B.Com.(Prog.) Semester-I **Commerce**

CORE COURSE - II

BUSINESS ORGANISATION AND MANAGEMENT

Additional Material - UNIT I-IV

SCHOOL OF OPEN LEARNING
University of Delhi

Department of Commerce

Graduate Course

BUSINESS ORGANISATION AND MANAGEMENT
Unit – I-IV

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INTRODUCTION

What is Business?

The ordinary meaning of the word business is busyness, i.e., any activity in which a man is busy. A man may be busy in two kinds of activities: economic and non-economic. An economic activity denotes work or effort directed towards the production of wealth. In other words, economic activity is aimed at profit. Economic activity of a man is called business. Business, therefore, means the production or purchase of goods with a view to sell them at profit. Besides, if services are rendered on payment to others, they shall be included in business. Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods and services.

The term business includes trade, commerce and industry. The process of buying and selling of goods, is called Trade. Such an activity may be carried on within a country when it is called home or domestic trade. It may be called foreign or international trade when it is carried on between two different countries. To help trade, some facilities such as storing, grading, financing, transporting and insuring are needed, these are called Commerce. Industry implies all those processes, which are responsible for the extraction and production of goods which are sold for either ultimate consumption or for further production. So, we may say that Business = Industry + Trade + Commerce. We shall discuss the various components of business at the end of this lesson.

Business Provides Services. There are service enterprises, which provide services like domestic services and financial services, etc., to individuals and business enterprises. Take the example of cinemas or hotels, they render services to the community at large. As observed by Urwick and Hunt, “A business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are willing to pay for that.”

How Business differs from profession?

You have already noticed that a business enterprise may provide services but there are many individuals and firms that may also render services. These individuals or firms are a body of professional people, such as doctors, lawyers, engineers, etc. who may render one or the other useful services. But professional services are not business even when they are rendered in return for money. A professional like a doctor or lawyer renders a personal service of gaining intimate knowledge of a particular individual. On the other hand, a businessman is not concerned with the need of particular individuals in a general way. A human need begins to interest him only when it is widespread and general. It is when a need becomes a general and ripens or matures into demand that it comes within the scope of business.

Business is a social activity. All parts of society are related with it in one way or the other and contribute in its success directly or indirectly. The society provides inputs to business in the form of men, machines, materials, money etc., and expects useful goods and services from it at reasonable rates and adequate wages for its employees and correct taxes for the State. A business house cannot afford to ignore its social responsibility. For example, if a business house fails to please its employees, it leads to employees' unrest causing disruption in its normal functioning and the existence of a large number of such irresponsible business houses may become the cause of national unrest.

Motives for Business

Following factors provide motives to business:

1. Ambition to earn profits
2. Psychological factors
3. Ambition to provide service

These factors are now discussed vis-à-vis the motives they provide.

1. Profit Motive: Personal gain is one of the supreme motivating forces. Business is that sphere of a man's activity where the amount of effort determines the size of profit. It is needless to say that greater personal effort brings in greater monetary reward. This single factor has resulted in the establishment, running and expansion of business by individuals or group of individuals.

2. Psychological Factors: It is an old saying that a man does not live by bread alone. It is equally true in business. An entrepreneur may not work solely for amassing fortune. He may be guided by the ambition to build up a business empire. The biographer of William Lever, the founder of Lever Bros, Charles Wilson quotes Lever, who once said "My happiness is my business ". To grow and become big and to find an industrial empire has been valid psychological factors for business.

3. Service Motive: It is also a great motivating force. Many people are motivated to render some service to their community. Henry Ford, the founder of Ford Motors stated that "Money chasing is not business". In our country Jamsedji Tata built a steel plant with a great missionary zeal. Business have been founded with service as their motive.

An enterprise must earn profit to remain intact and to grow and this element draws men to business. At the same time it is necessary that an enterprise must produce goods and services of the type and quality that the customers want, must offer right kind of employment conditions to its employees, and the society must accept it as a useful institution. In fact, the mixing or blending of these two elements is necessary for any business enterprise. Of course profit is a significant motive for business without which an economy under capitalism may not grow. Consistent growth of an economy is necessary to provide more employment and a better standard of living. Thus the two motives must co-exist in a business enterprise for its existence, growth and status as a useful institution.

The above discussion is more relevant for a private enterprise. Let us now consider the purpose of a public enterprise. The guiding factor in the case of a public enterprise is service but it shall be wrong to remark that a public enterprise should exist only for a few services. Profit may serve as a useful purpose where it is used for the economic growth of the country. It may be concluded that both types of enterprises should aim at not only the profit but also rendering service.

Let us consider the profit from the point of view of a corporation or joint stock companies. The structures of modern economies are such that industrial, trading and commercial activities are carried on by these corporations. These corporations are owned by the shareholders and managed by managers who are not very much interested in them as owners. These managers work for the good of shareholders, employees and consumers. Thus, they are liable to earn profit for the shareholders and to fulfil their obligations towards others. They are motivated to work hard not because they would gain some individual profits but because the profit being more would give them satisfaction and status. These managers aim at improving the process of marketing and production to earn more profit. The skill of these people is always at trial. In the process of proper planning for marketing and production, the manager of a large company applies Profit Test and the Profit Motive. The latter is associated with individuals. In the long run, profits do indicate the health of a business enterprise vis-à-vis the consumers, the iabour force and the shareholders. For example, lack of cooperation on the part of labour shall certainly mean lower profitability. The profit test, however, implies satisfactory profit and not huge profits. The importance of this test is immense. After all, on what basis you would assess the performance of a business enterprise? Even in communist countries this kind of test is being applied to a business unit to measure the efficiency of the enterprise. In our country too, the public enterprise pursue profit motive with the aim of generating surplus for planned growth.

So, both the profit motive and service motive are essential for the very existence of business. Profit is essential for making provision for depreciation, for paying better wage rates to employees and for the expansion of business. The huge size of big business houses like D.C.M. or Mafat Lal Group which we see today is primarily because of ploughing back of these profits. Service motive directly affects the profitability of a business. Poor service leads to lesser sales volume and hence low profits. Moreover, to provide service to the community is the social responsibility of a business. Littlefield had rightly remarked that business must earn profits sufficient to compensate the owners for the use and risk of capital, must serve varied needs of employees and must contribute to the stability and progress of community. What may have started as purely economic venture for maximum profits may soon take on social and political dimensions. Further, in an economy such as that of India, where millions of business organisations create the major part of the nation's wealth, income and employment, it is easy to see that the collective impact of the business is very great indeed.

What is Organisation?

This has been defined in a variety of ways by various authorities on the subject. The essence of the various definition is best reflected in the definition given by Haney. He defines organisation as a “harmonious adjustment of specialized parts for the accomplishment of some common purpose”. In simple words, organisation is putting together of men, material and machines to achieve the defined goals. Through organisation there is cohesion, which result in efficient functioning of an enterprise and resulting into profits to the enterprise, more wages to its employees and lower cost of goods to the consumer. Thus, the economic gains of such an enterprise are more and social costs are less.

Businessman or Entrepreneur

Before we conclude our study on the nature and purpose of business, it would be proper that we cast a look at the businessman. Businessman, in simple words, can be defined as provider of goods and services to people, which they need but do not possess. He takes the initiative and the risk to produce or market goods and services. He therefore, with his foresight exploits an economic opportunity. He makes business plans and executes them with a view to earn profits though it does not mean that every businessman makes profits. Some may even lose because of the uncertainties of economic factors. Entrepreneur binds the factors of production for the objectives already stated. Thus he guarantees wages to his employees and interest to the lenders of capital. All that we have so far stated about him would necessarily imply possession of certain qualities on his part. Let us now consider the qualities that a businessman must possess.

Features of Business

The common features of a business can be given below:

(a) Dealing in goods and services for value: Business provides goods and services to society. The goods may be for consumption or for production. The first type of goods are called as consumer goods, e.g., clothes, shoes, fans, sugar etc. and the second type of goods are called as capital goods, e.g., plant and machinery. These goods and services are meant for sale. The goods and services produced for personal consumption are not within the scope of business. So, when a person repairs his own scooter, it is not business but when he opens a repair workshop that becomes business.

(b) Recurring nature of transactions: A single transaction of sale or purchase or any dealing casually does not amount to a business transaction though it might have resulted into profits. A transaction comes under business only when it occurs at regular intervals or it is recurring in nature. For example, where a person sells his scooter that is not business. But if he opens a garage and keeps a stock of scooters for sale that would constitute business.

(c) To earn Profits: Business is a human activity directed towards earning wealth. Profit is essential for the livelihood of the entrepreneur as well as survival and expansion of the business.

(d) Increase in Utility: Business activities create utility in one form or the other. Manufacturers convert raw materials into finished products: whole salers, retailers and transporters etc. help in their distribution. Thus each one of them increases the utility of goods.

(e) Risk element: Business is full of risks. Profits do not depend solely on efforts of entrepreneur. Certain other forces may intervene over which a business man had no direct control. These factors may be changes in consumer tastes and fashions; changes in technology, strikes; power failures; loss by fire and theft etc. Some of these risks can be passed on to others by means of insurance while some risks have to be borne by businessman. Most of the business decisions relate to future and future is full of uncertainties. It is because of these uncertainties that business is also called as an adventure.

Qualities of a Successful Businessman

A successful businessman is an asset to a nation. He helps to discover new processes, products and uses of goods. And he helps in the creation of income and wealth for a nation. He produces or markets those goods and services which are needed most by the people. These functions require talent to direct and to lead people who shall be working towards the common purpose. In other words, a businessman must possess some qualities. These have been summed up as under:

1. Time Sense: A business cannot accomplish anything without time sense. This implies that he should take decisions carefully since one decision may affect other decisions in his business.

2. Alertness: Without this quality, a businessman can not hope to go far. He should know the changing pattern of demand, changes in technology and what his rivals are doing. All this he can know only if he is alert.

3. Honesty: Honesty creates a permanent market for a businessman. A businessman cannot hope to survive in business unless he depicts true quality of his products before the buyers.

4. Ability to Cooperate: A businessman must have the ability to cooperate and adjust with persons with whom he deals, especially his customers. He must realize that he too could be wrong and he should make amends.

5. Dependability: In order to permit smooth functioning of the organisation which a businessman has evolved, it is necessary to make the organisation dependable at all times, all people in the organisation know their functions and thus dependability is ensured.

6. Energy: Mental and physical energy on the part of the businessman would make the business a success. Vigour always inspires confidence.

7. Character: No other single factor may build business so much as this single factor alone may. Character lends value and credence to ability to cooperate, dependability and alertness. In simple words the character builds business.

8. Ability to lead: A successful business must have basic leadership quality to lead his co-workers. Leadership quality is cultivated.

9. Education and Training: A sound education and proper training in the conduct of business would certainly make businessman more successful.

From our discussion we can conclude that the term business is very exhaustive in scope. The variety of activities included in the scope of business have one feature common and that is the goods produced are to be sold and that too for making profit. Therefore, goods produced for personal consumption do not fall within the scope of business.

The regularity and recurring nature of buying and selling transactions is another important characteristic of business. A single transaction does not constitute business. For example if I sell my study table to you and make some profit in this transaction, it does not amount to business. If I maintain a stock of furniture and sell it to customers, it will amount to business.

Profit is the main stimulus for promoting and continuing a business. It is essential for its survival and development. But for the continuous existence of a business, it must fulfill its social responsibilities.

Another characteristic of business is that the profit earned by business does not depend only on the efforts of the entrepreneur but also on many other factors not wholly under his control. Business is full of uncertainties, hence full of risk and because of this reason it is sometimes described as an adventure.

Requisites of a successful business

A successful business must bring a compromise between the conflicting objectives of providing goods and services to consumers and social responsibilities. That a business may have started purely as an economic venture for maximum profits may soon take on social and political dimensions. To achieve its different objectives a business system should continuously strive to fulfill the following requisites:

1. Before establishing any business both long range and short range objectives should be established.

2. Planning should be given due importance. To plan is to propose a forward programming for guiding the future functioning of an enterprise.

3. Proper location and layout of the plant and suitable size of the firm contribute substantially to the success of a business system.

4. The organisation must be clearly defined. It should be adequately manned with competent personel.

5. It must have an up-to-date knowledge of the latest developments in the field of technology.

6. Research in all aspects of business, e.g., product research for ensuring success in the long run.

7. Last but not the least is the requisite of efficient management.

Rise of Professional Manager

Management of a business enterprise has become the most important aspect of its functioning. In fact, it would not be an exaggeration to say that proper management of an organisation is necessary for its survival. There are many challenges to modern management, which are stated below.

