and internal states and needs. Contingency theorists suggest that systems approach does not adequately spell-out the precise relationship between organisation and its environment. Contingency approach tries to fill this gap by suggesting what should be done in response to an event in the environment.

Contingency Approach is also known as Situational Theory. This theory is of the opinion that there is no prescribed managerial action or organisational design which is suitable for all organisations. Instead managerial actions and organisational design depend on the situation. An appropriate action is one with appropriate internal states and processes of organisation contingent upon external environment and internal needs.

The contingency theory takes-off from the systems theory and utilises it in tackling specific situations. It relates each situation, comprising the goals of the organisation, demands of its members, its environments of different categories, and so on to the organisation's structure, process, and policies. Thus one situation may call for a mechanistic type of organisation, another organic type. For dealing with complex projects a matrix type of organisation may be more helpful. For better motivation of employees in a global enterprise a highly decentralised organisation may be more effective.

The authorities who are associated with contingency approach are P.R. Lawrence, J.W. Lorsch and Woodward. The systems theory could not spell out the relationship between the organisation and environment components. Contingency theory is based on the systems view of the organisation. It is action-oriented and directed towards the application and implementation of system concepts. It focuses on external dynamics but systems approach

focused on internal dynamics. This is considered as the comprehensive theory dealing with a variety of organisational and environmental variables. It is basically a long range theory and can be applied to the study of various sub-units of an organisation at micro-level.

Features of Contingency Approach

The features of contingency viewpoint are as follows:

- 1) The most important feature of the contingency theory is that it is situation-specific. Instead of giving one blanket solution for all kinds of situations it emphasises that the overall approach of each organisation is contingent upon its own situation – internal and external.
- 2) It is action-oriented. It is ultimately directed towards suggesting organisational design and managerial action appropriate to each situation.
- 3) It is comprehensive because it takes account of a wide range of variables, including those comprising the different sub-systems.
- 4) It is flexible. As environments change, the theory suggests that organisational design and policy should also change gradually in order to conform to the changing environment. In this respect it is not an *ad hoc* device but a long-range strategy.
- 5) It is more pro-active than reactive. It does not merely emphasise changes in organisational structure and process according to situational changes but also insists on steps to shape the proximate environment in favour of the organisation. It provides clues to them.

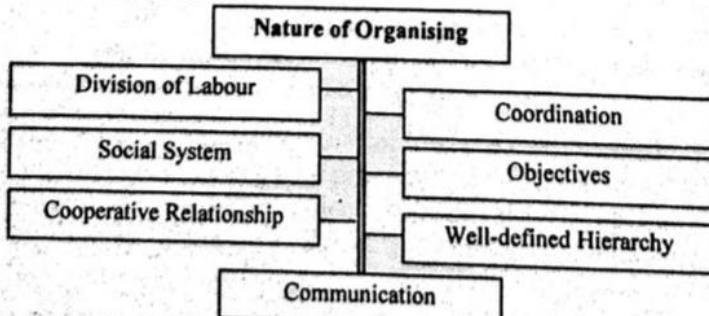
Implications of Contingency Approach

Contingency approach is an important addition to the paradigm of modern theory of management. It is the sophisticated approach to understand the increasing complexity of organisations. It emphasises the multivariate nature of organisations and attempts to understand how organisations operate under varying conditions. The approach is directed towards suggesting organisational designs and managerial actions most appropriate to specific situations.

The major implications of contingency approach or viewpoint are as follows:

- 1) Management is entirely situational and there is nothing like universal principles of management or one best way of doing a particular thing. What managers do depends on the circumstances and environment.
- 2) The approach suggests suitable alternatives for those managerial actions which are generally contingent upon external and internal environment such as organisational design, strategy formulation, decision systems, influence systems, leadership, and organisational improvement. In all these cases, action alternatives cannot be arranged in advance but have to be identified and adjusted according to the situations in which decisions in respect of these have to be made.
- 3) Contingency approach suggests that since organisation interacts with its environment, neither the organisation nor any of its subsystems is free to take absolute action. Rather, it has to modify and adjust the actions subject to various forces like social, political, technical, and economic. Besides, the actions should be according to the needs of internal state of the organisation or its subsystems. Thus, the basic problem of managing is to align the internal state with the external state.

ORGANIZING



- 1) **Division of Labour:** Division of labour leads to specialisation which increases the efficiency of individual employees. Fayol recommended that work of all kinds must be subdivided and allocated to a number of persons. Subdivision makes each task simpler and results in greater efficiency. By repeating a small part of work the individual acquires speed and accuracy in its performance. This principle is applicable to both technical as well as managerial work.
- 2) **Coordination:** In any organisation, different persons are assigned different functions and yet all these functions have only one aim i.e., accomplishment of the enterprise objectives.

To this end, an organisation has to adopt suitable methods to ensure that there is proper coordination of the different activities performed at various work points. This implies establishment of correct and adequate relationships between:

- i) An employee and his work,
- ii) One employee with another, and
- iii) One department or sub-department with another.

Failure to establish such relationship may result in different persons (or departments) pursuing different paths, thus making it difficult for the enterprise to achieve its goals.

- 3) **Social System:** An organisation is a social system. Its activities are governed by social and psychological laws. People working in an organisation are influenced in their actions and behaviour by their social and psychological needs.

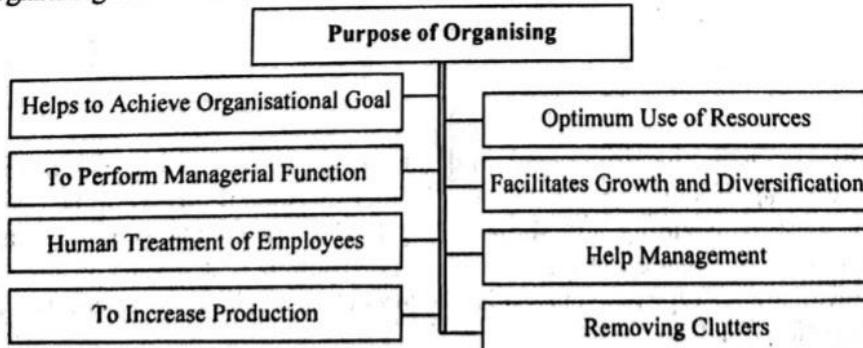
All parts of the organisational system are inter-dependent. Each part influences and is influenced by any other part and also in turn by the system as a whole.

There are two aspects of an organisational social system – the formal or official, and the informal or unofficial. The organisation social system is dynamic, in the sense that inter-personal and group relationships within it keep on changing, and are not static.

- 4) **Objectives:** Any organisation structure is bound together by the pursuit of specific and well-defined objectives. In fact, just as objectives cannot be accomplished without an organisation, similarly an organisation can not exist for long without objectives and goals.
- 5) **Cooperative Relationship:** An organisation creates co-operative relationship among various members of the group. It cannot be constituted by one person. It requires at least two or more persons. Organisation is a system which helps in creating meaningful relationship among persons both vertical and horizontal.
- 6) **Well-Defined Hierarchy:** An organisation consists of various positions arranged in a hierarchy with well defined authority and responsibility. The hierarchy of positions defines the lines of communication and pattern of relationships.
- 7) **Communication:** Every organisation has its own channels and methods of communication. For success in management, effective communication is vital. This is because management is concerned with working with others, and unless there is proper understanding between people, it cannot be effective. The channels of communication may be formal, informal, downward, upward or horizontal.

5.1.3. Purpose of Organising

The purposes of organising are as follows:



- 1) **Helps to Achieve Organisational Goal:** Organisation is employed to achieve the overall objectives of business firms. Organisation focuses attention of individual's objectives towards overall objectives.
- 2) **Optimum Use of Resources:** To make optimum use of resources such as men, material, money, machine, and method, it is necessary to design an organisation properly. Work should be divided and right people should be given right jobs to reduce the wastage of resources in an organisation.
- 3) **To Perform Managerial Function:** Planning, organising, staffing, directing and controlling cannot be implemented without proper organisation.
- 4) **Facilitates Growth and Diversification:** A good organisation structure is essential for expanding business activity. Organisation structure determines the input resources needed for expansion of a business activity similarly organisation is essential for product diversification such as establishing a new product line.
- 5) **Human Treatment of Employees:** Organisation has to operate for the betterment of employees and must not encourage monotony of work due to higher degree of specialisation. Now, organisation has adapted the modern concept of systems approach based on human relations and it discards the traditional productivity and specialisation approach.
- 6) **To Help Management:** Organisation helps management to have better control over business functions and which helps in smooth functioning within the organisation.
- 7) **To Increase Production:** Duties are assigned by following the principle of division of labour which helps in increasing the production of the organisation thereby helps in increasing the profit also.
- 8) **Removing Clutters:** Organising is very important in every aspect of life – especially business. It is the process of arranging elements following a set of rules. A business should always be in an organised and standardised state. Organising in business help-out in removing the clutter and unimportant things and aid to focusing on only the important matters.

5.1.4. Process of Organising

The process of organising may be described as the managerial function of organising. It consists in making a rational division of work into groups of activities and tying together the position representing grouping of activities so as to achieve a rational, well-coordinated and orderly structure for the accomplishment of work. Important steps involved in this process are:

- 1) **Determination of Objectives:** It is the first step in building up an organisation. It will assist in deciding as to why the proposed organisation is to be set up and therefore, what will be nature of the work to be accomplished through the organisation.
- 2) **Enumeration of Activities:** Then the total job is sub-divided into essential activities, e.g., the work of an industrial concern may be divided into the following major functions:
 - i) Purchasing,
 - ii) Production,
 - iii) Financing,
 - iv) Personnel,
 - v) Sales,
 - vi) Export promotion, etc.
- 3) **Grouping Activities:** Then closely related and similar activities are grouped into divisions and departments and the departmental activities are further divided into sections. Different bases are adopted for the purpose of dividing and sub-dividing the activities into groups. Functions like sales, production, finance, etc., are made the basis of primary grouping. Secondary grouping is made on the basis of geographical areas, types of customers, equipments used, processes adopted or constituent parts of major enterprise function.
- 4) **Allocation of Fixed Responsibility to Definite Persons:** Here specific job assignments are made to different subordinates for ensuring a certainty of work performance.
- 5) **Delegation of Authority:** Authority without responsibility is a dangerous thing and similarly responsibility without authority is an empty vessel. Hence, corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance.
- 6) **Coordination:** This is necessary for optimum performance. It is an integrating function. The performance of departments and sections are to be integrated to achieve objectives.

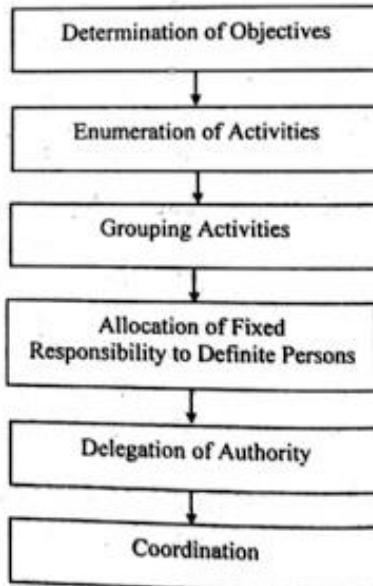
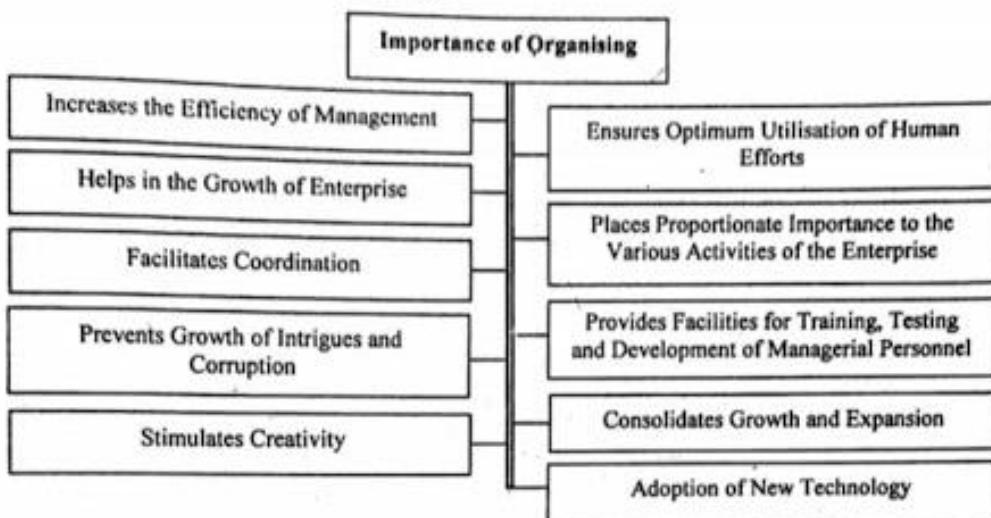