1. Complexity of modern industrial structure: The Industrial revolution brought about a complete change in the techniques of output and their ultimate organisation. This change has made the modern industrial structure complex. Modern industry is capital intensive which necessitates the demand for a large amount of funds. To meet this challenge of fund raising, it became necessary to discover a form of organisation that would meet this demand. Man's talent to invent led to the formation of the join-stock company. The large size of business created the problems of managing it properly. A very high degree of managerial skill is needed to run a large business enterprise since risks are large and managers cannot experiment with ideas. An error of judgement may prove very costly and the organisation may end abruptly or suddenly. Another factor is the divorce between ownership and management which is the direct result of the company form of organisation. This adds further to the complexity of modern industrial system in societies under capitalism. Thus, the modern industrialism is (what Galbraith calls Techno-structure) which consists of a group of people working together.

2. Size of the Markets: This is a major challenge of industrialisation whether it is of the capitalist or of the communist variety. Size of the markets is the testing ground for managerial efficiency. The large size of markets is the direct result of technology and mass production. Marketing of products has to face many a problems, e.g., the competition, introduction of new products, better consumer servicing, increase in the demand for existing products, to ensure a minimum growth rate of the enterprise and so on. The manager must be conscious to these tasks and meet the challenge of wide markets and the problems associated with them.

3. Tariff Barriers and Export-Import Regulations: No country can live in isolation today. International trade is necessary for every nation for its economic survival since no single country is self-sufficient in all respects. Every country regulates its export and import trade through various means like export duties (tariff barriers as they are called) and import levies to protect the economic welfare of the nation. The enterprise that is engaged in export and import faces the challenge of barrier of levies and duties in its own country and other countries.

4. Effect of Trade Cycle: Cyclical changes take place in the economic activity of the country. Sometimes the demand for certain goods and services is high while at any other time it is low. Higher demand means greater profits while lower demand results in lesser profits. This is the effect of trade cycles on demand. An element of great risk and uncertainty gets introduced in the economy. In fact it may be correct to say that challenge of change and of uncertainty is a great challenge and the management must give adequate response to this factor.

5. Governmental Control: Government enforces control over business for the general economy. There is challenge inherent in the governmental action of controlling the business. The government regulation of business can be through the Companies Act, Labour Act, Licensing of enterprises, taxation law etc.

To meet the above challenges of modern business adequately it would be desirable that managers should be sufficiently trained and available in sufficient numbers. In the West, professional manager has come of age. In our country too he is emerging and in the next decade or so, he is going to play still more dominant role. Some of the large joint-stock companies are being managed by the professional managers who are quite different from the owner-managers. Many universities and specialized institutions now impart business education to managers-to-be and existing managers at different levels.

Components of Business

Business is an all embracing term. It includes trade, commerce and industry. Business can be classified into two broad categories (a) Industry and (b) Commerce (including trade). Industry is concerned with the production of goods, and commerce with the distribution of what is produced.

Industry: The process of extraction, production, conversion, processing or fabrication of products are described as industry. The products of industry are sold either for further transformation into finished goods or for ultimate consumption. Goods used for final consumption are termed as consumers' goods, and those used in production of other goods are designated as producers' goods. A steel mill may make steel for further fabrication into a variety of articles, such as surgical blades, etc, or engineering concern may make machine tools and machinery to be used for manufacturing other products. These are called capital goods.

Types of Industry

Broadly, an industry is either primary or secondary. Primary industry may be either extractive or genetic, and secondary industry is either manufacturing or construction.

Extractive Industries: These industries are engaged in supplying commodities, which are extracted or raised from the earth, sea and air. The products of such industries are generally used by manufacturing and construction industries for making finished goods. Fishing, mining, fruit gathering, agriculture and afforestation are some of the examples of extractive industries.

Genetic Industries: These are industries which, though dependent on nature, require a greater application of human skill in their production than extractive industries. The enterprises engaged in cattle raising, fish culture and nurseries are examples of genetic industries.

Manufacturing Industries: Manufacturing industries are concerned with the working of raw materials or partly finished materials into finished products. Manufacturing processes are carried on chiefly in factories and constitute a very large part of the total business activities. Among the manufacturing industries may be mentioned the iron and steel works, spinning and weaving mills, flour mills, the making of machinery, etc.

Manufacturing industries may be either continuous or an assembly type. A continuous industry is one in which all the materials are received at one point, from which successive operations turn these into a finished product. Yarn spinning, paper and pottery manufacture are examples. In an assembly industry, the finished product can be produced only after various components have been made and then brought together for final operations. Manufacture of shoes, automobiles and garments making fall in this category.

Commerce: The process of buying and selling and all those activities which facilitate trade, such as storing, grading, packaging, financing, insuring, transporting are called commerce. The principle function of commerce is to remove the hindrances of person, place, time, exchange and knowledge, in connection with distribution of commodities until they reach the consumers. By removing these hindrances commerce ensures a free and smooth flow of goods from producers to consumers. A brief description of these hindrances is given below:

Hindrances of persons: Buyers and sellers of goods and services are not always found at the same place so that contact between them is hindered by distance. Commerce helps to remove this hindrance between persons by means of trade. Trade as part of commerce therefore plays a major role in establishing contact between sellers and buyers.

Hindrance of Exchange: With money as the medium of exchange, payment for goods and services is made possible through institutions such as the banks. In this way, banks as part of commerce act to remove the hindrance of exchange and enable buyers to procure goods, especially by extending their own credit.

Hindrances of place: The goods may be produced at one place and the demand for them may be greatest at a different place where they are not produced. This barrier of distance is removed by commerce through the different means of transport and the goods are carried from one place to another.

Added to direct movement of goods from the points of production to the points of consumption are the services of insurance to cover the risk of loss and packing to protect goods against damage and pilferage.

Hindrances of Time: Goods are often produced in anticipation of demand. They must therefore be stored in a safe place to be released as and when demanded. The function of storing and preservation is performed by warehouses. The warehouses remove the hindrances of time by balancing the time lag between production and consumption, and so create time utility. Insurance comes into play where goods are stored in warehouses and cover the risk of loss or damage through theft or fire.

Hindrances of Information: Selling of products is today the most important problem that a manufacturer has to solve. His product may be the best, but unless the prospective buyer knows about them they remain unsold. Advertising and personal salesmanship help to remove this hindrance of the lack of knowledge or information by bringing to the notice of the people the advantages of buying the goods and services offered.

To sum up, commerce may be said to be that branch of business which facilitates exchange of goods by removing the various hindrances, namely, those of persons through trade and of exchange through banking; of place through transport, insurance and packing; of time through warehousing and insurance; lack of knowledge or information through advertising and salesmanship.

Stephenson defines commerce as "the sum total of those processes which are engaged in the removal of hindrances of person (trade), place, (transport and insurance) and time (warehousing and insurance) in the exchange (banking) of commodities.

Trade: Trade is the fundamental state of business activity and involves the sale and purchase of goods and services. It is to facilitate the transfer of goods from the seller to the buyer that all the above mentioned activities are undertaken.

Types of Trade: Trade may be (a) Internal or domestic, or it may be (b) External, Foreign or International. Internal trade may in turn, be (i) wholesale trade or (ii) retail trade. Foreign trade would be (i) import trade and (ii) export trade.

Internal trade, also known as home trade or domestic trade, comprises of buying and selling of goods within the bounds of a country. It may be wholesale or retail trade. Wholesale trade relates to purchase of goods in large quantities from producers and growers and their resale to retailers in small lots. It serves as a link between the manufacturers or producers and retailers who sell them to the ultimate consumers. Retail trade is the last link in the economic chain whereby human wants are satisfied. The retailer assembles at a convenient place, his shop or stores, various types of products from numerous sources and supplies these in small quantities to consumers.

Foreign trade refers to buying of goods from or selling commodities to traders doing business in foreign lands. Foreign or international trade is normally wholesale trade and takes the form of import or export, or it may be entreport trade. By import trade we mean buying goods from suppliers in foreign lands and by export trade selling to buyers in foreign countries. Entreport trade consists of importing foreign produced goods merely with the object of re-exporting them.

Setting up a Business Enterprise

The process of setting up a business enterprise is known as promotion and the person who Carry out this process are called promotion. Promotion of a business enterprise involves several decisions. Promotion of a new business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is known as an entrepreneur.

Entrepreneurial Decisions in Setting up a Business Enterprise

1. **Selection of line of business:** Entrepreneur has to decide the type of business in terms of manufacturing, trading or service. Then he has to select the types of goods and services he will produce and distribute. He should then analyse and estimate the probability of the proposed business on the basis of operating costs and sales revenue. Marketing research should be carried out to find out the number of customers and their needs. Decisions regarding product design, pricing policy, marketing and distribution channels should be made.

The selected line of business must be such that the expected rate of return must be fair keeping in view the risks involved and the amount of investment required in the **enterprise.** Also, the degree of risk must be such which is acceptable to the entrepreneur. The selected line of business must also be technically feasible i.e., it should be possible for the promoter to arrange for the required finance, technology, labour, material etc.

2. **Size of the unit:** Decision regarding g size of the unit is very important. The optimum size is one at which the average cost per unit is minimum. The entrepreneur should aim at the optimum size keeping in view the nature of the product, technique of production, the extent of market, availability of finance, competence of management etc. Large scale operations offer the advantages of economies of scale but require huge capital investment. When risk involved is high or a new idea is to be tried, it is advisable to start the business on a small scale and gradually increase the size. However, the initial size of the business can also be large provided the entrepreneur is willing to assume the risks associated with it.

3. **Location of business:** The location of a business is a very important decision because once the site is selected, it is very difficult to change it. An unfavourable location restricts the growth of business and also leads to higher costs. The objective of location decision is to find out the optimum location so that the per unit cost of production and distribution is the lowest. The location decision involves decisions regarding the selection of the region and selection of the site. The region is selected on the basis of access to raw materials, availability of labour, transportation facilities, banking facilities etc. the selection of site requires a consideration of cost of land, soil and surface, development costs etc.

4. **Choice of form of ownership:** A business may be organized in the form of a sole proprietorship, partnership and joint stock company. The choice of the form of

ownership depends on several factors such as nature and size of business, degree of risk involved, capital requirements, managerial requirements etc. A good form of ownership should be easy to form and simple to operate. The choice of the form of organization is very important as it determines the authority and liability of owners, division of profits, continuity of business, transferability of interest etc.

5. **Financial planning:** the entrepreneur has to make available sufficient amount of capital for the initiation and continuation of the business. Capital is required for investment in fixed assets like land, building, machines and equipment and current assets like supplies, material etc. Capital is also required for meeting day-to-day expenses of business. An entrepreneur while doing the financial planning will have to take decisions in the following areas.
   (a) Determination of the total amount of capital required for business.
   (b) Deciding the form and composition of securities which are to be issued to raise the estimated capital.
   (c) Administration of funds.
6. **Provision of physical facilities:** This decision requires the selection of machines, equipment's, building, plants and other physical facilities. Decisions in this area depend upon a number of factors such as the nature of business (manufacturing, trading or service), size of the firm (large, medium or small), process of production (capital-intensive or labour intensive) and availability of funds. In selection of machines and equipment, factors such as relative costs and productivity, availability of repair and maintenance services and spare parts, skills of workers required to run such machines and equipment should also be considered.
7. **Plant layout:** Plant layout refers to the arrangement of physical facilities (like machines) In the plant. Machinery and equipment should be placed in such a way that it permits materials to move through the necessary operations (from one machine to another) rapidly and in the most direct way possible. The layout should also be flexible enough to adapt itself to the changing conditions of business. A good layout helps in avoiding back-handling of materials and removing other bottlenecks and delays in the production process.
8. **Personnel:** At the next stage, the entrepreneur must estimate the number (quantity) and the type (quality) of people to perform different jobs. This is estimated with the help of manpower planning or human resource planning. After this, the procurement, development and motivation of the required managers and workers becomes necessary. People with required skills, experience and aptitude must be recruited and selected.
9. **Procedural formalities:** In almost every type of business, some procedural formalities have to be observed while starting a new enterprise. In case of a sole proprietorship of partnership, there are practically no procedural formalities. Registration of a partnership firm is not necessary. But a joint stock company is exposed to greater procedural formalities both at the time of incorporation and during its life. Registration of a company is necessary. For registration, many documents have to be prepared and the required fee deposited with the Registrar of

Companies. A public company has also to secure a Certificate of Commencement of Business before it can start its operations.

10. **Launching the enterprise:** At this stage, the promoter arranges for the acquisition of necessary resources like men, material, machinery, money and managerial ability. After arranging for the necessary resources, he develops an organisation structure and divides work among the personnel. Various departments like production, finance, marketing, personnel etc. are created and their working coordinated to achieve organisational objectives.

Process of Setting Up a Business Enterprise

The major steps involved in the process of setting up a new business enterprise include the following:

1. Identification of business opportunity
2. Generation of business idea
3. Feasibility study
4. Preparation of business plan
5. Launching the enterprise

Step 1: Identification of Business Opportunity

Business opportunity refers to a business idea which can be converted to a profitable business. The world of business offers a number of business opportunities, but not many people can identify them. An entrepreneur should be able to identify such business ideas which can be converted to profitable business ventures. While choosing an idea to work with, an entrepreneur has to be very careful about the line of business (manufacturing, trading or service) as any mistake made in taking such a decision may prove to be very costly. Moreover, the entrepreneur should also ensure that there is an adequate market for the product or service that he wants to offer in the market and that the rate of return on the investment is sufficient.

Step 2: Generation of Business idea

This stage requires generation of an idea that can be converted into a business. The idea should be able to yield a reasonable return on investment i.e., it should be worthwhile for implementation. A business idea may be discovered from the following sources.

1. **Observing Markets:** The promoter should study the market to find out the demand and supply position for various products. He should then estimate the future demand after taking into account the anticipated changes in income levels, fashions etc. market surveys can also reveal competition and price trends. From the data collected through market surveys, the promoter should try to identify those products and industries demand exists and supply needs to be increased.
2. **Prospective Consumers:** Contacts with prospective consumers can give an idea of the features that should be built into the product/service. It is also important to collect data on customer needs and preferences before choosing the product to be

manufactured. A market test of the promoter should try to identify those products and industries demand exists and supply needs to be increased.

3. **Study of Project Profiles:** Various publications of public and government agencies on various projects and industries is an important source of business ideas. Such project profiles describe in detail the prevailing market situation and the technical and financial re3quirements of different projects. A careful analysis of such details can bring out the most promising project which can then be taken up for further evaluation.
4. **Developments in other Nations:** An entrepreneur can discover good business ideas by keeping good knowledge about developments in advanced nations of the world. Underdeveloped and developing countries prove to be a good market for those products to explore the possibility of a foreign collaboration and to discover other types of business ideas.
5. **Trade Fairs and Exhibitions:** A visit to national and international trade fairs and exhibitions can provide information about various products. It is also a good place to explore possibilities of collaboration and dealership and gives a fair idea of the existing competition in the market. While selecting the business idea, the following point need to be considered.

1. There must be sufficient demand for the proposed product or service.
2. The idea should require such capital, technical know-how, raw material and other inputs which the entrepreneur can arrange for.
3. The idea must ensure a reasonable return on investment.

Step 3: Feasibility Study

Feasibility study is a detailed study done by an entrepreneur to ensure that the project is viable.

The feasibility study should contain an analysis of the following.

(a) Technical Aspect
(b) Commercial Aspect
(c) Financial Aspect
(d) Socio-economic Aspect

Technical Aspect: The technical feasibility of a project involves a critical study of the factors such as location, size of the plane, raw materials and labour, machinery and equipment, infrastructure etc. Here the entrepreneur should ensure that the location of plant and the site selected is such that it permits cost-effective operations of business. Also, in determining the size of the plant, it should be remembered that if the plant size is smaller than the optimum size, cost of production increases. An entrepreneur must also examine whether the required raw material, machinery and equipment and infrastructure is available for carrying out the operations.

Commercial Aspect: Technical feasibility of a project has no meaning if the project is not commercially viable. Commercial viability of a project requires a study of the present and potential demand for firm's product in national and international markets. It also requires an analysis of margin of profit, degree of competition, market stability etc. Sometimes the services of an expert may be required to find out the commercial viability of the project.

Financial Aspect: Financial viability of the project can be judged on factors like total estimated cost of the project, projected cash flow and profitability, financing of the project with reference to the capital structure, promoter's contribution to the total project cost etc.

Socio-economic Aspect: A social cost-benefit analysis should be made to judge the national viability of the project. Every project entails some costs to the nation and produces certain benefits. The contribution of the project to social objectives such as employment generation development of infrastructure, development of back ward area, earning foreign exchange, import substitution etc. is evaluated.

Once the feasibility study is completed, an in depth analytical study of the project is made to decide selection or rejection of the project. Such an analysis is known as project appraisal. Once the project s selected, the finding of the feasibility study is presented in the form of a **Project Report.** The project report is needed to get sanction for the project from the concerned authorities, including financial institutions. The project report should comprise the following information.

- Name, address and other details of the entrepreneur
- Brief summary of the project
- Inputs for the proposed project like land, building, plant, machinery and equipment, material etc.
- Financial aspects like sources of finance, cost of fixed assets, working capital, assets and liabilities
- Market potential in relation to estimated present and potential demand, market survey
- Importance of project to national economy

Step 4: Preparation of Business Plan

Business plan is an important document prepared by the entrepreneur that describes various elements involved in starting a new enterprise. It is often an integration of functional plans such as marketing, finance, production, personnel etc. Business plan serves the following objectives;

(a) It indicates the action to be taken to implement the project.
(b) It helps the entrepreneur in raising necessary funds.
(c) It helps in measuring the progress of the venture at successive stages.
(d) It informs investors, suppliers, creditors and other stakeholders about the programme of the entrepreneur.

Step 5: launching the Enterprise

After preparing the business plan, the entrepreneur assembles the necessary resources to launch the enterprise. He collects the required funds and acquires land and buildings, plant and machinery, furniture and fixtures, raw materials, employees etc. Once this is achieved, it is necessary to ensure that the project is implemented properly, and it has smooth and uninterrupted operation.

Organization as a System

In simple words, system means an assemblage or combination of things or parts forming a complex or unitary whole. It is an establishment or arrangements of parts for achieving the desired objectives. A system may comprise of different sub-systems and it may Itself be a part of another broader system. All these are inseparably related with each other like the fear in a machine and has to operate in a coordinated way to achieve the planned objectives. For a clear understanding of a system, it is necessary to know the interrelationship of sub-systems in order to find out how they are interrelated. When the study of a phenomenon is undertaken in this manner, it is called a 'systems analysis' or a 'system approach.

The meaning of the term 'system' can be best understood by taking the example of human body system which in itself consists of various sub-systems like digestive system, respiratory system, nerves system etc. These sub-systems have further sub-parts. All sub-systems of the human body system must function in a closely coordinated way. The interrelated sub-systems form a unitary whole i.e., a human being who is himself a part of the environment and the society in which he lives.

A sub-system, in our context, may be defined as a departmental activity within the frame work of a functional activity. Respective departments set their objectives within the framework of functional objectives and accordingly this may be defined as sub-objectives. Like a human body system, a business system too consists of various sub-systems like production, financing, marketing, personnel etc. which operate in unison to make the unitary whole i.e., a business system. These sub-systems may have further sub-systems. For example, personnel sub-system is divided into other sub-systems like selection, training, remuneration, promotion etc. the success of any business system as a unitary whole depends on the close coordination of these sub-systems.

Another way of distinguishing sub-systems is according to activities and accordingly each business may have the following sub-systems:

(a) A decision-making sub-system to produce plans and shape the activities of the enterprise as a whole.
(b) A processing sub-system which procures information, materials, energy etc and converts these into saleable products.
(c) An information handling sub-system specially concerned with the use of accounting data.

(d) A control sub-system to ensure that actual performance is according to plans.

(e) A memory sub-system to store information and make it available as and when required.

(f) A sensory sub-system to measure significant changes in both, the system and its environment.

A business house as a system is part of the broader system i.e., the industry to which it belongs, and the industry is a part of the entire industrial set up and that industrial set up is a part of the national economic situation. Thus, there is a chain of complicated relationships each affecting the other.

A business can be regarded, from the angle of the system approach as an entity or a system functioning in the social, economic and political environment of the country or even the world. The use of the 'system' theory in the study of a business enterprise is really quite complicated because It is difficult to know where to draw a line of distinction that separates a firm as a unique entity from its environment. Present day business cannot function in vacuum. It has to take a serious note of the social, political and economic environment in which it functions. It has the social responsibility and unless it proves its commercial viability and its concern towards the interest of consumers, employees, creditors and the society in general, it simply cannot survive for long. When undertaking the study of a business system, we are concerned not only with the structure of the business system but also with its environment because these environmental factors have a direct bearing on the smooth functioning of a business system and its environment.

Characteristics of Business System

Business system is characterized by the following features:

1. **Goal-orientation:** Business system is directed towards the achievement of specific objectives, e.g., supply of goods and services to consumers, earning of profits for survival and growth, meeting society's expectations, fair deal to employees, etc. Business is a purposeful entity and purpose provides a sense of direction to the business system.

2. **Creativity:** Business system is creative in the sense that it converts resources into useful products. The results of the system are more than the sum of its parts. Business system creates various forms of utility and adds value to the inputs.

3. **Complexity:** Business appears to have a well-defined structure with its pars arranged in an orderly manner. But business system is very complicated and consists of many elements and entities. Each sub-system of business is in itself a system having its own sub-systems. Therefore, its successful management requires a high degree of knowledge, skills and experience.

4. **Interdependence (or Wholeness):** Various components of a business system are highly interacting and interdependent. Business system functions as a whole rather than as a collection of parts. There is interdependence not only between the

departments of a firm but between different firms and industries too. People working in a business enterprise interact with one another and have social relationships due to which business is known as a ‘psychosocial system’.

5. **Diversity:** Business system is diverse in design and operation. There is diversity not only in the range of output but also in the size, ownership, location organization, management, etc. of business firms.

6. **Dynamism:** Business is an open-adaptive system as it influences and is influenced by its environment continuously changing due to changes in its environment.

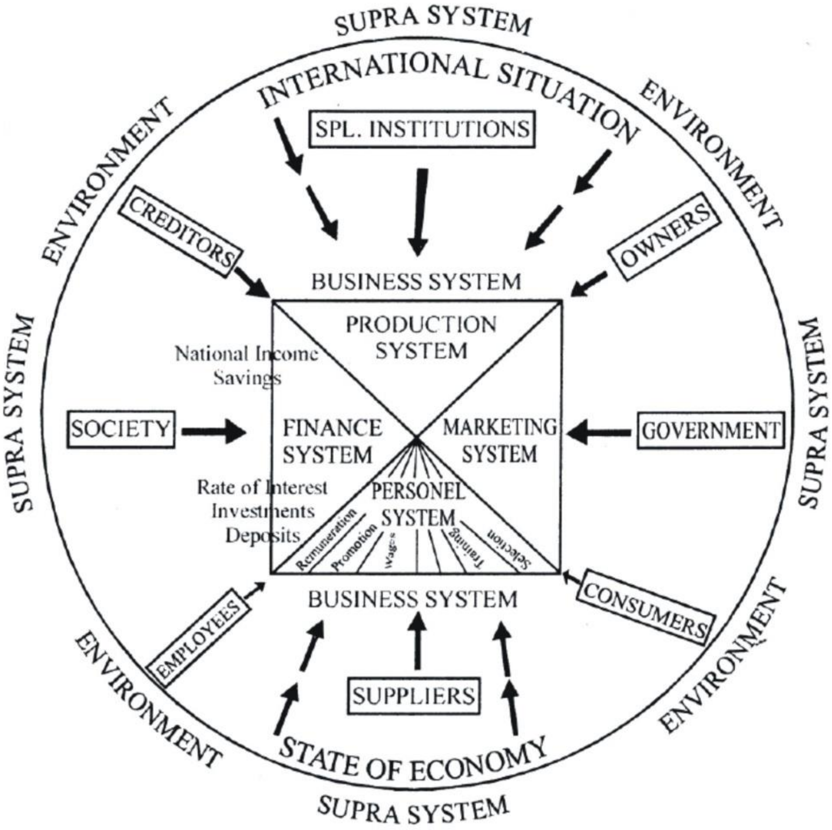
7. **Part of Socio-economic System:** Business is a part and parcel of the wider system. The wider supra-system constitutes the environment of business system. Business environment consists of all those economic, social, political, legal, technological and other forces which influence the functioning of business. Economic environment or economic system serves as the framework of business system. There is a constant interaction between business system and its environment.

8. **Control Mechanism:** Business system works through a control mechanism. The control system of business is designed by management. The nature and scope of the control mechanism varies from one firm to another. Control mechanism helps to coordinate the organizational activities and to respond to environmental opportunities and constraints.

Thus, a business enterprise is an open, adaptive, goal-oriented system with its environment actin as a supra system.

Now we shall try to explain in detail, how the environment affects a business system. The environment may be:

1. **Economic environment -** As already stated in this lesson that, no business exists in a vacuum and cannot independently control its destiny, as it is subjected to external influences over which it has no direct control. A business must suitably react to these external influences in order to survive. A business firm belongs to a particular industry: manufacturing, banking, insurance, mining and so on. These industries are the essential element of national economic system. The national



economic system cannot exist in isolation either, as it is an integral part of the world economic system. Both national and international economic forces influence the demand for the product of a particular business. Production programmme of business firms are affected by these economic forces and the production programmes in turn determine the resources required in the shape of raw materials. The availability of these resources is also dependent on political, economic and social circumstances prevailing within the countries supplying raw materials.

Demand affects the level of employment at home and abroad. Increase in demand at home for consumer goods creates additional demand for new plant and machinery, in order to expand its production which may be purchased from home capital goods industry or from abroad. It may create balance of payment problems, if purchased from abroad which have to be financed either by additional exports or by loans from international financial institutions.