Figure 5.1: Process of Organising

5.1.5. Importance of Organising

Importance of organising is discussed as follows:



- 1) **Increases the Efficiency of Management:** There is the maximum utilisation of workers' ability and productive capacity of the material resources under good organisation. Good organisation avoids confusion, delays and duplication of work.
- 2) **Ensures Optimum Utilisation of Human Efforts:** 'Right man at the right job' is fundamental to organisation. Good organisation brings harmony in the efforts of the employees and the working conditions which add to the total productivity of the enterprise.
- 3) **Helps in the Growth of Enterprise:** Good organisation contributes to the growth, diversification and expansion of all enterprises. Big and giant enterprises are the direct result of the success of the organising functions of management.
- 4) **Places Proportionate Importance to the Various Activities of the Enterprise:** Organisation divides the entire enterprise activities into departments and sub-departments, each receiving attention according to its importance or role played towards accomplishing the enterprise objective. Money and efforts are spent proportionately to their contribution which means that emphasis is given according to their relative importance.
- 5) **Facilitates Coordination:** Functions and activities of the various departments are welded together to accomplish the enterprise goals. Different departments perform their functions in a closely related manner and not as rivals.
- 6) **Provides Facilities for Training, Testing and Development of Managerial Personnel:** By placing the persons in different departments, training can be imparted, as also their abilities tested. This will be followed by their placement to the places to which they are best suited.
- 7) **Prevents Growth of Intrigues and Corruption:** Unsound organisation becomes a breeding ground of intrigues and corruption. Good organisation develops the morale, honesty, devotion to duty and the feeling of oneness with enterprise.
- 8) **Consolidates Growth and Expansion:** Organising practices have encouraged the business enterprises to expand their size to an ever-increasing level. With hundreds of employees and extensive ramifications of operations, giant enterprises are the direct outcome of the organising function of management.

5.4.4. Delegation

Delegation is the process which enables a person to assign a work to others and delegate them with adequate authority to do it. Delegation is a process of sharing work and authority between a manager and his subordinates.

According to Louis A. Allen, "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 can perform effectively, and so that he can get others to help him with what remains".

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

Delegation helps in completing the work in time, reduces the workload of managers, and motivates and develops subordinates. In other words, delegation is a process which enables a person to assign a work to others and delegate them with adequate authority to do it.

5.4.4.1. Nature of Delegation

- 1) **Authorisation to Manager:** Delegation is authorisation to a manager to act in a certain manner. The degree of delegation prescribes the limits within which a manager has to decide the things. Since formal authority originates at the top level, it is distributed throughout the organisation through delegation and re-delegation.
- 2) **Retention of Authority:** Delegation has dual characteristics. As a result of delegation, the subordinate receives authority from his superior, but at the same time, his superior still retains all his original authority. **Terry** comments on this phenomenon like this, "It is something like imparting knowledge. You share with others who then possess the knowledge, but you still retain the knowledge too".
- 3) **Flexible:** of Authority once delegated can be enhanced, reduced, or withdrawn depending on the situation and requirement. For example, change in organisational structure, policy, procedure, methods, etc., may require change in the degree of delegation of authority.
- 4) **Created Through Process of Organising:** Delegation of authority is always to the position created through the process of organising. The individual occupying a position may exercise the authority so long as he holds the position. Therefore, the authority is recovered fully from the individual when he moves from the particular position.
- 5) **Partial Delegation of Authority:** A manager delegates authority out of the authority vesting in him. He cannot delegate which he himself does not possess. Moreover, he does not delegate his full authority because if he delegates all his authority, he cannot work.
- 6) **Specific or General:** Delegation of authority may be specific or general. Delegation of authority is specific when courses of action for particular objectives are specified. It is general when these are not specified, though objectives may be specified.

5.4.4.2. Bases of Delegation

Delegation decision may be based on the following three-fold analysis:

- 1) **Activity Analysis:** **Drucker** suggests that activity analysis should involve identification of key activities. This can be done by answering three questions:
 - i) In what areas excellence is required to obtain company's objectives?
 - ii) In what areas would lack of performance endanger the result?
 - iii) What are the values that are important to us?

The answers to these questions will provide guidance to a manager as to what activities he should keep with himself, and what he can assign to his subordinates. Activities that are critical to the achievement of his goals, areas in which non-performance can endanger the results for which he is responsible, and activities related to central values of the enterprise, are the ones that he must keep with himself. He can assign all other activities and duties to his subordinates, of course, subject to the availability of subordinates capable of performing them.

- 2) **Decision Analysis:** An important aspect of delegation is transfer of adequate authority to subordinates in order to enable them to perform effectively. This involves analysis of decisions involved in the duties assigned to them. Decisions should be analysed on the following basis:
- i) **Degree of Futurity of Decisions:** It means how long into the future a decision would commit the company. For example, decision on diversification, or merger may have an impact on the long-term survival, growth and profitability of the company. On the other hand, a decision relating to grant of overtime work has very little implication for the future of the company. The decisions with longer futurity have to be made by the manager himself, and authority for such decisions cannot be delegated by him to his subordinates.
 - ii) **Impact of Decisions:** It means the extent to which a decision will affect other functions and departments. For example, a decision to change the product line affect not only production department, but also a number of other departments including purchasing, quality control, industrial engineering, marketing, etc. On the other hand, transfer of an employee from one shift to another has no impact on other functions and departments. Authority for decisions which have impact on other functions and departments is not easily delegatable to subordinates.
 - iii) **Qualitative Factors Involved in Decisions:** It relate to ethical values, social responsibility, political beliefs, etc. Authority for making such decisions can also not be delegated to subordinates.
 - iv) **Periodicity of Decisions:** It relate to the recurrence of a particular problem. Problems which are of recurrent nature involve routine decisions, whereas problems which are unique in nature or character need unique solutions. Authority for making decisions on recurrent problems should be fully delegated to subordinates. On the other hand, a manager will do better to keep with himself the authority to make decisions on unique problems, as unique problems are generally ill-structured and need unique decisions.
- 3) **Relations Analysis:** This analysis will indicate to the manager the relationships involved in the performance of activities. Some activities involve interactions with a number of managers in several other departments, whereas some other activities involve interactions within the department itself. For example, activities involved in making a policy decision regarding the pricing of the product involve production, finance and marketing managers. On the other hand, activities relating to matters like scheduling of work on the production line hardly involve any other department but production itself. Activities of the first kind and authority for making related decisions cannot be delegated easily to subordinates. Activities of the second kind can be assigned to subordinates, and authority to make decisions for their performance can be delegated without much risk.

Delegation should thus be based on a careful analysis of activities, decisions and relations. Activities which are of crucial importance for the achievement of a manager's goals and which have an impact on the performance of other managers in other departments, or which severely affect the performance of other managers within his own department, should not be assigned to subordinates. All other activities should be assigned to them. Once an executive assigns activities to his subordinates, he should delegate to them adequate authority for the performance of assigned activities. In doing so, he should not delegate authority to make decisions which commit the company for a long time in the future, and decisions which involve important ethical considerations. Authority should be delegated to subordinates to make all other decisions related to their job assignments.

5.4.4.3. Kinds of Delegation

- 1) **General or Specific Delegation:** Where any person is granted authority to perform the various functions in his department or division, it is called general delegation. But exercise of authority by each subordinate continues to be subject to an overall regulation and supervision by his superior. Specific delegation is functional in character. Under it, different subordinates are given different specific functions to perform. For example, the production manager may be delegated authority for production, the sales manager for sales, the accounts officer for accounting matters, and the personnel officer for recruitment, training and placement of workers.
- 2) **Written or Unwritten Delegation:** Written delegation is made by written orders, instructions, etc. Unwritten delegation is based on custom, convention, or usage.

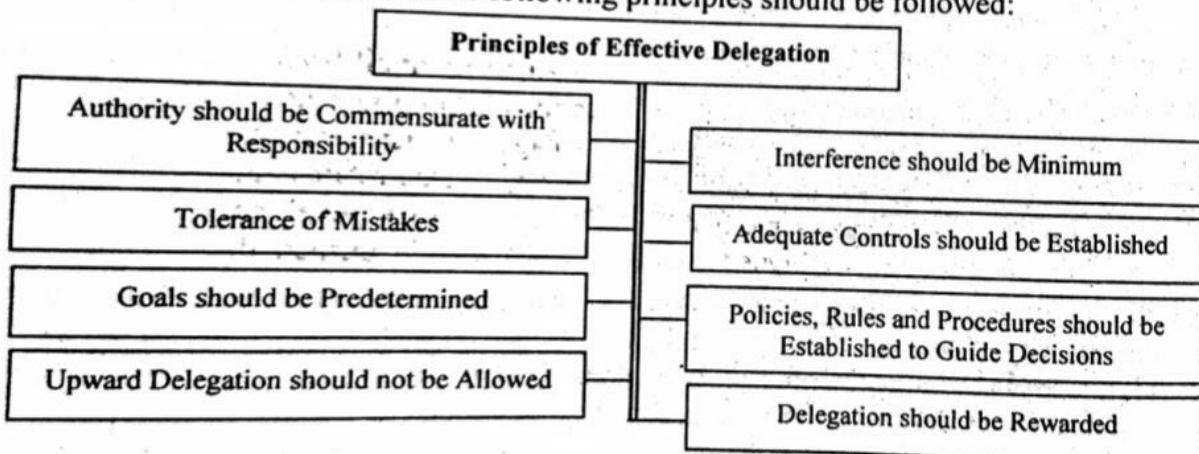
3) **Formal or Informal Delegation:** Formal delegation of authority is laid down in the organisational structure of an enterprise. For example, the sales manager is assigned the responsibility and the accompanying authority to maintain and promote sales.

Informal delegation occurs when employees perform certain duties not because these are assigned to them, but because they feel that thereby they can perform their tasks better, and in time.

4) **Downward, Upward and Sideward Delegation:** Downward delegation occurs where superior assigns duties and delegates authority to his immediate subordinates. This is the most common type of delegation. In upward delegation, a subordinate assigns some of his tasks to his immediate superior. But instances of such delegation are rare. In sideward delegation, a subordinate assigns some of his duties and tasks to another subordinate of the same rank.

5.4.4.5. Principles of Effective Delegation

In order for delegation to be effective the following principles should be followed:



5.4.5. Decentralisation

In every organisation, management must decide how authority will be distributed throughout the hierarchy. Centralisation and decentralisation of authority are basic overall management philosophies that indicate where decisions are to be made. Centralisation is the concentration of authority at the top of an organisation or department. Decentralisation is the delegation of authority to lower level employees or departments. Decentralisation is an approach that requires managers to decide what and when to delegate, to select and train personnel carefully, and to formulate adequate controls.

Decentralisation of authority refers to systematic delegation of authority at all levels of management and in all departments of the organisation for taking decisions and actions appropriate at the respective levels. In a decentralised organisation, authority is retained at the top management level for taking major decisions and framing policies concerning the entire organisation. Top management also retains authority for overall control and coordination of the organisation. At the same time, the middle and lower level managers are entrusted with authority for taking decisions on tasks assigned to them. Authority is pushed down even to the lowest managerial levels.

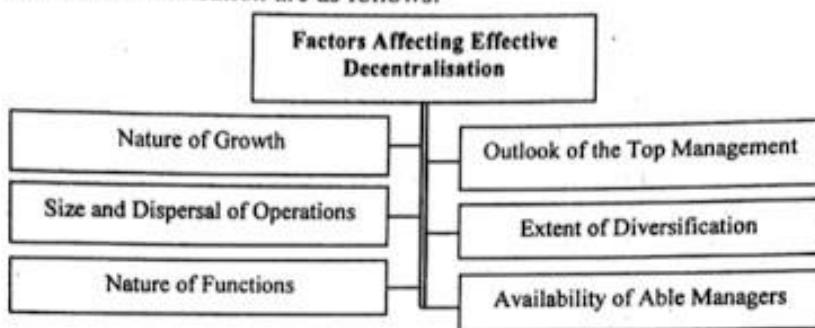
According to Henry Fayol, "Everything that goes to increase the importance of the subordinate's role is decentralisation; everything that goes to reduce it is centralisation".