2. **Technological environment-** The demand for a product is affected by the technological changes. Consumers respond to technological changes and demand for products incorporating the latest technology. A business must be quick to respond to these technological developments. Examples of this include transistorised radios and changeover from metal products to plastic or fiberglass products. A business can retain its share of production or increase only by quick response to technological developments and for this market research is a must.

3. **Financial environment-** A business unit cannot remain unaffected by the financial environment existing in the country. For instance, the economic crisis in a country may be reflected in the financial position of those business houses who have to suffer from deficiency of liquid funds. Economic crisis, leading to lower level of demand cause fall in production which in turn leads to increase in fixed cost per unit thus reducing profit margin of per unit sold. Even where a business can obtain some short-term finance in the form of loans, the interest rate is quite high which further increases the financial overhead burden.

4. **Sociological environment-** The employees of today are developing a new sociological outlook. The present-day employees cannot be effectively controlled in an autocratic fashion. They want to participate in the management process. This calls for democratic approach in management and for that management has to change its traditional approach towards the personnel or labour.

5. **Legislative environment-** A large number of government legislations like the Companies Act, the Industries Development and Regulation Act, Income Tax Act, Sales Tax Act etc. affect the activities of business.

From the above discussion it is clear that a business manager has not only to integrate the men, machine, material, information and money into the business system but he has also to coordinate these with the environment in which these exist. A business system has to adapt to the changes in environment like the change in the economic policy, change in demand, and other political and social changes. Above all this, he has to take into account the international market situation.

Business system is an open system because it recognizes the existence of external environment which affects its performance and which in turn is also affected by the business system. It is not at all a closed system which is a self-contained unit completely detached from its external environment. Like a human body system, which constantly adjusts itself to the external environment, an open system too is characterised by its capacity of self repair.

Business Organisation is the hub or the central part of any business system. It has the usual features of a system:-

1. Plans—objectives, policies, procedures etc.
2. Inputs—men, machine, material, money etc.
3. Processing—activities concerning producting, financing, marketing, personnel, etc.
4. Output—goods and services to society.
5. Feedback—alteration and modification of plans and activities if needed. See Figure No. 2

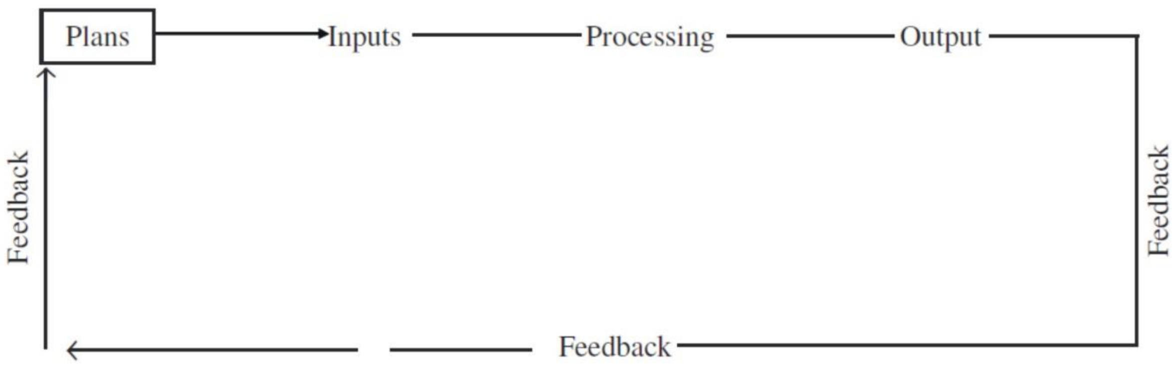


Figure : 2

The Feedback Concept

The feedback concept is concerned with the process of increase or decrease in the support to a business unit in response to its performance. In our study, it refers to the arrangement by which society gets various outputs from business in return for the inputs and the society increases or decreases the inputs provided to the business system depending upon the satisfaction derived from the output of business. Feedback is necessary to feed the various sub-systems in the organisation with the requisite information. For instance, if the results of any business unit reveal that the quality of its products is not upto the mark, it will necessitate the steps for higher quality production. But suppose the results as such are not acceptable, it will call for modification of the plans. This may be described as the systems' approach to business organisation. This approach highlights the integrated complex, each sub-system inter-related and well co-ordinated with each other so that the whole firm functions in unison.

From the above discussion, it is clear that systems' approach is always goal oriented. The systems' approach is the most appropriate method of organising and evaluating a business house and its performance. An organisation has to continuously work to bring the best balance between a mass of conflicting objectives like service to society and dividend to shareholders. It has to reconcile the various objectives of business in such a way that will provide the maximum satisfaction to the total system.

A business system on the whole is something more than just the aggregation of all sub-systems in it. It is responsible for transforming the inputs into outputs to satisfy consumer demands. An organisation has to develop sensitivity to know the changes in its environment and adaptiveness to the demands of its environments, if it has to accept the challenges and also ensure its survival and growth. Feedback is necessary to achieve this objective.

The systems' approach to a business organisation draws the attention towards the integrated complex system, each functional part integrated with others so that the 'whole' moves in unison. The interesting feature of a business system is that its various parts are inter-related and interact with each other, while the business system on the whole, interacts with its environment. The business system affects its environment by its output and is itself dependent on its environment which increases or decreases the inputs according to the satisfaction to the society. So, an efficient business system should not only be a suitable mix of its various sub-systems but it should also be in tune with the changing environment. Thus a systems' approach highlights the fact that the business system and its environment are inseparable and feed-back is necessary from one subsystem to another subsystem so that the process of providing goods and services to the society continues smoothly and efficiently.

FRANCHISING

The Concept of Franchising

To all of us as consumers, a McDonald's or a KFC or a Café Coffee Day for that matter in India, or abroad largely look the same. Yet beneath this layer of similarity reside two entirely different organisation – the invisible company that owns the brand, and the company that operates the visible outlet- the franchise.

A 'franchise' means the special right given by a manufacturer or a parent organisation t another individual or firm to sell the former's product or service in a specified area(S). Thus, a right given by McDonalds to someone in India to sell McDonalds' products in a particular area in Delhi, for example, is an example of a franchise agreement. The person or organisation which grants the right is called franchiser. The individual or enterprise to which the right is granted is called franchisee. Thus, in our example, McDonalds is the franchiser and the person to whom the right has been given to sell McDonalds' products in Delhi is the franchisee. Because this person in India gets the advantage of selling goods of a big brand McDonalds, he is required to pay some fee to McDonalds in return.

The right granted by a franchiser to a franchisee is given under a special agreement known as the Franchise Agreement. A franchiser can have such an agreement with more than one franchisee. Thus, franchising is a term that defines the business relationship between two organizations where a franchisor, who is the owner of a brand name, product, or system of a business, permits a franchisee to use its brand, product, or business process for a fee.

Definition

Franchising may be defined as a contractual licence (right) granted by one person (franchiser) to another (franchisee) which:

- Permits the franchisee to carry on a particular business using the franchiser's business know-how under the franchiser's brand as an independent business
- Enables the franchiser to exercise control over the manner in which the franchisee carries on the franchised business
- Requires the franchise to provide the franchisee with ongoing support in carrying on the franchised business.

Example of Franchising

In India, NIIT (computer education), APTECH (computer education), Pizza Hut (fast food Mc Donalds (fast food), Subway (fast food), Bata (shoes), Liberty (shoes), Nike (shoes and sports apparel), Adidas (shoes and sports apparel), Reebok (shoes and sports apparel), Van Huesen (clothing), Allen Solly (clothing), Pantaloons (clothing), Barista (coffee), Café Coffee Day (coffee) are examples of franchise agreements.

Features of Franchising

The salient features of franchising are as follows:

1. The franchiser allows the franchisee to use his trademark under a licence.
2. The franchised agreement requires the franchisee to follow franchiser’s policies regarding mode of operation of business.
3. The franchiser provides marketing support and technology to the franchisee to carry on business in the manner specified in the franchise agreement. Thus, a franchiser virtually sets up the business for the franchisee.
4. The franchiser may also arrange for the training of personnel working in the franchisee organisation.
5. The franchisee pays to the franchiser a sum of money (called royalty) for using his business know-how and trademark.
6. The right to use the business know-how and trademark of the franchiser is for a limited period of time defined in the franchise agreement. However, the franchise agreement may be renewed from time to time.

Franchise Manual

A franchise manual is the embodiment of the know-how of the franchise. The manual is a living document and will continually change as the business develops.

- Shop layout
- Staff uniform/appearance
- Staff etiquette
- Staff job descriptions
- Training requirements
- Pricing policies
- Storage requirements
- Advertising and marketing policies
- Technical information about equipment used
- Customer complaint procedures

Franchise Agreement

The agreement between franchiser and franchisee is called franchise agreement. Such an agreement contains various terms and conditions of the franchise.

Some of the terms and conditions of a franchise agreement are given below.

1. The term of the franchise.
2. The franchise agreement may be renewed with the mutual consent of both the parties on expiry of the term.
3. The franchisee agrees in the form of an undertaking not to carry other competing business during the term of the franchise. The franchiser, in turn, undertakes not to sell the franchise to any other person in the same region.
4. The franchisee gives an undertaking not to disclose any confidential information pertaining to the franchise during the term of the franchise agreement and two years thereafter.
5. The franchisee gives an undertaking to pay the specified royalty fee to the franchiser.
6. The franchiser gives an undertaking not to terminate the franchise agreement before the expiry of the term except for a "good cause".

Benefits of Franchising

(I) To the Franchiser

1. The franchise can expand his distribution system in the least possible time.
2. The franchiser is able to expand the business with little extra capital as the franchisee provides the capital for the outlet.
3. The franchiser gets important feedback about the popularity of the product and specific needs and preferences of the local customers from the franchisees.
4. Franchising enables the franchiser to increase his goodwill and reputation by expanding his network.
5. The Franchiser gains wider acceptance of his brand name through the franchisees.

(II) To the Franchisee

1. The business is based on a proven idea. The franchisee can check out how successful other franchisees are before committing himself.
2. The franchisee can use the brand name of the franchiser to attract customers and increase his sales.
3. The franchisee can get assistance from the franchiser in training his staff, promotion of the product, designing store layout etc.

4. There are greater chances of success of the franchisee because the brand of the franchiser is well known.

5. The franchise ensures a high degree of quality control. This enables the franchisee to satisfy his customers by offering quality products.

6. The franchisee enjoys exclusive rights in his territory. The franchiser won't sell any franchises in the same region.

Disadvantages of Franchising

(I) To the Franchiser

1. The franchiser's brand name and reputation may get tarnished if the franchisee is not able to maintain standards of quality and service.

2. The franchiser has to provide initial financial assistance and support in the form of staff training, advertising etc.

3. There are ongoing costs of supporting the franchisee and national advertising.

(II) To the Franchisee

1. The franchisee does not enjoy complete freedom in his business. The franchise agreement generally contains restrictions on how the franchisee would run the business.

2. Payment of royalty on a regular basis is to be made to the franchiser.

3. The franchisee cannot sell his business without taking approval from the franchiser.

Potential Disputes

There might be sometimes some disputes between the franchiser and the franchisee. Some possible causes of disputes may be:

1. Poor performance of the franchisee.

2. The franchisee may find that the franchiser had licensed another person in his territory.

3. The franchisee fails to pay the royalty fee.

4. There is a leak out the confidential information pertaining to the franchise of the franchiser's business.

THE PROCESS OF MANAGEMENT

Ever since people began forming groups to accomplish goals which they could not achieve as individuals, managing has been essential to assure the coordination of individual efforts. As we have to depend increasingly on group efforts and as many organised groups have become large, the task of managers has risen in importance. Managers are those persons who are responsible for the work of others. The basic aim of all managers is the same in all types of organisations, that is, to create an environment in which organisational goals can be achieved with the minimum of resources with the help of people working in the organisation.

Management or managing has become necessary because it has been pointed out by many empirical studies that incompetent management has been the cause of most business failures.

There are many views and definitions of management given by the experts and scholars in the field. However, no two definitions are identical and also no single definition has so far succeeded in including all the essential elements of management.

Sometimes the term is used to mean the "group of managerial personnel" in an organisation, i.e., all those from the board of directors down to first-line supervisors. At other times management refers to the "processes" of planning, organising, staffing, directing, and controlling. Management is also used as a body of knowledge, a practice, and a discipline. Others have analysed it as an economic resource, a factor of production, a system of authority, a technique of leadership or as a means of co-ordination or decision-making.

Looking to different views, it is clear that it is very difficult to give a definition which covers all the aspects.

It may be stated that the definition of Harold Koontz is quite widely used, and accepted one. *According to Harold Koontz,* "Management is the art of getting things done through and with people in formally organised groups. It is the art of creating an environment in which people can perform and individuals could co-operate towards the attaining of group goals. It is the art of removing hurdles to such a performance, a way of optimizing efficiency in reaching to goals."

This definition takes care of the personnel side of the managerial behaviour or human relations approach. But it makes no specific mention of the "processes" of management, which is the most important element of management in any group activity.

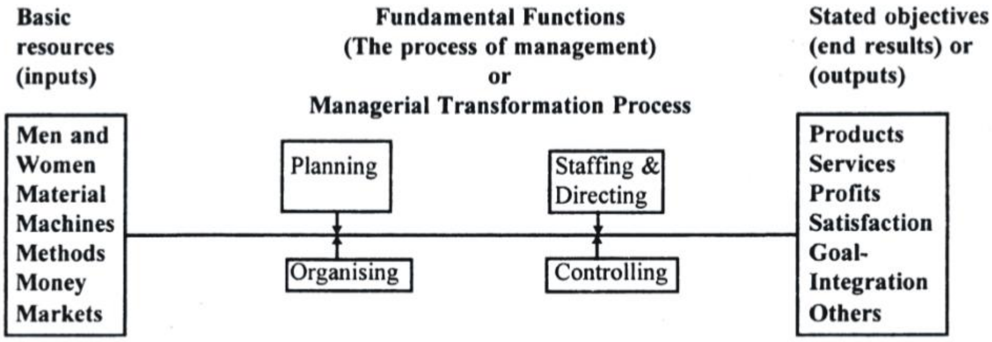
Decision-making orientation has become quite important. One of the most important functions of a manager is to take decisions.

Peter F. Drucker says: "Whatever a manager does, he does through decision-making." But it tells about only one aspect of management and does not speak about management as a process.

From "process" orientation, the definition given by George R. Terry is satisfactorily comprehensive. *According to George R. Terry,* "Management is a distinct process consisting of planning, organising, actuating, and controlling, performed to determine and accomplish state; objectives by the use of human beings and other resources." It includes the following essential elements.

1. Management is a distinct process.
2. This process consists of : planning, organising, staffing, directing and controlling (although staffing is not given by Terry but this is implied and he has used the word 'directing').
3. It utilizes both the human and other resources.
4. It is followed in order to accomplish predetermined objectives.

The following figure gives a graphic presentation of this 'preferred' definition of management.



Some important characteristics of management

1. Management is an Essential Element of Organised Work : Management is a process of organised activities of people working towards some purpose. The organised activities may take a variety of forms ranging from a highly formal and structured organisation to very loosely knit organisation. The application of the management process to group activities brings about a coordination among individuals and subgroups.

2. Management is a Science as well as an art : Science implies existence of a body of knowledge in a systematised form used upon careful observation, accurate measurement, experimentation and inferences or conclusions derived from detailed analysis of data, i.e. facts and figures. The knowledge is verifiable through experiments which give us the cause-effect phenomenon. Thus science provides the theory, principles and the laws on any branch of human knowledge. In turn, knowledge given by science gives power for application.

Management is a developing science. It has now evolved certain basic principles and elements in the form of management which has universal application in each branch of human activity i.e. profit-making as well as non-profit organisations. However, management is not comparable to exact sciences like physics, biology, etc. It is a social science like economics as it deals with human beings and human behaviour is ever-changing and most unpredictable.

Art is the practical application of some knowledge or skill in order to bring about any desired result. Manager is not only a scientist but also an artist. As an artist, he has to depend on his own experience, intuition and judgement while making decisions on any managerial problem and taking actions on the decisions to realise the set objectives. Management is one of the most creative arts as it requires a vast knowledge and certain innovating, initiating, implementing and integrating skills in relation to goals, resources, techniques and results. Moulding the attitudes and behaviour of people at work towards achievement of certain goals in a changing environment is an art of the highest order.

We can give examples of science and art aspects of management. In planning and organising, there is emphasis on the science aspect of management whereas direction (including communication, leadership and motivation), co-ordination and control give emphasis on art aspect, like in leadership, a manager has to decide on the basis of his knowledge as to whether he wants to adopt autocratic or democratic or laissez-fair style.

But such a demarcation is unreal. In reality, the science and the art of management go together hand-in-hand and both are mutually interdependent and complementary. As theoretical teaching of medicine and engineering is always accompanied by practical work in a hospital or workshop, similarly in any aspect of management like planning, organising, directing, co-ordination or controlling, both the science and the art are present. This is so because the principles and theories are set before and the manager has to apply these principles by using his own abilities, judgement, intuition etc.

3. Management is a distinct process : It is well said that it is good management that produces sound business. This is because management is to business as mind is to human body. It is clear from the fact that understanding people, organising them into meaningful units, getting things done through them by managing conflicting goals and running the business smoothly, is something that makes all the difference.

Thus management as a process is best explained by the proverb, “management is what management does.”

The process of management includes the process of planning, organising, directing and controlling. These functions are separate but are part of the basic process of management activity.

Thus to see management as a process is to see all the basic functions as interwowen into one compact whole.

The entire process is basically a social one because it is the society in general which provides the input to the organisation and receives output from the same organisation which managers manage.

In this sense management as a process means:

(i) It studies its internal and external environment.

(ii) Through studies it organises its material and human inputs.

(iii) Such an organisation and achievement of goals depend upon planning and decision-making process.

(iv) After planning and organising, management has to design communication and control process to achieve desired results by eliminating undesirable hindrances.

Thus seen as a process, management is a group of activities systematically directed through time and space for achievement of goals.

Like all other processes, management process is continuous starting from a point and going through the various aspects and reaching at the same point to do it all over again and again. Old issues are solved and new ones crop up. Thus management seen from this is a process which is continuous and interlinked with the working of the organisation itself.

Scott & Mitchell in his book "Organisation Theory," emphasises that management process is effective practical management of organisational process. They divide organisation process into subsets which are described as follows:

1. Communication process: How effectively does the management communicate.
2. Decision process: It is a vital process affecting all other processes.
3. Balance and Conflict process: It is the process showing how does the management manage the conflicts, in the organisation and create balancing among conflicting objectives.
4. Role and Status development process.
5. Influence of authority and power process.
6. Leadership process.
7. Technological process.

All processes have activities, changes and functions. These are elaborated as follows:

	Process	***Activity***	***Change***	***Functions***
1.	Communication	Exchange of information among decision Centers	To alter behaviour	Emotive motivation, information and control
2.	Decision-making	Quest for alternative action	To reduce uncertainty	Search alternatives
3.	Balance	Organisation stability	To resolve conflict	Control
4.	Role & Status	Interaction of authority	Modify role expectation	Clarification of rights & duties
5.	Influence	Inducement to get things done	Achieve compliance	Authority, Power & exchange
6.	Leadership	Directing, planning rewards and punishment	Altr attitude & behaviour	Authority, Feedback and Control
7.	Technology	Selection of the best meant to accomplish the ends	Rational-goal adjustment	Scientific methods and Verification

Thus management is a continuous process wherein well defined activities lead to effective and meaningful change in human behaviour to discharge its functions. Such a strategic process effectively link the organisation and make the management task effective and meaningful. Management thus is a dynamic process that underlies the internal life of an organisation with vital managerial functions.

Summarising we can conclude*:* Management is an activity or process for getting the work of an enterprise accomplished through the efforts of the people. This activity consists of planning, directing, communicating, co-ordinating and controlling as interlinked functions for effective management of this process which is aimed at goals' achievement.

4. **Management is universal in character** : If we look at management as a process, it is universal and applicable to all types of organisations. These may be economic, commercial, charitable, religious or political organisations. All have the same process and management has to effectively utilize them for goals achievement.

So management is an essential element of all social organisations and it is found everywhere as a distinct, separate and dominant activity; its nature does not change basically and materially due to change in the nature of the organisation.

As Urwick and Brech (Making of scientific management-vol.11) puts "No ideology, no 'ism,' no political theory can win greater output with less effort from a given complex of human and material resources, than sound management."

Briefly, the well being of the society is largely dependent upon the quality of management prevailing in all the social organisations.

5. **Management integrates human and other resources** : Of all, the human resources are the most precious and difficult to manage. Thus, a proper management of human resources is essential for the preservation and efficient functioning of an organisation in any society. For this purpose, it becomes the responsibility of well-trained managers to ensure the fulfilment of personal goals of individuals in order to bring these goals along the lines which contribute to the overall objectives of the organisation.

6. **Management aims at attaining predetermined goals** : Group efforts in management are always directed towards the attainment of predetermined objectives. These objectives are the final goals of any organisation towards which all the management activities are systematically and purposefully directed.

7. **Management is Intangible** : It is intangible in that it is a force which is invisible. Its presence is felt in the form of results, such as increased productivity, informed decisions, and increased morale of subordinates. Thus, feeling of management is manifested in the results accomplished. This point should not be confused with the persons (i.e., the visible team of managers) who use the management activities of planning, organising, staffing directing, and controlling to bring about these results.

8. **Management Utilises Multidisciplinary Approach** : Management, for the present vast body of its knowledge, has relied heavily on other fields, such as engineering, sociology, psychology, anthropology, etc. For example, productivity orientation drew its inspiration from engineering in so far as it emphasised the technical aspects of production. Human relations approach got its inspiration from psychology, and so on. Not only in the past, but at present also new developments in other fields are being increasingly utilised by

management thinkers and practitioners. Research of psychologist in the field of individual motivation, reactions to authority, and the meaning and analysis of leadership has extended to the area of management only in recent years.

Management: A Profession

With the emergence of management as a distinct discipline there is an increasing demand for its reorganisation as a profession. Some examples of professionals are doctors, lawyers, chartered accountants, etc.

A profession is a vocation that has some or all of the following characteristics :

(i) Specialised education and training in an underlying body or organized knowledge, scientific outlook and intellectual bent of mind.

(ii) Minimum qualification for admission to the question. Entry is restricted by examination or education and formalised method of acquiring training and experience is necessary.

(iii) Continuous exchange of information and experience among the members of the profession to improve and increase the body of knowledge.

(iv) A central organisation or association to regulate entry, to represent the profession and to regulate members' conduct.

(v) A code of conduct enjoining upon the members to exercise self restrain in the practice.

(vi) Service above self. Financial reward is not the measure of success. A professional spirit and a sense of mission are important.

If we judge on this criteria, management cannot yet be described as a profession though it has some of the characteristics of a profession. There is still no uniform method of entry and licensing. No minimum educational or other qualifications are essential for entry. The underlying body of knowledge is incomplete and inexact. There are no universal standards of competence and evaluation. The management associations have no legal sanction to enforce and administer minimum qualification. There is increasing exchange of views and experience through seminars and conferences. But there is little desire on the part of an average executive to develop the service of management. A uniform and binding code of professional conduct has not yet been developed and a sense of mission and dedicated service are not widespread. There is little autonomy of decision-making both in private as well as public sector.

However, management is moving at an increasing pace towards professionalisation. Many institutions now offer specialized training in different areas of management. There are various management consultancy firms which offer expert advice and guidance for the solution of management problems. Management is not yet a full-fledged profession. Whether or not, it becomes a profession in the near future, will depend upon the way managers develop a professional style of managing and the time they take for changing their outlook. In India, even a sense of social responsibility is not widespread. Therefore, Indian management has to go a long way for becoming a profession. However, some thinkers, (for example, Drucker) are of the view that management should not strive towards professionalisation and there should be no statutory control over managers. The reason they give is that management is a practice rather than a science or profession.

Unlike a professional group, managers do not have a single group of clients. They are appointed by the owners/shareholders. But they are expected to serve not only their employers but also the workers, the consumers and the society at large. They have to be loyal to more than one group of persons.

There are some factors which are likely to increase the movement for the professionalisation of management. Some of such factors are separation of ownership from control, increased government regulation, growth of business activity, increase in trade union movement, desire of business leaders for social status and the development of scientific management.

Principles of Management

As all processes need principles, so does management.

Principles are like code, to be followed for efficient performance. These are the essence of research. Principles are laid down after careful analysis of the working. These are just like the guide lines for effective performance which are indispensable for any organisation.

Henry Fayol (in General and Industrial Management) observed, "This (Principles of management as a code) code is indispensable. Be it a case of commerce, industry, politics, religion, in every concern there must be principles." Even otherwise, those persons are respected who observe certain principles in life.

Following are the principles of management as laid down by Henry Fayol:

1. ***Division of work:*** In a large organisation, specialisation is the key to increased quality production. Thus division of work according to capacity, ability and aptitude is essential.

2. ***Authority and responsibility:*** Well defined responsibility gives maximum smoothness in work. The task of top management becomes easier and accountability possible, if responsibility is well defined.

   Without authority, responsibility cannot be fulfilled. So authority, its decentralisation and delegation is important for fixing responsibility. Authority should be linked to official position and responsibility stemming out of it.

3. ***Discipline****:* It is a distinctive feature of command. No co-ordination of work is possible and no responsibility meaningful without discipline. The requisites of discipline are (a) good supervision (b) clear and fair agreements on codes of conduct (c) judicious application of rewards and punishments.