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

In management, centralisation refers to concentration of authority and decentralisation dispersion of authority. However, both these terms are used to give various connotations. It is the degree of delegation of authority that conveys the meaning of centralisation or decentralisation in management, though in this case too, people prefer that these terms should be used along with 'of authority' to make them more clear and explicit such as '**centralisation of authority**' or '**decentralisation of authority**'.

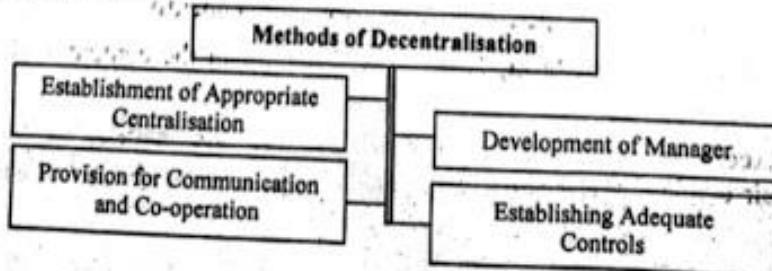
5.4.5.1. Factors Affecting Effective Decentralisation

Factors affecting effective decentralisation are as follows:



- 1) **Nature of Growth:** If the enterprise has grown through internal expansion, it will continue to retain its original structure until it becomes unmanageable. On the other hand, if it has developed through amalgamation or absorption of different business enterprises, it will prefer departmentalisation or divisionalisation of its functioning, because in that way it can reap the benefits of the expertise of each individual unit.
- 2) **Outlook of the Top Management:** If the top management believes in uniformity, or if it seeks unified control, it will prefer strong centralised planning and control. On the other hand, if it has a liberal outlook and believes in individual freedom, it will go in for decentralisation and fewer controls.
- 3) **Size and Dispersal of Operations:** Dividing a small enterprise into a number of divisions may be a costly affair. The best course for it would be to adopt a functional structure with its activities grouped under production, marketing, finance, etc. But in a large enterprise with wide dispersal of operations, creation of divisions and departments for different activities and sub-activities will add to its efficiency and profitability.
- 4) **Extent of Diversification:** If the enterprise is dealing in a number of diverse products, it cannot retain its efficiency through functional division of work because the production or sales department would not be able to give equal attention to each of the different products manufactured by it. The alternative in such a case would be to go in for a separate department or division for each product.
- 5) **Nature of Functions:** There should be greater decentralisation of the basic functions, e.g., production, marketing and finance. That way, the employees engaged in these activities would be encouraged to perform more efficiently. On the other hand, in the case of staff functions like personnel recruitment, research and development, centralisation may produce better results.
- 6) **Availability of Able Managers:** Decentralisation will be possible only when middle level managers of the enterprise are capable and experienced enough to make important decisions. Where such managers are not to be found, centralisation and not decentralisation would be more beneficial.

5.4.5.2. Methods of Decentralisation



- 1) **Establishment of Appropriate Centralisation:** This is the first step in decentralisation. A small centralised headquarter will act as a nerve centre of the enterprise. Here plans will be formulated and communicated for the guidance of each part of the company. It will also plan an adequate organisational structure within which individual operating components can be permitted considerable latitude of action. Without such an administrative harness companies may find the individual members of the team going in all directions at once to the detriment of the enterprise.
- 2) **Development of Manager:** In decentralised concerns, critical decisions have to be made at a large number of centres. This requires people who have mastered the technique of management and not simply of supervision. This poses the problem of how to develop effective managers. Another thing to be kept in mind is that management is an art made up of identifiable skills. Hence, it is essential to reinforce training in classes by coaching them on jobs, by allowing them to make decisions and they learn through committing mistakes.
- 3) **Provision for Communication and Co-operation:** Under decentralisation there is a tendency to independence. This poses the problem of preserving the integrated character of the enterprise as a whole. Thus, provision ought to be made for communication and co-operation through co-ordinating executives and committees.
- 4) **Establishing Adequate Controls:** Autonomous managers can be given free rein only so far as it will not jeopardize the purpose and integrity of the enterprise as a whole. A major problem in decentralisation, therefore, is that of establishing effective controls.

5.4.5.3. Advantages of Decentralisation

- 1) **Top Management Free from Operational Responsibilities:** Top management is free from operational responsibilities which become the domain of divisional managers. Top management is thus enabling to devote its time, attention and energy to the real top management functions of determination long and short-range goals, strategic planning and formulation of major policies.
- 2) **Manager Development:** Decentralisation enables a company not only to utilise its managerial personnel more effectively but also forces the development of managerial abilities by giving them full responsibility and corresponding authority to run their divisions.
- 3) **Better and Speedier Decisions:** Decentralisation results into speedier and better decisions as the decision making authority is delegated nearest to the levels of operations. Man nearest the scene of action is in a relatively better position to understand the complexities of the problem and make a qualitatively better decision to meet the situation. Decisions are also made speedily by cutting-off bureaucratic delays.
- 4) **Permits Management by Objectives and Self-Control:** Divisions function on the basis of predetermined objectives set in mutual consultation between the top management and divisional managers. These objectives become the criteria of measurement of their performance.

5.4.5.4. Disadvantages of Decentralisation

- 1) **Lack of Coordination:** Under decentralisation, each division or department of the enterprise enjoys substantial freedom in the formulation of policies and action plans. This creates a difficult problem of coordination.
- 2) **Costly:** Only a very large enterprise can afford the high operating costs of maintaining a decentralised set-up. This is because under decentralisation, each division of the enterprise has to be self-sufficient in every respect, e.g., production, marketing, accounting, personnel, etc. This may not only result in duplication of functions, but may also lead to wastage of resources, because often one or the other facility remains under-utilised in each division.
- 3) **Lack of Able Managers:** A decentralised enterprise has to depend on divisional managers but it is difficult to find persons who are adequately equipped to run a division independently.
- 4) **Inconsistencies:** Decentralisation may bring about inconsistencies in the company. They may not follow uniform procedures in various divisions.
- 5) **Narrow Outlook of Executives:** The executives at the lower level may develop a narrow outlook as their main focus is only, their divisions or units. This outlook may be detrimental to the overall interest of the organisation.

- 6) **Improper Handing of Emergency Situations:** Proper handing of emergency situations in a decentralised set up may be difficult due to changing conditions. Many external factors like market uncertainties, Trade Union movement, and government intervention may pose problems and make decentralisation a difficult proposition to meet.

5.4.5.5. Difference between Centralisation and Decentralisation

Centralisation refers to systematic reservation of authority at central points within the organisation. It implies that a majority of the decisions regarding the work are made not by those doing the work but a point higher up in the organisation. Centralisation means retention or concentration of managerial authority in a relatively few key managerial positions at the nerve centre of an organisation, *viz.*, at the top level. In short, everything that goes to reduce the subordinate's role in decision-making is Centralisation.

Centralisation and decentralisation can be distinguished as under:

Basis of Distinction	Centralisation	Decentralisation
1) Meaning	It refers to centralisation or retention of authority for decision-making at higher or top level of management.	It refers to the systematic delegation or dispersal of authority at all levels of management and in all departments of organisation.
2) Authority of Top Management	Top management retains absolute authority for making almost all decisions on the functioning of organisation.	Top management retains authority for making major decisions and framing major policies and for overall control and coordination of the organisation.
3) Authority of Middle and Lower Management	Middle and lower management is not entrusted with operational authority for taking decisions on the tasks assigned to them.	Middle and lower management is entrusted with operational authority for taking decisions on the tasks assigned to them.
4) Freedom of Action	Managers have less freedom of action since they are kept under close supervision by their supervisors.	Managers have more freedom of action since they are not kept under close supervision by their supervisors.
5) Flexibility	It does not provide greater flexibility to tackle problems quickly and competently.	It provides greater flexibility to tackle problems quickly and competently.
6) Significance	It loses its significance in case of expansion of activities, coping with complexities of changes in technological, competitive and other conditions in the environment.	It is necessary to prepare the organisation for handling major expansion of its activities and to cope with complexities of changes in the technological, competitive, and other conditions in the environment.

Unit 8: Span of Management

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Objectives

After studying this unit, you will be able to:

- Discuss the Graicunas Theory
- Assess the impact of span of management
- Identify factors determining span of management
- Explain the concept of centralisation and decentralisation

Introduction

The term 'span of management' is also known as 'span of control', 'span of supervision' and 'span of authority'. It represents a numerical limit of 'subordinates to be supervised and controlled by a manager. It is an important principle of sound organisation. This principle is based on the theory of relationships propounded by V.A. Graicunas, a French management consultant. Graicunas analyzed superior-subordinate relationship and developed a mathematical formula based on the geometric increase in complexities of managing as the number of subordinates increases.

8.1 Graicunas' Theory

Graicunas showed mathematically that a number of direct, group and cross relationships exist between a manager and his subordinates. The number of these relationships increase with the increase in the number of the subordinates. He said that an executive having four subordinates

under him is required to deal with (i) 4 direct single relationships, (ii) 12 cross relationships and (iii) 28 group relationships, i.e., in all forty-four relationships. He derived these on the basis of the following formula:

No. of direct relationships	= n
No. of cross relationships	= $n [n - 1]$
No. of group relationships	= $n [2n-1 - 1]$
Total No. of relationships	= $n [2n/2 + (n - 1)]$ or $n [2n + n - 1]$

Where n represents the number of subordinates.

The last formula reveals that possible relationships with variable number of subordinates rise very rapidly as shown in the following table:

Table 8.1: Possible Relationships with Variable Number of Subordinates

No. of Subordinates	No. of Relationships
1	1
2	6
3	18
4	44
5	100
6	222
7	490
8	1,080
9	2,376
10	5,210
12	24,708
18	23,59,602

Though, Graicunas gave mathematical formulae for finding out the number of relationships, his approach suffers from various shortcomings, such as ignoring the importance of relationships, frequency of relationships and the factors which determine the span. Moreover, he left out certain possible relationships, particularly in cross relationships. However, his theory gives an important indication that an executive must think twice before increasing his span because increase of one subordinate will increase relationships manifold. Graicunas suggested that an executive can effectively manage 222 relationships which arise out of six subordinates. However, he failed to list factors which govern the span of supervision in practice.



Caution Span of control refers to the number of subordinates an executive can supervise. The concept is central to the classical theory of organisation. Proper span of control is considered a necessity for effective coordination. The view in the traditional theory has been that a small span is better than a large one because an executive must have intimate and direct contact with his subordinates. The ideal ratio was considered to be 15 to 25 subordinates for first level supervision and 5 to 8 subordinates in executive spans.

8.2 Impact of Span of Management

The number of persons an executive supervises has an important influence on the nature of organisation structure. If the span is large, it means that fewer levels are needed in the

organisation. The structure would tend to be flat and wide. Presumably the possibility of communication blockages would be minimized because more people report directly to the top executive. If the span is small, the structure would be narrow and deep. There would be more levels in the organisation. More people will have to communicate to the top manager through intervening layer of executives. The possibility of communication blockages and distortions would increase.



Example: If there are 256 persons in an organisation and all are reporting to one executive, there will be one level of management. If it is thought that only four subordinates should directly report to the chief executive, then the number of management levels will increase to two as four executives directly report to the top executive and each executive controls 64 persons as shown in Figure 8.1. This structure is flat as the span of control is very large at the lowest level and there are only two layers of management. If it is thought that an executive can manage only 4 subordinates effectively, the number of managerial levels will increase to four as shown in Figure 8.2. This will make the organisation structure look like a tall pyramid.

Wide Span of supervision: When the span of supervision is wider, the number of executives needed to supervise the workers will be less. This will make the organisation structure wide. Such a structure would be less expensive because of less overhead costs of supervision. Since the number of levels is less, there will be better communication between the worker and the management and better coordination. However, the quality of performance is likely to deteriorate because one executive cannot effectively supervise a large number of subordinates. He will not be able to devote sufficient time in directing each and every subordinate.