4. ***Unity of Command:*** Command must emanate from one source. If there are multiple commanding authorities, it will create chaos. Thus, this principle means that an employee should receive orders from one superior only.

5. ***Unity of Direction:*** It is concerned with functioning of the whole corporate organisation. It means that there should be one head and the directions must flow downward.

6. ***Subordination:*** Individual goals should be subordinated (or aligned) to the organisational goal. Obedience to superiors is also a distinctive feature of command, which comes from subordination.

7. ***Remuneration:*** It should be fixed for all services or personnel to avoid uncertainty and ambiguity.

8. ***Centralisation:*** Every thing which goes to increase the importance of subordinates role is decentralisation whereas everything which goes to reduce it is centralisation." Centralisation is essential to avoid misunderstandings and delay.

9. ***Scalar Chain:*** It suggests that the employees should be bound in clear and well defined chain of senior subordinate relationships, called scalar chain. It is line organisation that depicts it.

10. ***Order:*** It requires everything well placed and a place assured for everyone. Absence of order means chaos. Its presence ensures stability and efficiency.

11. ***Equity****:* It is a combination of kindness and justice. All equals be treated as equals. It removes conflicts and ensures compliance and subordination.

12. ***Stability of Tenure:*** Stability of working period is essential to give confidence in the worker. Stability of tenure creates certainty and helps in effecting responsibility.

13. *Initiative:* The employees at all levels, should be given some freedom to the adopters of techniques and methods to accomplish their tasks. It will create initiative and enforce efficiency. It increases zeal and belongingness. Fayol advises managers to ensure as much initiative from employees as possible because it gives them a chance to utilise their skill and efforts to the maximum.

14. ***Esprit de corps:*** This principle is essential for team work. Organisation work is primarily team work.

These principles have been interpreted differently by thinkers and writers. Some principles have been given more importance than others.

Functions of Management

Though many writers have defined the functions of management differently, they have been clearly and unambiguously defined by Koontz and O Donnell. These are as follows:

1. Planning 2. Organising 3. Staffing 4. Directing and leading 5. Controlling.

1. ***Planning:*** It means determining in advance. It involves selecting objectives and the strategies, policies, programme and procedures to achieve them. Thus planning is the most important activity of management that gives a thrust to all other activities. All other activities are based on it. Now people include forecasting also in managerial planning. It is so important that "all managers plan, whether at the top, middle or bottom of organisational structure." Planning is said to be the essence of management.

2. ***Organising:*** It involves establishment of internal organisational structure. It lays down line and staff relationships. It lays down role and status. It also involves grouping of

activities, assignment of these groups of activities to managers, the delegation of authority to carry out activities and the provision of formal structure.

The following are the characteristics of organising function:

1. It requires groups of people.
2. It involves delegation of authority.
3. It lays down a formal structure of hierarchical relations.
4. The structure is a tool of obtaining organisation goals. So roles are specifically and clearly defined.

3. ***Staffing:*** It includes filling the places in organisational structure. It includes not only selection and training of personnel but also putting them in right positions. It involves manning and keep manned the positions provided in organisation structure. It thus requires defining manpower requirements, selecting candidates, training them and looking after them and the activities they perform.

4. ***Directing and Leading:*** **It** is a very crucial function as it involves motivation and leadership. Getting the work done through and with human beings is not easy. It involves achievement of organisation goals by subordinating or satisfying individual goals. According to Koontz & O'Donnell 'Super managers inculcate in their subordinates a keen appreciation of enterprise functions, objectives and politics — the superior has responsibilities for classifying their assignments guiding them towards improved performance and encourage them to work with zeal and confidence.

5. ***Controlling****:* It involves ensuring the smooth functioning and good health of the organisation. It is a measure of actual performance with budgeted and taking corrective actions wherever necessary. Thus it measures performance against goals and plans; shows where negative deviations exist and by putting-in correct action ensures accomplishment of plans and objectives.

Thus, controlling is constant and continuous. It can control not only the activities and processes but also the people who achieve them.

Management and Administration

Many people and organisations think management and administration as distinct functions, many others, and modern among them, feel that these are not different.

Management is a technical activity of getting goals achieved through people. In business institutions it is called management, while in others it is called administration.

Newman defines administration as, "the guidance, leadership and control of the effort of a group of individuals towards some common goal". Sheldon defines Administration as, "that function in the industry which is concerned with determination of policy, consideration of finance, production, distribution and ultimately controlling the activities for accomplishment of objectives."

It is clear from the above definitions that policy making, planning and decision making are the basic aspects of administration whereas their supervision, implementation and operation are the tasks of management.

These two functions are so interlinked that now thinkers call them as the administrative functions and operative functions of management.

According to Kaith Davis, both are aspects of the same activity which is defined as a process of getting things done to achieve the goals.

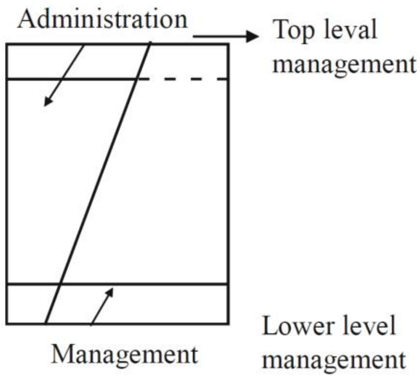
(1) Administrative management is the major function of top management. It is concerned with decision making and problem solving.

(2) Operational management is management as such. It is a function of the lower level management. It concerns with operative aspects such as supervision and control.

The flowing diagram clearly brings out this distinction between Administration (administrative management) and management (operative management).

(1) The top management such as the President, Vice-President etc, are more concerned with decisions and policy making aspect of management activities and less with the day-to-day supervision and control.

(2) The lower layers of management are less concerned with decision making (Admn.) and more with effective supervision and control.



Thus administration has to lay down objectives, decisions and policy while the operative management strives to get them accomplished. So administration is more pronounced or applicable at higher level while management is more pronounced at the lower-level.

Emergence of Management Thought: Traditional v/s Modern

Management as a science as well as an art has gathered momentum and velocity in the post industrial revolution era. This is because the size and complexities of organisation have increased tremendously. Moreover the ownership has been separated from management. It is this reason why management as a process has received wide attention.

Traditional thought (Scientific Management): Though management had been taken up as a subject quite early yet it was systematically studied by the classical writers. This may be called scientific management wherein research studies have been evolved to guide management activity. Though early writers in this field were James Watt, Mathew, Robinson, Robert Owen, Charles Babbage and others, yet the pioneering effort was made by Henry Fayol and Frederick Taylor.

F. Taylor laid down principles for the most efficient use of resources. He is thought to be the father of Scientific Management. He started as a machinist and rose to the position of chief engineer.

Principles of Scientific Management

According to Taylor "in essence management involves a complete mental revolution on the part of the working man engaged in any particular establishment or industry—a complete mental revolution—proven to do their duties towards their work followmen and employers. It involves a complementai revolution on the part of management, the board of directors & owners."

Fundamental principles of scientific management as enunciated by Taylor are:

(1) Replacing Rules of thumb with science.

(2) Obtaining harmony in group action.

(3) Achieving co-operation.

(4) Working for maximum outputs.

(5) Development of the most efficient norms and system of doing work with minimum of effort and cost.

Thus, scientific management aims at finding the best way of doing things. It aims at evolving techniques of setting norm for group efforts.

Henry Fayol

He is known as the father of Modern Occupational Management. He studied the business organisations in depth. He wrote as a practical manager. He laid down 14 principles of management and organisation as discussed earlier.

He emphasised that there are many activities common for all organisations. So these principles could be applied universally.

Management as a Behavioural Science

As Taylor and Fayol were concentrating on Scientific management, others were looking at its human side. They included thinkers such as Lillian Gilbreths, W.D. Scott and others. The principles underlying human relations approach are as under :—

(1) The management has to work with and through people. So it is human (and not only scientific) approach that helps in improving efficiency.

(2) Individuals are related informally among themselves (Informal Organisation) along with formal organisation. So the management should take note of this informal organisation also.

(3) Group behaviour is different from individual behaviour. Elton Mayo (in Hawthrone Studies) found out that workers resort to group norms.

(4) Understanding industrial Psychology and human Psychology of the workers is very important.

(5) Communication (both upward and downward) has very important role in organising business and its men.

Modern Management—Systems Approach

Modern thinkers and writers consider management as a system. The early school of thinking evolved around the ideas of introduction of science and art of managerial functions, analysis of and experimenting with the psychological aspect of people working there.

The essential elements of systems approach to modern management is summarised below :—

1. Management is a system in itself. It takes inputs from the environment, works itself to transform them and get specific goals.
2. It has its own sub-systems which are meaningfully connected to make it a working whole. Its sub-systems are the various human, material, and social groups working together. Thus, it has its physical system, technical system and social system.
3. It is itself a part of the larger social system alongwith other systems such as the political system, the legal system, etc.

Thus in the systems approach to management, it is viewed as a complete system in itself having its own sub-systems. These sub-systems are not isolated. All are interlinked and work together for efficient functioning of the management. Management itself is a subsystem of the organisation. The other subsystems with which it is related in the organisation are the technical, marketing, production and finance etc.

UNIT-III

LESSON 1

MANAGERIAL PLANNING

Planning is the most fundamental function of management. An organisation can succeed in effective utilization of its human, material and financial resources only when its management decides in advance its objectives and methods of achieving them. If group effort is to be effective, people must know what they are expected to accomplish. This is the function of planning. Planning involves selecting from among alternative future courses of action for the enterprise as a whole and for every department or section within it. It requires selecting enterprise objectives and departmental goals and determining ways of achieving them. In this sense, plans provide a rational approach to preselected objectives. Planning also implies managerial innovation.

Planning is deciding in advance the objectives of the organisation in the short as well as long run, and the means of attaining them. Thus, planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen. Although it is extremely difficult to predict the exact future and although there are some factors which are beyond our control and they may interfere with the best-laid plans, but without plans, we are leaving events to chance. In other words, planning is an intellectually demanding process as it requires conscious determination of course of action and basing our decisions on purpose, knowledge, and considered estimates.

Planning is deciding in advance what to do, how to do, when to do and who is to do it. So we can say that elements of planning can be :

1. **What will be done**—Here objectives of business are to be decided in the short as well as in the long run.
2. **What resources will be required**—This involves estimation of available and potential resources, estimation of resources required for the achievement of objectives, and filling the gap between the two, if any.
3. **How it will be done—It** comprises two things (i) determination of tasks' activities, projects, programmes etc., required for the attainment of objectives, and (ii) formulation of strategies, policies, procedures, methods, standards and budgets for the above purpose.
4. **Who will do it**—It involves assigning the responsibilities to various managers for attaining enterprise objectives. These enterprise objectives are further broken down into segmental objectives resulting into divisional, departmental, sectional and individual objectives.
5. **When it will be done**—It consists of determining the timing and sequence, if any, for the performance of various activities.

The Nature of Planning

The nature of planning can be understood by examining its four major aspects :

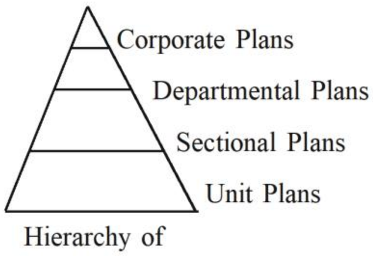
1. ***Contribution of planning to accomplishing purpose and objectives of the organisation:*** The purpose of every plan and all its supporting plans is to contribute to the attainment of enterprise purpose and objectives.

2. ***Primacy of Planning:*** Planning logically preceds the performance of all other managerial functions as in other managerial functions like organising, staffing, directing and controlling, operations are designed to support the accomplishment of the planned enterprise objectives. Although, in practice all the functions mix up, planning is unique as it involves establishing the objectives necessary for all group efforts. It is, therefore, necessary for a manager to plan in order to know what kind of organisation relationships and personal qualifications are needed, how subordinates are to be led and what kind of control is to be executed. Moreover, all the other managerial functions too should be planned if they are to be effective. Planning and control are dependent on each other. The reason is that any attempt to control without plans is meaningless as there is no way for the people to tell whether they are going the right way unless they first know where did they want to go. Therefore, plans furnish the standards for control.

3. ***Pervasiveness of Planning:*** Planning is a function of all managers. It is the responsibility of every manager to set his goals and operating plans. In doing this, he formulates his goals and plans within the framework of the goals and plans of his superior. Thus, planning is not the responsibility of the top management or the staff of planning department only. It is the responsibility for all those who are responsible for the accomplishment of results. Here it should be considered that planning acquires greater importance and tends to be longer in the future at higher than at lower management levels.

4. ***Planning is a continuous process:*** A plan means a statement of future intentions relating to objectives and means of their attainment. So, planning deals with the future, and future by its very nature, is uncertain. Plans cannot be said as final because revisions are required to be made in them in response to changes taking place in the internal as well as external environment of the enterprise.

5. ***Plans are arranged in a Hierarchy:*** First of all, plans are laid down for the entire organisation and they are known as corporate plans. This plan works as a framework for the formulation of divisional, departmental and sectional goals. Each of these organisational components sets its plans laying down the programmes, projects, budgets, resource-requirements, etc. The plans of each lower component are aggregated into the plans of successively higher component until the corporate plan integrates all component plans into a composite whole. For example, in the production department, each shop superintendent sets his plans, which are successively integrated into the general foremen's plans, works manager's plans and production manager's plans. All departmental plans are then integrated in the corporate plan. Thus, there is a hierarchy of plans consisting of corporate plan, divisional/departmental plans, sectional plans, and individual manager's unit plans. This can be shown as follow:



6. ***Efficiency of plans***: The efficiency of a plan is measured by comparing its contribution to the organisational purpose and objectives with the costs and other factors required to formulate and operate it. Plans are efficient if they achieve their purpose at a reasonable cost, when cost is measured not only in terms of time or money or production, but also in the degree of individual and group satisfaction as well.

Objectives of Planning

In an organisation, planning is important in the following manner:

1. ***To Offset Uncertainty and Change***: Uncertainty and changes of future make planning a necessity. Future is uncertain to the extent it is not known. Planning is based on estimate of the future which enables the management to anticipate opportunities and challenges. It makes necessary changes in its technology, products, policies, strategies and practices to take maximum advantage of new opportunities, and minimise its losses caused by favourable situations.

2. ***To Focus Attention on Objectives***: Because all planning is directed towards achieving enterprise objectives, the very act of planning focuses attention on these objectives. All the activities are performed to achieve those objectives. However, planning makes these objectives more concrete and tangible by focusing attention on these.

3. ***To make Economical Operation Possible***: Planning minimises costs because of its emphasis on efficient operation and consistency. The reason is that planning involves the selection of most profitable course of action that would lead to the best results at the least costs. By providing consistency and balance in the efforts, planning introduces continuous and even flow of work without any friction or loss of energy.

4. ***To Facilitate Control***: Managers cannot check on their subordinate's accomplishments without having planned goals against which to measure. Planned objectives and its instruments including policies, procedures, methods, standards, budgets etc., serve as instruments of control. Objectives provide the overall criteria for measuring performance. Policies provide the basis of evaluating decisions, and standards provide measures of efficiency of operations. Budgets provide the basis of financial control. Thus, planning serves as a basis of coordinated operations as well as control.

5. ***To Increase Organisational Effectiveness***: Planning promotes efficient utilisation of organisational resources in many ways. It provides a basis for the allocation of

resources among programmes, projects and activities. Budgets, methods and standards promote maximum utilisation of resources and minimise cost. Procedures and rules also save time and effort by regulating random behaviour and systematising the process of performance of activities.

6. ***To help in coordination:*** Though all the managerial functions lead to the coordination in the various units of the organisation, it starts at the planning stage. Well-considered overall plans unify inter-departmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus, various departments work in accordance with the overall plan so that harmony is achieved.

7. ***To provide criteria for decisions:*** Strategies and policies provide criteria for decision-making. They also provide freedom to managers by specifying the limits within which they can exercise discretion in making decisions.

Limitations of Planning

Planning is a difficult and complex process which itself is its limitation. Management can, however, improve planning effectiveness by recognising its limitations. Major limitations of planning are:

1. ***Uncertainties of future:*** As future cannot be predicted accurately, the forecasts and premises underlying the plans are subject to error.

2. ***Expensive and time consuming:*** Planning involves expenditure of financial, physical and human resources as well as time. This may delay action in certain cases. But it is also true that if sufficient time is not given to the planning process, the plans so produced may prove to be unrealistic.

3. ***Internal inflexibility:*** Internal inflexibility in the organisation may compel the planners to make rigid plans. In turn, managers may not like to take initiative and innovative action.

4. ***External Factors:*** Sometimes the effectiveness of planning is limited because of external factors which are beyond the control of the planners. For instance, government control, war, labour laws, Companies Act, natural factors like earthquakes, etc., may make the implementation of plans very difficult.

5. ***Administrative problems:*** These problems do not help in the creation of an environment which is conductive to planning. Some executives seem to think that planning is useless because the future cannot be predicted accurately. Conflict between staff planning specialists and line executives is also common factor which further complicates the process of planning. Planning also requires a participative style of management which would encourage involvement of managers and non-manager in the process of formulation of plans. Without this involvement, it is difficult to secure the full cooperation of those responsible for execution with the result that plans may remain on papers only.

The above problems do not, by any means, reduce the importance or need of planning. Recognising these limitations will help managers in more careful and systematic planning.

Some of the above limitations of planning can be over-come by taking the following measures:

1. The management information system should be properly organized so that all the relevant facts and figures are made available to the planners before they make any plan.
2. A system of forecasting together with a keen insight into the dynamics of future environment will improve the reliability of planned projections and estimates.
3. Management should give sufficient time and attention to planning as it is the basis of every other managerial function.

Process of Planning

The planning process involves the following steps:

1. ***Perception of opportunities***—This implies that management should take a preliminary look at possible future opportunities and see them clearly and completely. It should also know its standing in the light of its strengths and weaknesses. Besides, it should understand the reason for solving uncertainties and the outcomes which it expects. Setting realistic objectives depends on this awareness of opportunities.
2. ***Establishing objectives***—In the planning process, the second step is to establish objectives for the entire enterprise and then for each subordinate work unit. Objectives imply the expected results and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the network of strategies, policies, procedures, rules, budgets and programmes.

Many plans of the enterprise are directed by enterprise objectives. These major plans define the objectives of every department by reflecting the objectives of the enterprise. The objectives of subordinate departments are controlled by the objectives of major departments and so on. However, the subdivision managers should be given an opportunity to contribute their ideas for setting their own goals and those of the enterprise. By doing this, the objectives of the concern and of departments can be framed in a better way.

3. ***Establishing planning premises***—Planning premises are the various factors that affect planning. There are various factors which affect the organisational functioning like political factors, moral standards, government controls, prices, demand and availability of various factors of production. The important thing is that information is to be collected in respect of all these factors. Thus it can be said that planning premises are forecasts or the assumptions about the environment in which the plan is to be carried out. It is important for all the managers involved in the plan to agree on the premises. This agreement is necessary for coordinated planning.

A difficulty of establishing complete premises and keeping them up-to-date is that every major plan, and many minor ones, become premises for the future. As we move down the organisation hierarchy, the composition of planning premises changes to some extent. The basic process is the same, but old and new major plans will affect significantly the future against which managers of lesser units must plan. For instance, a superior's plans affecting a subordinate manager's area of authority become premise for the subordinate manager's planning.

4. ***Determining alternative courses of action***—An action can be performed in several ways. However, a particular way is the most suitable for the organisation keeping its limitations in view. The management should try to find out these alternatives. The common problem is not in finding alternatives, but in reducing the number of alternatives so that the best possible ones may be analysed. Even with mathematical techniques and the computer, there is a limit to the number of alternatives that may be thoroughly examined. So the planner must usually make a preliminary examination in the light of planning premises to discover the best possible course of action.

5. ***Evaluating alternative courses***—After finding out alternative courses and examining their strong and weak points, the next step in the planning process is to weigh them in the light of premises and objectives. But this step possesses a difficult problem because a particular alternative may be the best from one point of view but not from other points. For instance, one course may appear to be the most profitable but require a large cash while another may look less profitable but involve less risk. Because of these complexities, the operation research and mathematical and computing techniques have their primary application in evaluating these alternatives.

6. ***Selecting a course***—After evaluating the various alternatives the most fit alternative is selected. To this course of action is the point at which the plan is adopted. It is the real point .of decision making. Sometimes an evaluation of alternative courses may disclose that two or more are advisable. Here the manager may decide to follow several courses rather than the best course.

7. ***Formulating derivation plan***—After deciding the course of action or in other words the basic plan, the next step is to derive supporting plans for various departments, units, activities, etc.

8. ***Numberising plans by budgeting***—After decisions are made and plans are set, the final step is to numberize them by converting them into budgets. The overall budget of an enterprise show the sum total of income and expenses, with resulting profit or surplus and budgets of major balance sheet items such as cash and capital expenditures. Each department or programme of a business can have its own budget, usually of expenses and capital expenditure, which are then tied into the overall budget.

If this step is carried out properly, budgets can support the various plans and also serve as standards against which planning progress can be measured.

Types of Plans

Enterprise objectives form the basic plan of a firm. Other types of plans are discussed below:

1. **Strategies:** A strategy may be defined as any decision or behaviour which takes into account the probable or actual actions, policies and strategies of competitors, suppliers, government, trade unions, etc; and aims at achieving organisational goals. The strategist looks to rivals and other external factors, existing strategies and behaviour, consider their probable counter-strategies in response to his various alternative strategies and selects the one which is likely to be most effective. For example, marketing strategy of one enterprise may be to compete on the basis of price and of another on the basis of quality.

An executive selects strategies that help him in attaining his goals, and creating for him an advantageous position in dealing with the socio-economic environment in which he has to operate, with a consequent reduction in risk and uncertainty.

Moore differentiates between three types of strategies:

1. ***External Economic Strategies***—These deal with the broad approaches to meet the competition, adoption of technological changes responding to conditions of suppliers of raw materials, tools, equipment etc.
2. ***External Social Strategies***—These are concerned with the company's way of dealing with government agencies, social and public welfare organisations, political parties and the community.
3. ***Internal Organisational Strategies***—These relate to company's approach to the most effective utilisation of its existing human, physical and financial resources, development of potential resources, and generation of new resources.

Here it is important to distinguish between strategies and policies. Strategies focus on action and imply development of resources for their implementation, whereas, policies provide a guideline for decisions and action. For example, the marketing strategy of the Bata Shoe Company now is to use its own distribution network as also exclusive dealers for selling the Bata brand shoes while other dealers can deal in BSC and other brand shoes, its pricing policy is to mark all prices in "rupees and paises."

2. Policies: Policies are a guide to decision making. They establish the broad framework with which managers operate at various levels and are engaged in various functions, make decision of a recurrent nature. Policies also set limit within which the decision maker can operate. Policies do not tell a manager what he should do or how he should act in specific situations. They tell him what he can do, and thus set the limits to his decisions.

Formulation of Policies. Policies are formulated by executives at various levels in the organisation. Top management policies relate to major areas which are of strategic importance for the organisation as a whole. The owners of the enterprise lay down policies in regard to the nature and purpose of the business. The board of directors and the top management formulate basic policies of the company within the framework of the owner's policies. The basic policies relate to strategic areas of the company's business such as policies for capital investments, policies relating to wages and salaries, bonus and other benefits, dividend policy, pricing and distribution policies, and so forth. These policies are basic to the enterprise and provide direction to all its decisions.

Top management policies provide the basic framework for the formulation of derived policies for every division, department and function of the company. For instance, advertising and sales promotion policies are formulated by the marketing manager within the framework of top management policies relating to product-line, distribution channels and pricing.

At the lower levels of the organisation, the first line supervisors, section heads, etc., formulate policies for the performance of their own functions within the framework of the policies of their higher organisational units.

Purpose of Policies. Policies aim at :

1. Providing guidance to decision making on problems of a recurrent nature.
2. Channelising all decisions towards the achievement of predetermined goals.
3. Providing criteria for evaluating decisions.
4. Ensuring consistency and uniformity in decisions throughout the organisation.

Principles for the formulation of Policies—The following principles are applicable to the formulation of policies:

1. Policies should aim at contributing to the achievement of the objectives of the enterprise.
2. Policies should be definite and in writing.
3. Policies should be stable and flexible.
4. Policies at each lower level in the organisation should be derived from the policies of its immediately higher level.
5. Policies of each department and functional head should be coordinated with the policies of all other departments and functions.
6. Policies should be just, fair and equitable.
7. Policies should be periodically reviewed and modified, if necessary, to cope with the changing needs of the organisation.

3. Rules: Rules are a guide to action. In contrast, policies are guides to decisions. Rules prescribe behaviour, and define what should and what should not be done. "No smoking', 'wearing of safety-glasses while working at welding machines', are examples of rules. Rules are often accompanied by a penal clause for non-compliance. For example, a rule on attendance may state that, "if an employee is late at work for three days in a month, he shall lose one day's casual leave." Rules have the benefit of regulating and predicting behaviour in an organisation, but at the same time restrict initiative.

Rules should be distinguished from policies. The purpose of policies is to guide decision making by marking off areas in which managers can use their discretion. Although rules also serve as guides, they allow a manager discretion in their application.

4. Procedures: Procedures are plans that establish a required method of handling future activities. Procedures lay down the sequence of activities that several individuals should undertake to accomplish a specific goal. Procedures are steps involved in the transaction of the company's business. For example the procedure for hiring new personnel may involve creation of the post by the competent authority, preparation of job description and job specification, requisition by the departmental head to the central personnel department, advertisement of the post, scrutiny of application, administration of selection tests, hiring decision by the competent authority, issuing of the appointment order and medical testing of the new employee. Each of these steps must be completed in a sequential order.