Figure 8.1 Flat Structure (Span of Control = 64 Workers)

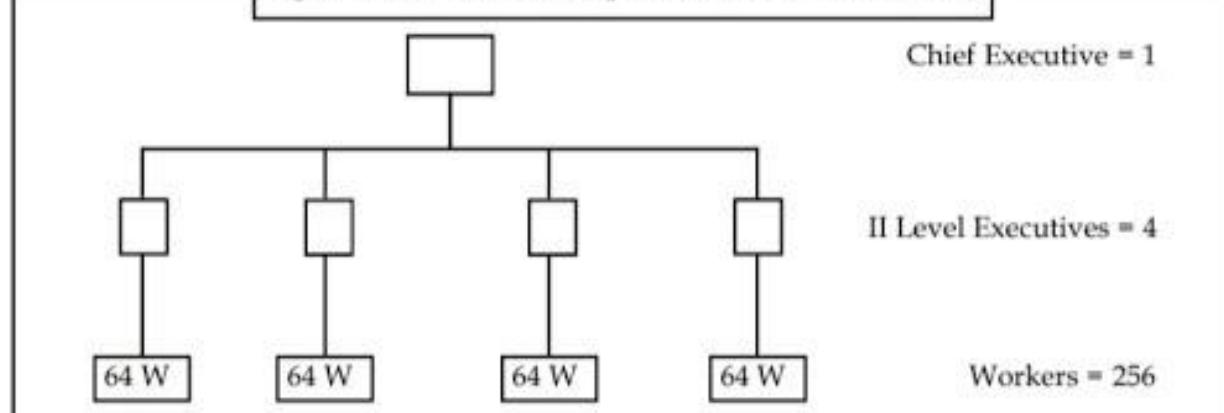
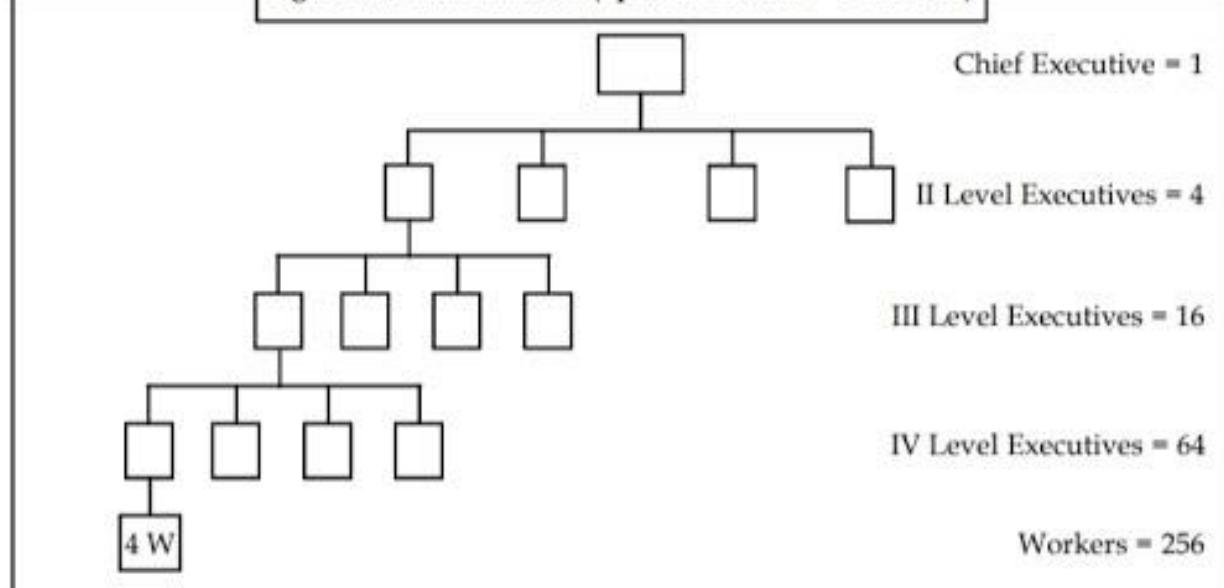


Figure 8.2: Tall Structure (Span of Control = 4 Workers)



Narrow Span of Supervision: The narrow span of supervision will lead to a tall structure and to an increase in the executive payroll as compared to the flat structure. Another drawback is that the additional layers of supervision will complicate communication from the chief executive down to operative employees and back up the line. There will also be a problem of effective coordination of the activities of different persons in the organisation because of more levels of executives. However, the narrow span of supervision has the benefit of better personal contacts between the supervisors and the subordinates. It facilitates tight control and close supervision. Tall organisation structure gives sufficient time to an executive for developing relations with the subordinates.

In recent years, there has been a controversy about the significance of the concept of span of control. The transformation in the style of decision making has had an inevitable bearing on question relating to the number of people an executive can supervise. Moreover, the use of delegation and decentralization is highly advocated these days. It is realized that narrow span of control is an effective means of forcing the executives to delegate.

It is also argued that if an executive has enough number of subordinates to supervise. Moreover, the use of delegation and decentralization is highly advocated these days. It is realized that narrow span of control is an effective means of forcing the executives to delegate. It is also argued that if an executive has enough number of subordinates to supervise, there is a point beyond which intimate control becomes very difficult. But how this point should be determined is the main question.



Task

Create a hypothetical organisation of your own highlighting its span of management.

8.3 Factors Determining Span of Management

The span of control varies from individual to individual, time to time and place to place. The factors which determine the span of control are discussed below:

1. **Ability of the Managers:** Individuals differ in various qualities like leadership, decision making and communication. The span may be wider if the manager possesses these skills in greater degree as compared to others.
2. **Time available for Supervision:** The span should be narrow at the higher levels because top managers have less time available for supervision. They have to devote the major portion of their time to planning, organising, directing and controlling. Each top manager will delegate the task of supervision to his subordinates who have to devote comparatively less time on the important functions of management.
3. **Nature of Work:** When the spans are narrowed, the levels in the organisation increase. This involves delegation of authority and responsibility. If the work is of a routine and repetitive nature, it can easily be delegated to the subordinates.
4. **Capacity of Subordinates:** If the subordinates are skilled, efficient and knowledgeable, they will require less supervision. In such a case, the superior may go in for a wider span.
5. **Degree of Decentralization:** Under decentralization, the power to make decisions is delegated to the lower levels. The span of management will be narrow in such cases so as to exercise more and more control.
6. **Effectiveness of Communication:** An effective system of communication in the organisation favours large number of levels because there will be no difficulty in transmission of information in spite of a large number of intervening layers.

7. **Control Mechanism:** The span of control also depends upon the control mechanism being followed. Control may be followed either through personal supervision or through reporting. The former favours narrow span and the latter favours a wide span.

To sum up, it can be said that an executive should be expected to supervise a reasonable number of subordinates. What is reasonable depends on a variety of factors like individual differences in executives, number and capacity of subordinates, the nature of work, availability of time, ease of communication, internal checks and controls and degree of delegation in the organisation. If the span of control is narrow, there will be more organisational levels, which in turn may impede communication. If the number of levels is reduced and the span of control is widened, the supervisory load may become too heavy. Sound management requires a proper balance between supervisory load and organisation levels.

7.4 Forms of Organisation

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

1. Line organisation
2. Line and staff organisation
3. Functional organisation
4. Committee organisation

7.4.1 Line Organisation

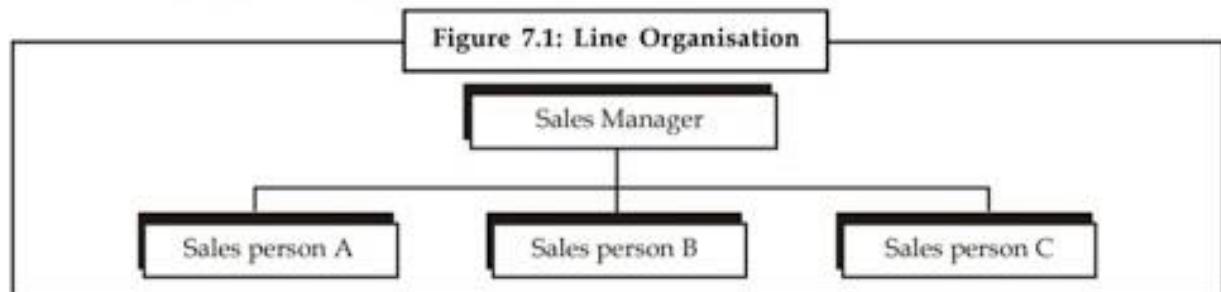
This is the simplest and the earliest form of organisation. It is also known as "Military", "traditional", "Scalar" or "Hierarchical" form of organisation. The line organisation represents the structure in a direct vertical relationship through which authority flows. Under this, the line of authority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

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

1. Commands should be given to subordinates through the immediate superior; there should be no skipping of links in the chain of command.

2. There should be only one chain. That is, command should be received from only one immediate superior.
3. The number of subordinates whose work is directly commanded by the superior should be limited.

The following Figure 7.1 depicts the line organisation:



Advantages or Merits of Line Organisation

1. It is the easiest to establish and simplest to explain to the employers.
2. It fixes responsibility for the performance of tasks in a definite manner upon certain individuals.
3. There is clear-cut identification of authority and responsibility relationship. Employees are fully aware of the boundaries of their job.
4. It is most economical and effective.
5. It makes for unity of control thus conforming to the scalar principle of organisation.
6. It ensures excellent discipline in the enterprise because every individual knows to whom he is responsible. The subordinates are also aware of the necessity of satisfying their superior in their own interests.
7. It facilitates prompt decision-making because there is definite authority at every level.
8. As all the activities relating to one department or division are managed by one executive, there can be effective coordination of activities.
9. This system is flexible or elastic, in the sense that, as each executive has sole responsibility in his own position and sphere of work, he can easily adjust the organisation to changing conditions.
10. Under this system, responsibility and authority are clearly defined. Every member of the organisation knows his exact position, to whom he is responsible and who are responsible to him. Because of the clear fixation of responsibility, no person can escape from his liability.

Disadvantages or Demerits of Line Organisation

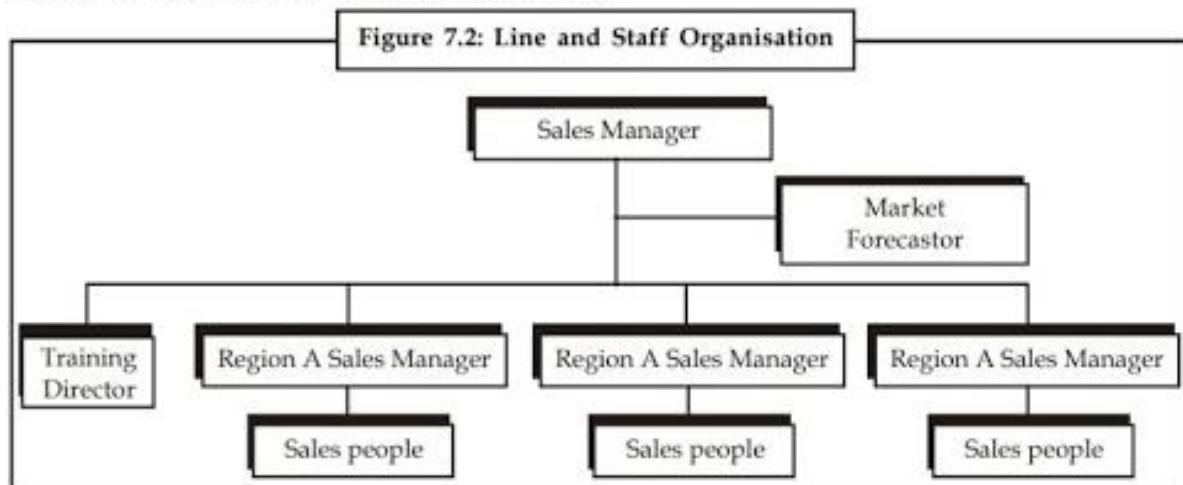
1. With growth, the line organisation makes the superiors too overloaded with work. Since all work is done according to the wishes of one person alone, the efficiency of the whole department will come to depend upon the qualities of management displayed by the head of that department. If therefore, something happens to an efficient manager, the future of the department and of the concern as a whole would be in jeopardy.
2. Being an autocratic system, it may be operated on an arbitrary, opinionated and dictatorial basis.

- Under this system, the subordinates should follow the orders of their superior without expressing their opinion on the orders. That means there is limited communication.
- There may be a good deal of nepotism and favouritism. This may result in efficient people being left behind and inefficient people getting the higher and better posts.
- The line organisation suffers from lack of specialised skill of experts. Modern business is so complex that it is extremely difficult for one person to carry in his head all the necessary details about his work in this department.
- Line organisation is not suitable to big organisations because it does not provide specialists in the structure. Many jobs require specialised knowledge to perform them.
- If superiors take a wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.
- The organisation is rigid and inflexible.
- There is concentration of authority at the top. If the top executives are not capable, the enterprise will not be successful.

Prof. Florence, sums up the inefficiencies of the line organisation system under three heads: (i) Failure to get correct information and to act upon it; (ii) red-tape and bureaucracy; (iii) Lack of specialised skill or experts... while commands go down the line under the hierarchical system information is supposed to be coming up the line." In spite of these drawbacks, the line organisation structure is very popular particularly in small organisations where there are less number of levels of authority and a small number of people.

7.4.2 Line and Staff Organisation

In line and staff organisation, the line authority remains the same as it does in the line organisation. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists stand ready with their speciality to serve line managers as and when their services are called for, to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed to provide expert advice to the line officers. The combination of line organisation with this expert staff constitutes the type of organisation known as line and staff organisation. The 'line' maintains discipline and stability; the 'staff' provides expert information. The line gets out the production, the staff carries on the research, planning, scheduling, establishing of standards and recording of performance. The authority by which the staff performs these functions is delegated by the line and the performance must be acceptable to the line before action is taken. The following Figure 7.2 depicts the line and staff organisation:



Types of Staff

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

1. **Personal Staff:** Here the staff official is attached as a personal assistant or adviser to the line manager. For example, Assistant to managing director.
2. **Specialised Staff:** Such staff acts as the fountainhead of expertise in specialised areas like R&D, personnel, accounting etc. For example, R&D Staff.
3. **General Staff:** This category of staff consists of a set of experts in different areas who are meant to advise and assist the top management on matters called for expertise. For example: Financial advisor, technical advisor etc.

Features of Line and Staff Organisation

1. Under this system, there are line officers who have authority and command over the subordinates and are accountable for the tasks entrusted to them. The staff officers are specialists who offer expert advice to the line officers to perform their tasks efficiently.
2. Under this system, the staff officers prepare the plans and give advise to the line officers and the line officers execute the plan with the help of workers.
3. The line and staff organisation is based on the principle of specialisation.

Advantages or Merits of Line and Staff Organisation

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

Disadvantages or Demerits of Line and Staff Organisation

1. Unless the duties and responsibilities of the staff members are clearly indicated by charts and manuals, there may be considerable confusion throughout the organisation as to the functions and positions of staff members with relation to the line supervisors.

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

Departmentalization

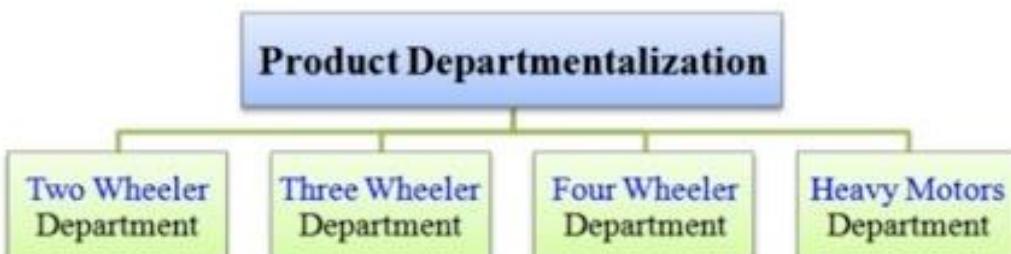
Departmentalization is grouping jobs in a logical arrangement in order to provide for a common basis in which a department is created (Griffin, 2013). It is important to utilize departmentalization when an organization grows. It becomes too complex and overwhelming for a owner to manage all positions when the company grows to a certain size. There is logic behind the groupings that allows for employees to be paired with a manager according to a certain plan. Below is an example of departmentalization:



There are four common bases for departmentalization. They include functional departmentalization, product departmentalization, customer departmentalization, and location departmentalization.

Functional Departmentalization is the most common base for departmentalization. This is especially true with smaller organizations. The purpose behind this base is grouping jobs that involve the same or similar activities into one department. The advantages include the functional area is staffed by experts, managers are familiar with only a relatively narrow set of skills so supervision is facilitated, and the coordination of activities is fairly simple. There are disadvantages to functional departmentalization, especially if the organization grows. Decision making tends to become slower and more bureaucratic. Focus for employees begins to be narrow. They tend to only focus on their own unit and lose sight of the organization as a whole. Lastly, accountability and performance become increasingly difficult to monitor (Griffin, 2013).

Product Departmentalization is defined by the Business Dictionary (2013) as the internal process performed by a corporation of dividing its business activities up according to the type of goods or services produced. Product departmentalization typically groups tasks related to a particular product or product line under one senior manager who specializes in that aspect of the company's business.



Customer Departmentalization bases its structure to respond and interact with specific customers or customer groups. This is advantageous because it allows skilled specialists to deal with unique customers or customer groups (Griffin, 2013).



Location Departmentalization structures jobs based on the geographic sites or areas. The size of the location can range anywhere from a hemisphere to a few blocks. This structure allows the organization to respond to unique customer and environmental characteristics in the various regions.

Leadership Styles

There are as many approaches to leadership as there are leaders, from Lewin's Leadership Styles framework of the 1930s to the more recent ideas about transformational leadership. There are also many general styles, including servant and transactional leadership. Building awareness of frameworks and styles can help you to develop your approach and to be a more effective leader.

From Winston Churchill and Angela Merkel, to Queen Elizabeth I and Martin Luther King, there can be as many ways to lead people as there are leaders.

Fortunately, businesspeople and psychologists have developed useful frameworks that describe the main ways that people lead. When you understand these frameworks, you can develop your own approach to leadership, and become a more effective leader as a result.

1. Coach

A coaching leader is someone who can quickly recognise their team members' strengths, weaknesses and motivations to help each individual improve. This type of leader often assists team members in setting smart goals and then provides regular feedback with challenging projects to promote growth. They're skilled in setting clear expectations and creating a positive, motivating environment.

The coach leadership style is one of the most advantageous for employers as well as for the employees they manage. Unfortunately, it's often also one of the most underutilised styles—largely because it can be more time-intensive than other types of leadership.

Example: A sales manager gathers his team of account executives for a meeting to discuss learnings from the previous quarter. They start the meeting by completing an assessment together of strengths, weaknesses, opportunities and threats regarding the team's performance. The manager then recognises specific team members for exceptional performance and goes over the goals achieved by the team. Finally, the manager closes the meeting by announcing a contest to start the next quarter in order to motivate the sales people to reach their goals.

2. Visionary

Visionary leaders have a powerful ability to drive progress and usher in periods of change by inspiring employees and earning trust for new ideas. A visionary leader is also able to establish a strong organisational bond. They strive to foster confidence among direct reports and colleagues alike.

This type of leadership is especially helpful for small, fast-growing organisations or larger organisations experiencing transformations or corporate restructuring.

Example: A teacher starts a group at work for colleagues who want to help resolve anxieties and issues students have outside of school. The goal is to help students better focus on and succeed at school. He has developed testing methods so they can find meaningful ways to help students in a quick and efficient way.

3. Servant

Servant leaders live by a people-first mindset and believe that when team members feel personally and professionally fulfilled, they're more effective and more likely to produce great work regularly. Because of their emphasis on employee satisfaction and collaboration, they tend to achieve higher levels of respect.

A servant leader is an excellent leadership style for organisations of any industry and size but is especially prevalent within nonprofits. These types of leaders are exceptionally skilled in building employee morale and helping people re-engage with their work.

Example: A product manager hosts monthly one-on-one coffee meetings with everyone who has concerns, questions or thoughts about improving or using the product. This time is meant for her to address the needs of and help those who are using the product in any capacity.

4. Autocratic

Also called the authoritarian style of leadership, this type of leader is focused almost entirely on results and efficiency. They often make decisions alone or with a small, trusted group and expect employees to do exactly what they're asked. It can be helpful to think of these types of leaders as military commanders.

This leadership style can be useful in organisations with strict guidelines or compliance-heavy industries. It can also be beneficial when used with employees who need a great deal of supervision such as those with little to no experience. However, this leadership style can stifle creativity and make employees feel confined.

Example: Before an operation, the surgeon carefully recounts the rules and processes of the operation room with every team member who will be helping during the surgery. She wants to ensure everyone is clear on the expectations and follows each procedure carefully and exactly so the surgery goes as smoothly as possible.

5. Laissez-faire or hands-off

This leadership style is the opposite of the autocratic leadership type focusing mostly on delegating many tasks to team members and providing little to no supervision. Because laissez-faire leaders do not spend their time intensely managing employees, they often have more time to dedicate to other projects.

Managers may adopt this leadership style when all team members are highly experienced, well trained and require little oversight. However, it can also cause a dip in productivity if employees are confused about their leader's expectations or if some team members need consistent motivation and boundaries to work well.

Example: When welcoming new employees, Keisha explains that her engineers can set and maintain their own work schedules as long as they are tracking towards and hitting goals that they set together as a team. They are also free to learn about and participate in projects that they might be interested in outside their team.

6. Democratic

The democratic leadership style (also called the participative style) is a combination of the autocratic and laissez-faire types of leadership. Democratic leaders ask for input and consider feedback from their team before making a decision. Because team members feel that their voice is heard and their contributions matter, a democratic leadership style is often credited with fostering higher levels of employee engagement and workplace satisfaction.

Because this type of leadership drives discussion and participation, it's an excellent style for organisations focused on creativity and innovation such as those in the technology industry.

Example: As a store manager, Jack has hired many brilliant and focused team members who he trusts. When deciding on storefronts and floor design, Jack acts only as the final moderator for his team to move forward with their ideas. He is there to answer questions and present possible improvements for his team to consider.

7. Pacesetter

The pacesetting leadership style is one of the most effective for driving fast results. These leaders are primarily focused on performance. They often set high standards and hold their team members accountable for hitting their goals.

While the pacesetting leadership style is motivational and helpful in fast-paced environments where team members need to be energised, it's not always the best option for team members who need mentorship and feedback.

Example: The leader of a weekly meeting recognised that an hour out of everyone's schedule, once a week, did not justify the purpose of the meeting. To increase efficiency, she changed the meeting to a 15-minute stand-up with only those she had updates for.

8. Transformational

The transformational leadership style is similar to the coach style in that it focuses on clear communication, goal setting and employee motivation. However, instead of placing majority of the energy into each employee's individual goals, the transformational leader is driven by a commitment to the organisation's objectives.

Because these types of leaders spend much of their time on the big picture, this style of leading is best for teams that can handle many delegated tasks without constant supervision.

Example: Reyna is hired to lead a marketing department. The CEO asks her to set new goals and organise teams to reach those objectives. She spends the first months in her new role getting to know the company and the marketing employees. She gains a strong understanding of current trends and organisational strengths. After three months, she has set clear targets for each of the teams that report to her and asked individuals to set goals for themselves that align with those.

9. Transactional

A transactional leader is someone who is laser-focused on performance similar to a pacesetter. Under this leadership style, the manager establishes predetermined incentives usually in the form of monetary reward for success and disciplinary action for failure. Unlike the pacesetter leadership style, transactional leaders are also focused on mentorship, instruction and training to achieve goals and enjoy the rewards.

While this type of leader is great for organisations or teams tasked with hitting specific goals such as sales and revenue, it's not the best leadership style for driving creativity.

Example: A bank branch manager meets with each member of the team bi-weekly to discuss ways the team can meet and exceed monthly company goals to get their bonus. Each of the top 10 performers in the district receives a monetary reward.

10. Bureaucratic

Bureaucratic leaders are similar to autocratic leaders in that they expect their team members to follow the rules and procedures precisely as written.

The bureaucratic leadership style focuses on fixed duties within a hierarchy where each employee has a set list of responsibilities and there is little need for collaboration and creativity. This leadership style is most effective in highly regulated industries or departments such as finance, healthcare or government.

Example: Managers at the office of the department of motor vehicles instruct their employees to work within a specific, defined framework. They must take many steps to complete a task with strict order and rules.

Most leaders borrow from a variety of styles to achieve various goals at different times in their career. While you may have excelled in a role using one type of leadership, another position may require a different set of habits to ensure your team is operating most effectively.

By understanding each of these leadership types, and the outcomes they're designed to achieve, you can select the right leadership style for your current situation.

Controlling

Damage Control at Sterling Courier

Sterling Courier Systems based in Hendon, Virginia is a provider of same-day-delivery services. Although Sterling may do everything right to meet its delivery commitments, it relies on commercial airlines to transport its parcels, and occasionally fails to meet its deadlines. Delays are usually a result of packages being misplaced in airlines' tracking systems. Such incidents are beyond Sterling's control. But from the customer's vantage point, the failure is Sterling's problem.

To control the damage created by such delays, Sterling had to take some corrective measures. For example, for several months in late 1990 and early 1991 several Sterling deliveries disappeared in transit. The packages turned up later, but the customers had already suffered financial losses. Yet because the packages were eventually recovered, neither insurance nor the airlines was liable. The decision for president Glenn Smoak was whether to compensate the customers for their losses or simply not to charge them for the shipments. Smoak concluded that not charging for the shipment was an inadequate response, given the suffered downtime. But paying the \$30,000 in losses would push the then-five-year-old \$5 million company into a loss for the quarter. Smoak's decision was to pay out the \$30,000 in gratis service, the customer stayed, and Sterling continues to grow.

Source: Stoner, A.F. James,
R. Edward Freeman and Daniel
R. Gilbert, Jr., *Management*,
Prentice-Hall of India Pvt. Ltd., 1998

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Explain the meaning of controlling;
- State the importance of controlling;
- Describe the relationship between planning and controlling;
- Explain the steps in the process of controlling; and
- Describe the techniques of controlling.

The example of Sterling Courier brings out clearly how an adverse business situation may intelligently

be controlled by a manager. It is quite clear from the example that a manager needs to take some sort of

corrective action before any major damage is done to the business. Controlling function of management comes to the rescue of a manager here. It not only helps in keeping a track on the progress of activities but also ensures that activities conform to the standards set in advance so that organisational goals are achieved.

MEANING OF CONTROLLING

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals. Controlling is, thus, a goal-oriented function.

Controlling function of a manager is a pervasive function. It is a primary function of every manager. Managers at all levels of management- top, middle and lower-need to perform controlling functions to keep a control over activities in their areas. Moreover, controlling is as much

required in an educational institution, military, hospital, and a club as in any business organisation.

Controlling should not be misunderstood as the last function of management. It is a function that brings back the management cycle back to the planning function. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. This process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods. Thus, controlling only completes one cycle of management process and improves planning in the next cycle.

Importance of Controlling

Control is an indispensable function of management. Without control the best of plans can go awry. A good control system helps an organisation in the following ways:

- (i) **Accomplishing organisational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action.

Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans.

Koontz and O' Donnel

- It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.
- (ii) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.
- (iii) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.
- (iv) **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.
- (v) **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities. The box explains how an import-export company was able to track dishonest employees by using computer monitoring as a part of their control system.
- (vi) **Facilitating coordination in action:** Controlling provides direction to all activities and

Control Through Computer Monitoring

Managers at a New York City import-export company suspected that two employees were robbing it. Corporate Defense Strategies (CDS) of Maywood, New Jersey, advised the firm to install a software program that could secretly log every single stroke of the suspects' computer keys and send an encrypted e-mail report to CDS. Investigators revealed that the two employees were deleting orders from the corporate books after processing them, pocketing the revenues, and building their own company from within. The programme picked up on their plan to return to the office late one night to steal a large shipment of electronics. Police hid in the rafters of the firm's warehouse, and when the suspects entered, they were arrested. The pair was charged with embezzling \$3 million over two and a half years, a sizable amount of revenue for a \$25 million-a-year firm.

Source: Hellriegel Don, Susan E. Jackson and John W. Slocum Jr., *Management: A Competency-based Approach*, Thompson, 2002, chap. 19, p.526

efforts for achieving organisational goals. Each department and employee is governed by pre-determined standards which are well coordinated with one another. This ensures that overall organisational objectives are accomplished.

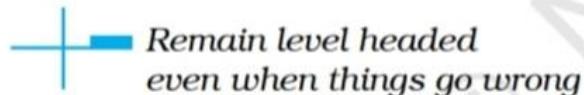
Limitations of Controlling

Although controlling is an important function of management, it suffers from the following limitations.

- (i) **Difficulty in setting quantitative standards:** Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and

their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

- (ii) **Little control on external factors:** Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.
- (iii) **Resistance from employees:** Control is often resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).



(iv) **Costly affair:** Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

The box on Control System at FedEx gives an overview of the control system used by FedEx and how it helped FedEx to increase its profits.

Relationship between Planning and Controlling

Planning and controlling are inseparable twins of management. A system of control presupposes the

existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Thus, planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling.

Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning. Without planning there is no

Control System at FedEx

FedEx operates an \$18 billion delivery system from its eight U.S. and seven international hubs. It operates more than 630 airplanes, 42,500 vehicles, and 44,400 drop-off locations. It delivers more than three million express packages to customers in more than 200 countries. Effective control was one of the key to FedEx's increased profits during the past decade.

An important part of that control system was the ability to track customers' parcels at each stage of collection, shipment and delivery. Also, at FedEx, its controls help identify which customers generate the greatest profits and which eventually end up costing the company. FedEx closes accounts that aren't profitable to serve, such as those in small, widely scattered locations.

The Internet has enabled FedEx to attract and hold new customers by providing them with crucial information as needed. Customers can log onto the Internet and follow the progress of their packages. By providing timely information about services and costs, along with parcel progress to its customers, FedEx has been able to expand rapidly its customer base. More than 2.5 million customers are connected electronically with FedEx.

Source: Hellriegel Don, Susan E. Jackson and John W. Slocum, Jr., *Management: A Competency-based Approach*, Thompson, 2002

predetermined understanding of the desired performance. Planning seeks consistent, integrated and articulated programmes while controlling seeks to compel events to conform to plans.

Planning is basically an intellectual process involving thinking, articulation and analysis to discover and prescribe an appropriate course of action for achieving objectives. Controlling, on the other hand, checks whether decisions have been translated into desired action. Planning is thus, prescriptive whereas, controlling is evaluative.

It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and are based on forecasts about future conditions. Therefore, planning involves looking ahead and is called a forward-looking function. On the contrary, controlling is like a postmortem of past activities to find out deviations from the standards. In that sense, controlling is a backward-looking function. However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function aims to improve future performance. Thus, planning and controlling are both backward-looking as well as a forward-looking function.

Thus, planning and controlling are interrelated and, in fact, reinforce each other in the sense that

1. Planning based on facts makes controlling easier and effective; and
2. Controlling improves future planning by providing information derived from past experience.

Controlling Process

Controlling is a systematic process involving the following steps.

1. Setting performance standards
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective action

Step 1: Setting Performance Standards: The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work.

Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards. The table in the next page gives a glimpse of standards used in

different functional areas of business to gauge performance.

At the time of setting standards, a manager should try to set standards in precise quantitative terms as this would make their comparison with actual performance much easier. For instance, reduction of defects from 10 in every 1,000 pieces produced to 5 in every 1,000 pieces produced by the end of the quarter. However, whenever qualitative standards are set, an effort must be made to define them in a manner that would make their measurement easier. For instance, for improving customer satisfaction in a fast food chain having self-service, standards can be set in terms of time taken by a customer to wait for a table, time taken by him to place the order and time taken to collect the order.

It is important that standards should be flexible enough to be modified whenever required. Due to changes taking place in the internal and external business environment,

standards may need some modification to be realistic in the changed business environment.

Step 2: Measurement of Actual Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance. For instance, in case of assembling task, each part produced should be checked before assembling. Similarly, in a manufacturing plant, levels

Standards used in Functional Areas to Gauge Performance

Production	Marketing	Human Resource Management	Finance and Accounting
Quantity	Sales volume	Labour relations	Capital expenditures
Quality	Sales expense	Labour turnover	Inventories
Cost	Advertising expenditures	Labour absenteeism	Flow of capital
Individual job	Individual		Liquidity
Performance	Sales-person's performance		

of gas particles in the air could be continuously monitored for safety.

Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals. Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share etc., whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a batch. In small organisations, each piece produced may be checked to ensure that it conforms to quality specifications laid down for the product. However, this might not be possible in a large organisation. Thus, in large organisations, certain pieces are checked at random for quality. This is known as sample checking.

Step 3: Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

Step 4: Analysing Deviations:

Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

1. **Critical Point Control:** It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.
2. **Management by Exception:** Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit

should be brought to the notice of management. Thus, if the plans lay down 2 per cent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter has to receive immediate action of management on a priority basis.

The box below highlights the advantages of critical point control and management by exception.

After identifying the deviations that demand managerial attention, these deviations need to be analysed for their causes. Deviations may have multiple causes for their origin. These include unrealistic standards, defective process, inadequacy of resources, structural drawbacks, organisational constraints and environmental factors beyond the control of the organisation.

It is necessary to identify the exact cause(s) of deviations, failing which, an appropriate corrective action might not be possible. The deviations and their causes are then reported and corrective action taken at appropriate level.

Step 5: Taking Corrective Action: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work. In

Advantages of Critical Point Control and Management by Exception

When a manager sets critical points and focuses attention on significant deviations which cross the permissible limit, the following advantages accrue:

1. It saves the time and efforts of managers as they deal with only significant deviations.
2. It focuses managerial attention on important areas. Thus, there is better utilisation of managerial talent.
3. The routine problems are left to the subordinates. Management by exception, thus, facilitates delegation of authority and increases morale of the employees.
4. It identifies critical problems which need timely action to keep the organisation in right track.

**Remedial Plan of Action:
Analysing deviations**



case the deviation cannot be corrected through managerial action, the standards may have to be revised. The table below cites some of the causes of deviations and the respective

corrective action that might be taken by a manager.

The information in the box in next page gives an account of how Saco Defense was able to control a crisis situation.

Some examples of Corrective Action

Causes of deviation	Corrective action to be taken
1. Defective material	Change the quality specification for the material used
2. Defective machinery	Repair the existing machine or replace the machine if it cannot be repaired
3. Obsolete machinery	Undertake technological upgradation of machinery
4. Defective process	Modify the existing process
5. Defective physical conditions of work	Improve the physical conditions of work

How Saco Defense Controlled the Situation?

At Saco Defense, lack of quality had created a crisis. When the government shut it down because it wasn't meeting quality standards, Saco brought back a TQM programme that had restored quality, increased production, and decreased costs. Based in Saco, Maine, the 178-year-old defense company was unable to adhere to the U.S. Navy's quality standards. Although Saco's weapons worked well, the government questioned the company's quality practices and policies. For example, if an employee discovered a defective bolt near the completion of an assembly process, the operator would replace the bolt but not document the problem. The presence of one defective bolt might mean that others from the same supplier or batch were also bad but were going undetected. Without follow-up, the underlying materials problem would not be identified and resolved.

To solve these problems Saco Defense went through an organisational transformation. The key elements were: (1) empowering employees by giving them the responsibility and accountability for their performance, including the authority to halt production to correct problems; (2) forming work cells, that is, small businesses within the company that manage their production with limited supervision; and (3) reducing the workforce from 760 to about 450 employees and eliminating several layers of management. In addition, ongoing improvement projects at the company range from reducing cycle time and product cost to implementing programmes for skill integration. Productivity has increased, turnover is down, and the company plans to expand its international business.

Source: Stoner, A.F. James, R. Edward Freeman and Daniel R. Gilbert, Jr.,
Management, Prentice-Hall of India Pvt. Ltd., 1998

(Ref: Joyce E. Santora, 'A Quality Program Transforms Saco Defense', Personnel
Journal, May 1993)

TECHNIQUES OF MANAGERIAL CONTROL

The various techniques of managerial control may be classified into two broad categories: traditional techniques, and modern techniques.

Traditional Techniques

Traditional techniques are those which have been used by the companies for a long time now. However, these techniques have not become obsolete and are still being used by companies. These include:

- (a) Personal observation
- (b) Statistical reports
- (c) Breakeven analysis
- (d) Budgetary control

Modern Techniques

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

- (a) Return on investment
- (b) Ratio analysis
- (c) Responsibility accounting
- (d) Management audit
- (e) PERT and CPM
- (f) Management information system

TRADITIONAL TECHNIQUES

Personal Observation

This is the most traditional method of control. Personal observation enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

Statistical Reports

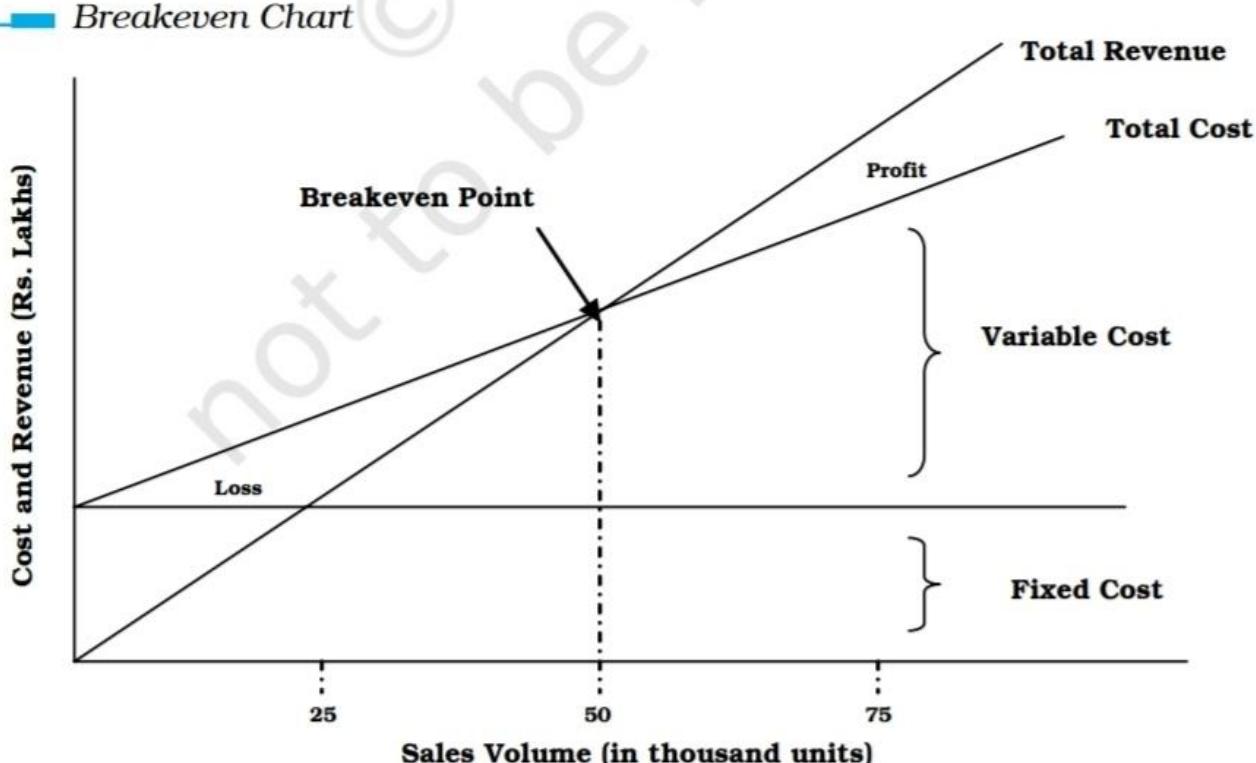
Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

Breakeven Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which



Breakeven Chart



there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities.

The figure 1 shows breakeven chart of a firm. Breakeven point is determined by the intersection of Total Revenue and Total Cost curves. The figure shows that the firm will break even at 50,000 units of output. At this point, there is no profit no loss. It is beyond this point that the firm will start earning profits.

Breakeven point can be calculated with the help of the following formula:

$$\text{Breakeven Point} = \frac{\text{Fixed Costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

Breakeven analysis helps a firm in keeping a close check over its variable costs and determines the level of

activity at which the firm can earn its target profit.

Budgetary Control

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished.

A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities. The box shows the most common types of budgets used by an organisation.

Budgeting offers the following advantages:

Types of Budgets

- **Sales Budget:** A statement of what an organisation expects to sell in terms of quantity as well as value
- **Production Budget:** A statement of what an organisation plans to produce in the budgeted period
- **Material Budget:** A statement of estimated quantity and cost of materials required for production
- **Cash Budget:** Anticipated cash inflows and outflows for the budgeted period
- **Capital Budget:** Estimated spending on major long-term assets like new factory or major equipment
- **Research and Development Budget:** Estimated spending for the development or refinement of products and processes

1. Budgeting focuses on specific and time-bound targets and thus, helps in attainment of organisational objectives.
2. Budgeting is a source of motivation to the employees who know the standards against which their performance will be appraised and thus, enables them to perform better.
3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.
4. Budgeting is also used for achieving coordination among different departments of an organisation and highlights the interdependence between them. For instance, sales budget cannot be prepared without knowing production programmes and schedules.
5. It facilitates management by exception by stressing on those operations which deviate from budgeted standards in a significant way.

However, the effectiveness of budgeting depends on how accurately estimates have been made about future. Flexible budgets should be prepared which can be adopted if forecasts about future turn out to be different, especially in the face of changing environmental forces. Managers must remember that budgeting should not be viewed

as an end but a means to achieve organisational objectives.

MODERN TECHNIQUES

Return on Investment

Return on Investment (RoI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. RoI can be used to measure overall performance of an organisation or of its individual departments or divisions. It can be calculated as under.

$$RoI = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Investment}}$$

Net Income before or after tax may be used for making comparisons. Total investment includes both working as well as fixed capital invested in business. According to this technique, RoI can be increased either by increasing sales volume proportionately more than total investment or by reducing total investment without having any reductions in sales volume.

RoI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects RoI in an adverse manner.

Ratio Analysis

Ratio Analysis refers to analysis of financial statements through

computation of ratios. The most commonly used ratios used by organisations can be classified into the following categories:

1. *Liquidity Ratios*: Liquidity ratios are calculated to determine short-term solvency of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.
2. *Solvency Ratios*: Ratios which are calculated to determine the long-term solvency of business are known as solvency ratios. Thus, these ratios determine the ability of a business to service its indebtedness.
3. *Profitability Ratios*: These ratios are calculated to analyse the profitability position of a business. Such ratios involve analysis of profits in relation to sales or funds or capital employed.

4. *Turnover Ratios*: Turnover ratios are calculated to determine the efficiency of operations based on effective utilisation of resources. Higher turnover means better utilisation of resources.

The table given below gives examples of some ratios commonly used by managers.

RESPONSIBILITY ACCOUNTING

Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre.

Responsibility centres may be of the following types:

1. **Cost Centre**: A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost

Examples of Commonly used Ratios

Type of Ratio	Examples
Liquidity	Current Ratio Quick Ratio
Solvency	Debt-Equity Ratio Proprietary Ratio Interest Coverage Ratio
Profitability	Gross Profit Ratio Net Profit Ratio Return on Capital Employed
Turnover	Inventory Turnover Ratio Stock Turnover Ratio Debtors Turnover Ratio

incurred in the centre but not for the revenues. For example, in a manufacturing organisation, production department is classified as cost centre.

2. **Revenue Centre:** A revenue centre is a segment of an organisation which is primarily responsible for generating revenue. For example, marketing department of an organisation may be classified as a revenue center.
3. **Profit Centre:** A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. For example, repair and maintenance department of an organisation may be treated as a profit center if it is allowed to bill other production departments for the services provided to them.
4. **Investment Centre:** An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as a basis for judging the performance of the centre.

MANAGEMENT AUDIT

Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and

to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. Thus, management audit may be defined as evaluation of the functioning, performance and effectiveness of management of an organisation.

The main advantages of management audit are as follows.

1. It helps to locate present and potential deficiencies in the performance of management functions.
2. It helps to improve the control system of an organisation by continuously monitoring the performance of management.
3. It improves coordination in the functioning of various departments so that they work together effectively towards the achievement of organisational objectives.
4. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

Conducting management audit may sometimes pose a problem as there are no standard techniques of management audit. Also, management audit is not compulsory under any law. Enlightened managers, however, understand its usefulness in improving overall performance of the organisation.

PERT AND CPM

PERT (Programme Evaluation and Review Technique) and CPM (Critical

Path Method) are important network techniques useful in planning and controlling. These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. These techniques deals with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs.

The steps involved in using PERT/CPM are as follows:

1. The project is divided into a number of clearly identifiable activities which are then arranged in a logical sequence.
2. A network diagram is prepared to show the sequence of activities, the starting point and the termination point of the project.
3. Time estimates are prepared for each activity. PERT requires the preparation of three time estimates—optimistic (or shortest time), pessimistic (or longest time) and most likely time. In CPM only one time estimate is prepared. In addition, CPM also requires making cost estimates for completion of project.
4. The longest path in the network is identified as the critical path. It represents the sequence of those activities which are important for timely completion of the project and where no delays can

be allowed without delaying the entire project.

5. If required, the plan is modified so that execution and timely completion of project is under control.

PERT and CPM are used extensively in areas like ship-building, construction projects, aircraft manufacture, etc.

Management Information System

Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. A decision-maker requires up-to-date, accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers.

MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.

2. It supports planning, decision-making and controlling at all levels.
3. It improves the quality of information with which a manager works.
4. It ensures cost effectiveness in managing information.
5. It reduces information overload on the managers as only relevant information is provided to them.

Key Terms

Controlling | Critical point control | Management by exception

Breakeven analysis | Budgetary control | Return on investment

Ratio analysis | Responsibility accounting | Management audit

PERT and CPM | Management | Information system

Summary

- Controlling is the process of ensuring that actual activities conform to planned activities.
- The importance of managerial control lies in the fact that it helps in accomplishing organisational goals. Controlling also helps in judging accuracy of standards, ensuring efficient utilization of resources, boosting employee morale, creating an atmosphere of order and discipline in the organisation and coordinating different activities so that they all work together in one direction to meet targets.
- Controlling suffers from certain limitations also. An organisation has no control over external factors. The control system of an organisation may face resistance from its employees. Sometimes controlling turns out to be a costly affair, especially in case of small organisations. Moreover, it is not always possible for the management to set quantitative standards of performance in the absence of which controlling exercise loses some of its effectiveness.
- The process of control involves setting performance standards, measurement of actual performance, comparison of actual performance with standards, analysis of deviations and taking corrective action.

HUMAN ASPECT OF CONTROLLING:-

Introductory Observations to Behavioural Aspect of Management Control:

Management, while devising and implementing any control system must pay due attention to the behavioural aspects of controlling i.e. why people resist to the controlling system and what should be done to overcome such resistance; so that controlling is a successful exercise both technically and behaviourally.

Manifestations of Behavioural Implications of Controlling:

Behavioural implications of controlling are usually manifested in the following phenomena:

- (i) There is spoiling of human relations in the organization; because people resist control for any reasons whatsoever.
- (ii) Suppressing initiative and creativity; this leads to underutilization of human potential and also leads to poor motivation and morale.
- (iii) Creation of a feeling of fear in subordinates; because of imposition of fines, penalties etc. for non-compliance with standards. This phenomenon makes people internally aggressive and frustrated' and gives an impetus to the emergence of powerful informal groups.
- (iv) Minimum performance by people: this is the outcome of negative controls. People just do minimum work to conform to control standards and usually not try to exceed standards

Why People Resist Controlling Systems?

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(iv) Minimum performance by people: this is the outcome of negative controls. People just do minimum work to conform to control standards and usually not try to exceed standards

Why People Resist Controlling Systems?

People, in an organisation, may resist control due to the following reasons:

(i) Controls curb freedom of subordinates; and interfere in their smooth flow of work performance.

(ii) Subordinates usually have no hand in setting control standards. As such they feel that controls are imposed on them.

(iii) Implementation of controls is regulated by strict rules, procedures etc. of organization; which kills all freedom and initiative for workers.

(iv) Sometimes, administration of controls is done in an arbitrary manner, to which people resist strongly.

(v) The emphasis on controlling systems is on finding faults with people; rather than locating deficiencies in organizational facilities and system.

(vi) People do not understand standards or goals; and find it difficult to adhere to them.

(vii) Standards of control are unrealistic; and hard and useless to attain.

Suggestions for Overcoming Resistance to Controlling:

Some useful suggestions for overcoming behavioural implications of controlling techniques are offered as under:

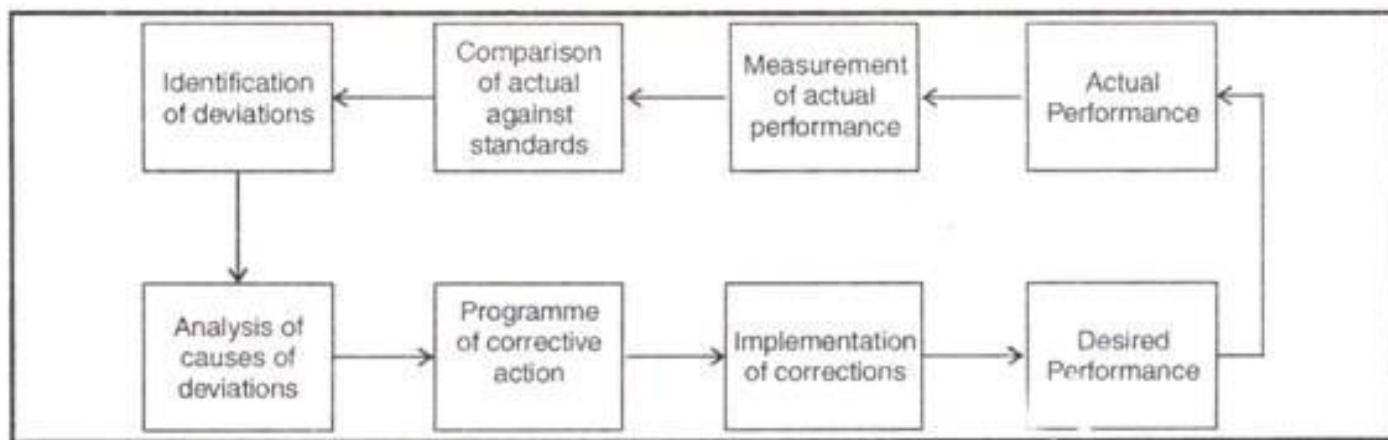
(i) There must be involvement of workers in setting control standards; so that they have an opportunity for exercising self-control. For example schemes like MBO could go a long way in meeting with this ideal.

- (ii) These must be in-built flexibility in the control system; so that people can use discretion and initiative in performing their jobs, as per standards.
- (iii) Controls must be administered in an impartial manner.
- (iv) In controlling the performance of people, the emphasis must be on human development rather than fault-finding with people.
- (v) Controlling must be based on the principle of critical and exceptional point control, which people may not mind at all.
- (vi) There must be a system of rewards for adherence to control standards. Penalties for noncompliance with standards must be avoided.
- (vii) Leadership must be supportive – to enthuse people towards complying with standards.
- (viii) People must be adequately motivated; so that they develop an attitude towards work and cause minimum deviations from standards.
- (ix) There must be two-way communication, in the organization; which will promote good human relations and also lead to prompt remedial action on deviations.
- (x) There must be a philosophy of moral persuasion to accept controls; so that people are least resistant to control systems.
- (xi) There must be emphasis on training programmes for employees; so that they perform better and cause minimum deviations in performance against standards.

Feedback and Feed-Forward Control System

1. Feedback Control:

Feedback refers to the process of adjusting future actions on the basis of information about the past performance. The following chart, which depicts the Feedback process involved in a management control, gives an idea of the Feedback system.



It is thus clear from the above chart that the system of management control is not just a simple process of establishing standards, measuring performance and correcting the deviations detected, if any. This is because the Feedback system involved in this, places control in more complex and realistic light than this simple process.

Alert managers should realise that they should not only measure actual performance, compare such measurements against standards, identify and analyse deviations, if any, but also develop a programme for corrective action and implement such a programme for securing the desired performance. Unless this programme for corrective action which is developed by them is properly implemented, they cannot make the necessary corrections.

It is heartening to note that latest developments in the field of computer technology and electronic gathering, transmission and storage/of data, etc., have led to the development of a system of 'Real-Time' Information. Recent developments in electronic hardware of automatic control have reinforced the importance of this principle.

The electrical engineer refers to a closed-loop system of feedback when the information of actual performance is feed back to the source of energy by electrical or mechanical means in an endless chain. An open loop system of feedback involves human intervention at some point in the flow.

Real-Time information refers to the information pertaining to the actual happenings the moment events occur. These latest technical developments collect and supply real-time data on many operations and thereby keep the management abreast of latest developments in the organisational set-up, including data relating to sales, stock position, storage facility, gross profit, production developments and several other important developments in the manufacturing process.

Thus, the latest mechanical devices supply real-time information on all these important aspects as and when they occur. Such real-time information can also serve as a means of getting real-time control in areas of importance to managers.

However, the experience of certain managers reveals that the analysis of causes of deviations, the development of programmes of correction as well as the implementation of these programmes may not be amendable for real-time control as these tasks are likely to consume a lot of time.

But, this does not mean that the management should not give importance for the prompt measurement of performance. As Koontz and O' Donneli remark, "The sooner the managers know that activities for which they are responsible are not proceeding in accordance with plan, the faster they can take action to make corrections."

Furthermore, it is argued that the advantages arising from the gathering of Real-Time data would not be worth the expenses in view of the long-time involved in the correction process. Small enterprises may feel that it is a highly sophisticated, costly and time consuming control information system and beyond their reach.

Whatever may be the arguments in favour of or against the gathering of Real-Time data through the real-time information system, one thing is certain that most management have been reaping many benefits from the feedback, principle in areas that, at first, appear to be unrelated.

2. Feed Forward Control:

Much management, by experience, has found out that the time-lag in the management-control process necessitates future-directed control. Otherwise, control will be ineffective. Effective management control calls for the institution of a system of control that can give the manager, a correct and timely idea of not only taking corrective action, but also of the possibility of the occurrence of certain problems in case they fail to do something about them now.

The managers have now realised that simple feedback of either the output of a system or the results of a programme may not be ideal enough for securing effective control. This is because such a type of feedback is just a post-mortem and it is not possible to change the past.

Rather, it fails to suggest a way for changing the past. It is really unfortunate that the importance of future-directed control has been largely disregarded in practice. The reasons for this, perhaps, may be the excessive dependence by managers on accounting and statistical data for control purposes.

Feed forward control which involves evaluation of inputs is based on the principle that an organisation is not stronger than its weakest link. It is something like an operator trying to check the working conditions of certain important components of a machine the moment it fails to function properly.

The management should realise that it is absolutely necessary to determine and monitor the critical inputs with any operating system. Many managers are found to have practiced future-directed control in their own way through—

- (i) careful and repeated forecasts based on the latest available information

- (ii) comparing what is desired with the forecast and then
- (iii) taking the necessary action to introduce the necessary changes in the programme. All these are done to make the forecasts more promising.

We generally come across certain important examples of Feed forward control in certain key areas. Important examples are:

- (i) employment of the Preventive Maintenance Programme to prevent a breakdown of machinery
- (ii) Formulation of policies for preventing the possible occurrence of critical problems. For instance, the management can, by communicating to new employees its policy on absenteeism, prevent potential problems created by absenteeism. A sales forecast made by an enterprise may indicate that sales will be at a lower level than desirable. The managers may on such occasions develop new plans for advertising, sales promotion or introduction of new products with an idea of improving the sales forecast
- (iii) Careful planning of the availability of cash to meet requirements of future-directed control.

Various techniques are adapted by much management for making future-directed control effective. For instance, the technique of network planning, exemplified by Programme Evaluation and Review Technique (PERT) networks, etc., enable managers to see that they will have problems in such areas as costs or on-time delivery in case they fail to take action now. As has already been made clear, the simple feedback system may not prove effective enough in solving or controlling most management problems because of the time-lags involved in the correction process.

It is here we find the necessity of Feed forward Systems. The important advantage of the feed forwards systems is that they "monitor inputs into a

process to ascertain whether the inputs are as planned ; if they are not, the inputs, or perhaps the process, are changed in order to assure the desired results.”

A careful comparison of the feed forward and the feedback systems reveals that there is not much of a difference between the two. As Koontz and O'Donnell opine, “A Feed forward Control System is really one of feedback. This is true, but the information feedback is at the input side of the system so that corrections can be made before the system output is affected.

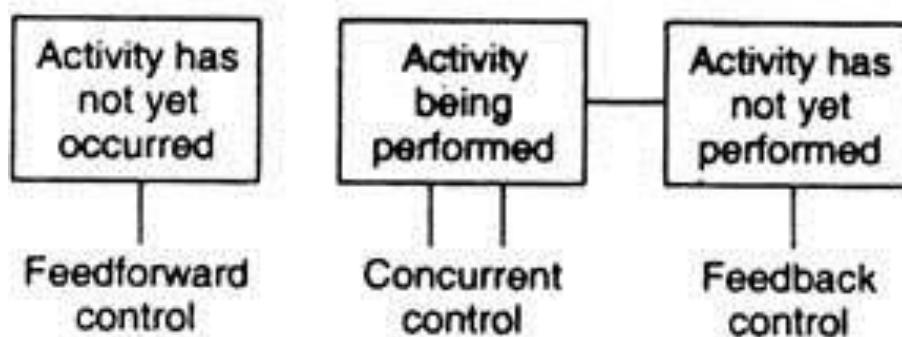
Also, no one would deny that, even with a feed forward system, a manager would still want to measure final system output since nothing can be expected to work perfectly enough to give confidence that the final output will always be exactly what is desired.”

Furthermore, they feel that in order to make the working of the Feed forward Control System more effective and advantageous, the management must:

- (i) make a thorough and careful analysis of the planning as well as the control system and identify the more important input variables by applying careful discrimination
- (ii) develop a model of the system
- (iii) keep the model up-to-date by reviewing it regularly to see whether the identified input variables and their inter- relationships still represent realities
- (iv) collect regularly the data on input variables and assess it properly before putting it into the system
- (v) keep the feed forward system dynamic by regularly assessing the variations of actual input data from the planned—for inputs and evaluating their impact on expected end-results

(vi) take prompt corrective action to solve the problems that are detected by the Feed forward Control System.

3 Types of control according to the time of their application



1. Feed-Forward Controls:

Feed forward controls are future-directed — they attempt to detect and anticipate problems or deviations from the standards in advance of their occurrence (at various points throughout the processes). They are in-process controls and are much more active, aggressive in nature, allowing corrective action to be taken in advance of the problem.

Feed forward controls thus anticipate problems and permit action to be taken before a problem actually arises.

Feed forward control devices are of two broad categories: diagnostic and therapeutic.

Diagnostic controls seek to determine what deviation is taking (or has taken) place. The sales manager, for instance, who receives the monthly sales figures (showing sales quota results) is virtually working with a diagnostic control device. It will no doubt indicate deviations from the acceptable standard (i.e., what is wrong) but not why. Discovering the 'why' is often the most difficult part of the process.

Therapeutic controls tell us both what and why, and then proceed to take corrective action. For example, engines having internal control system such as an engine speed governor and automatic transmission are designed to take necessary corrective actions when warranted by the conditions.

An example of utilisation of such control can be found in case of a manager who conducts employee training using the coaching method. When, for instance, the trainee is performing the task, the manager observes him closely by standing

on his side. The objective is to discover if any deviations from the intended processes take place.

In case a deviation occurs, the manager observes it, diagnoses the reason for the incorrect technique, and corrects the deviation immediately (i.e., without any loss of time). Thus, the control and correction take place during the process itself, not after a few days.

2. Concurrent (Prevention) Control:

Concurrent control, also called steering control because it allows people to act on a process or activity while it is proceeding, not after it is proceeding, nor after it is completed. Corrections and adjustments can be made as and when the need arises. Such controls focus on establishing conditions that will make it difficult or impossible for deviations from norms to occur.

An example of concurrent control is the development by companies of job descriptions and job specifications. It may be recalled that job description identifies the job that has to be done, thus clarifying working relationships, responsibility areas, and authority relationships. It thus assists in preventing unnecessary duplication of effort (work) and potential organisational conflict.

In a like manner job specification identifies the abilities, training, education and characteristics needed of an employee to do the work. It is control device inasmuch as it works to prevent a person who is totally unqualified and unfit from being selected for the job, thereby saving money and time, and thus precluding potential poor performance.

3. Feedback Controls:

Feedback control is future-oriented. It is historical in nature and is also known as post-action control. The implication is that the measured activity has already occurred, and it is impossible to go back and correct performance to bring it up to standard. Rather, corrections must occur after the act.

Such post-action controls focus on the end results of the process. The information derived is not utilised for corrective action on a project because it has already been completed. Such control provides information for a manager to examine and apply to future activities which are similar to the present one. The basic objective is to help prevent mistakes in the future.