Whereas policies are guides to decisions and rules are guide to action, procedures are the sequence of steps involved in making decisions and performance of activities.

5. Programmes: Programmes relate to those activities which have distinctive mission and time schedule. They generally cover some special activity which is a part of corporate planning. Some examples of activities for which programmes are prepared for execution are plant expansion, promotion of a new product, opening of a new sales branch, etc. In other words, programmes are a means of achieving some desired result within the scheduled time.

Programmes involve following steps:

(i) Identification of activities needed for its execution, for instance, ordering the equipment, selection of site etc.

(ii) Identification of sequential order of various activities specifying which activities are to follow, precede or start simultaneously in relation to one another;

(iii) determination of starting and completion time for each step:

(iv) determination and arrangement of physical, financial and material resources required for implementation;

(v) assignment of responsibility for the execution and completion of each step leading to the completion of the programme; and

(vi) establishment of a control system with respect to cost, time and quality of work performance.

6. Budgets: Budgets are the most wisely used instruments of planning as well as control. A budget is a statement of expected results expressed in numerical terms. Budgets are often called "numerical plans" as they are quantitative in nature. Financial budgets, also called "profit budgets", are an estimate of revenue and expenditure for one year. Capital budgets relating to new investments in product diversification, plant expansion, etc., may extend over a period of more than one year. They are financial plans of anticipated results in terms of profit represented by an excess of revenue over expenditure. Non-financial budgets include man power budgets, performance budgets, materials budgets, sales budgets, direct-labour hours budgets, etc.

Budgets are also control devices. But a budget cannot serve as a good standard of control unless it reflects plans. However, making a budget is clearly planning. Details of budgets are dealt in the lesson on control.

Decision Making : Concept and Process

Introduction

Decisions are made by all of us, in our daily lives. Decisions may be minor or routine decisions or they may be of pertinent importance for us and we take them consciously. For example, decision to buy a candy may be a routine decision without you being aware of that but decision to purchase a house is a major decision and thus, should be taken in a planned manner.

A decision means, to come to a conclusion and is a result of intuition, reasoning and of course, planning. In the context of business organisations, decision making is of vital importance. All managers take decisions, depending upon their nature and scope of work. These decisions, decides the success or failure of a business organization.

Meaning

A decision is a course of action which is consciously chosen from among various alternatives to achieve the desired result.

Decision making refers to the process of selecting the best alternative course of action, from among various alternatives available to management after through evaluation of each alternative.

According to Peter F. Drucker: “Whatever a manager does, he does through decision making” By taking a decision, a manager attempts to reduce the gap between the present and the desired situation. While decision making is a process/technique, a decision is the result or outcome of this process.

Characteristics of Decision Making

From the above description following features of decision making emerges:

1. **Goal oriented :** Every decision made, helps to achieve certain goals for an organization, either major or minor. It bridges the gap between where we are and where intend to go. A decision is considered to be good if it helps in achieving organizational goals.

2. **Involves choice :** Decision making essentially involves choice. You have to choose among the set of alternatives, the best solution to your problem. Unless, there are or more alternatives, there is no need for decision making.

3. **Continuous process :** Decision making starts from the very beginning of the organization and continues throughout the life of the organization. Manager are regularly engaged I making decisions and the very nature of their jobs demand rigorous decision making.

4. **Intellectual exercise :** Decision making is no doubt a thinking exercise. It involves creativity and imagination, experience and intuition also play a major role when it comes to decision making.

5. **Dynamic :** Technique used for making decisions may vary with the nature of problem and time frame available to solve that problem.

6. **Situation :** Decision making depends on the situation facing the management, when a problem pops up. A manager may take one decision in particular situation and opposite decision in another situation. Sometimes they may decide that it is wise not to act at all.

7. **Commitment of organizational resources :** Decision making involves time, effort, physical resources etc. Resource commitment is involved both at the planning phase and implementation phase of a decision. Thus, it is very essential that right decisions be taken at the right time, otherwise precious organizational resource may go wasted.

8. **Pervasiveness :** Decision making is pervasive. Manager at all levels i.e., top, middle, low and in all areas of management i.e., production, marketing, finance etc. are involved in making decision. Also, decision making is involved in all functions of management i.e, planning, organizing, staffing, directing and controlling.

Types of Decisions

Decision may be classified into following types:

1. routine and Strategic Decisions: Tactical or routine decisions are concerned with routine or repetitive problems. They neither require collection of new data nor conferring with people. Thus, they do not require much of managerial judgement or deliberation. Such decisions are mainly taken by the managers at middle or lower levels of management. Top management lays down the rules and regulations for such decisions. For instance, departmental heads can easily decide salary of a new worker on the basis of established scales for different categories of the employee.

   Strategic or basic decisions on the other hand, are more important and thus they are taken by top level of management. Such decisions involve long term commitments and exercise an enduring influence on the future of the organization. These decisions relate to the policy matters and so require a through fact finding and analysis of possible alternatives. For instance, location of new plant, launching of new product are some of the important decisions that a firm needs to take.

2. Programmed and Non-Programmed decisions : The programmed decisions are of a routine and repetitive nature which are to be dealt with according to specific procedure. A sequence of steps can be laid in advance so that the decisions become highly structured. They are called programmed because information on them is available in advance and can be processed in pre-planned manner. They are relatively simple and have a short term impact, thus, they are entrusted to lower levels of management. For instance, if an employee absents himself from work for a long period of time without intimation, the supervisor can deal with such situation according to standard procedure without consulting the chief executive.

On the other hand, non-programmed decisions arise because of unstructured problems. These are concerned with novel or non-repetitive issues. There is no standard procedure for dealing with such problems. Since, readymade decisions are not available and high degree of precision is required, so they are generally made by top level of management. For instance, if large number of employees absent themselves from work for a long period of time without intimation, the supervisor cannot deal with such situation without consulting the chief executive. The scenario depicts and unstructured problem which can be solved in the light of scientific analysis of situational factors and requires the involvement of top officials.

3. **Individual and Group Decisions:** Individual decisions are taken by individuals. They are taken either in small organizations or in those organization where autocratic style of management prevails. In such decisions analysis of various variables is relatively simple.

   Groups decisions, on the other hand are taken by a group of organizational member. Decisions taken by a committee or board of directors are examples of group decisions. These decisions are generally important for an organization. They promote participative decisions making but takes more time and create difficulty in fixation of responsibility.

Role of Decision Making

Decision making lies deeply incorporated in the process of management and is spread over all managerial functions and covers all areas of the enterprise.

Effectiveness of decision making and quality of decision depend upon manager's skill, judgement competence and ability. It involves thinking and deciding before doing and so is inherent in all managerial functions. Each manager has to take a number of decisions while performing the function of planning, organizing, staffing, directing and controlling. That is why decision making is often called the essence of management.

Decision are made not only regarding the various elements of management and matters involved therein such as determination of organizational goals, designing the structure of organization designing controlling techniques etc. but managers have, also to decide upon various issues related various issue related to functional areas like production, marketing, distribution, purchase etc. Thus, it runs through the entire process of management and all sub systems of the organizations.

In an organization, resources can be mobilized and utilized in the direction of achieving desired goals only by making decision and getting them implemented.

Right from the day when the size of business used to be very small to the present day, the importance of decision making has been there. The only difference is that in today's business environment, decision making is getting more and more complex.

Process of Rational Decision Making

The world rational basically means judicious, logical, sensible and scientific. A rational decision, therefore implies, a decision backed by a scientific process involving analysis of the problem, collection of relevant data, review of key factors, evaluation of alternatives and choice of best alternative. Such a decision could be justified on a logical basis and does not suffer from the personal bias of the decision maker. Irrational decision o the other hand, is based purely on hunch and intuition without using relevant facts and figures.

1. **Identify the problem :** The process of decision making starts with the discovery of the problem, that requires a decision. This requires analysis of internal and external situations. Clear definition of the problem is very important as the right answer can be found only to right questions. Imagination, judgement and experience are required for detection of problems that requires managerial decision.

2. **Diagnose the problem :** Once the problem has been identified, the next step is to analysis the problem to determine its nature. The problems have to be defined in terms of its origin, scope, causes, importance, intensity, magnitude etc. In order to diagnose the problem a manager must obtain all important fact and analyse them carefully.

3. **Discover alternatives :** After diagnosing the problem, a manager has to develop alternative solution. The process of decision making becomes relevant and meaningful and challenging exercise for managers, only if the have many more alternatives to be examined, for making a final decision. Managers should not take hasty decisions by jumping on the first feasible alternative which is available. It is their obligation to search for the various alternatives, as many alternatives may not be obvious and apparent. Some alternatives may be developed by managers, other may be generated through research and analysis, creative thinking and innovativeness. However, the principle of limiting factor should be followed i.e., only strategic factors which are most important in determining solution to a problem should be considered.

4. **Evaluate alternatives :** After discovering alternatives, each alternative is evaluated to satisfy the objective of management. The probable consequences of alternatives can be estimated through for casting and other devices. An alternative should be thoroughly evaluated in terms of risk, time consumed, efficiency and resource position. Cost-benefit analysis should be performed. While choosing an alternative, both qualitative and quantitative factors should be taken into account.

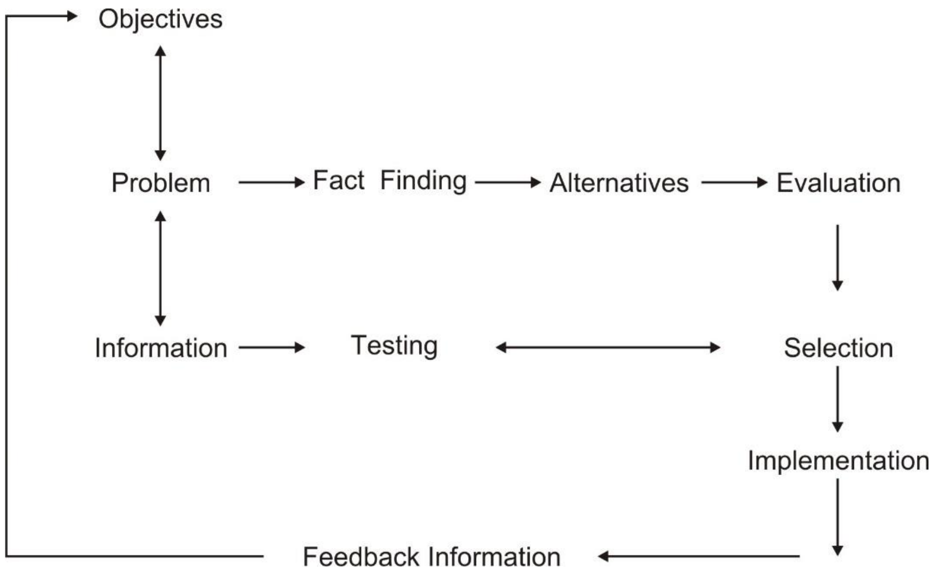
5. **Select the best alternative :** After evaluation the best alternative is selected i.e., that alternative that will maximize the result under the given condition. For the final choice the manager has to relay on his experience, skill, judgement, experimentation, research and analysis. Various organization plans, policies, rules, basic philosophy of management and other human factors are given due weightage.

6. **Implementation and follow up :** A decision remains on papers, unless it is implemented. Implementation requires following steps:

    1. communication of decision to those responsible for its implementation.
    2. Securing maximum cooperation.
    3. Commitment and acceptance from concerned employees.

4. Making structure and administrative arrangements such as delegation of authority, allocation of resources etc.

After putting the decision into practice, management must constantly monitor the consequences. This is feed back or follow up aspect of decision making process. Periodic progress reports should be obtained. In case, feed back indicates flaw in the decision, necessary modification should be made. This feed back may laso prove helpful in future decision making.



Decision Making Process

Decision- Making: Techniques and Support System

The process of managerial decision making has become very cumbersome in the highly turbulent business environment of the present times. In order to evaluate the alternatives for choosing the best alternative course of action, certain qualitative and quantitative techniques have been developed which help in making objective decisions. Accordingly, the techniques fall under two categories: -

1. Qualitative techniques.
2. Quantitative techniques.

Qualitative techniques

These techniques are basically traditional in nature and the quality of decision arrived at depends upon the qualities of decision maker himself (i.e. his competence, knowledge etc). The prominent techniques of decision making often used by groups or committees include the following—

(a) Experience

Experience is basically learning from past judgments. An experienced manager uses feedback of his past performance in deciding about the current course of action. However, this technique should be used carefully, in the light of changing environmental conditions. In many cases, this technique may prove unscientific and misleading.

(b) Intuition

Intuition or hunch is the ability to comprehend something by using feelings rather than facts. Decision making of this type is influenced by the beliefs, attitudes, perception, psychology of the decision maker. Some managers take decision very quickly because of the presence of intuitive powers rather than those who undertake elaborative formalities and procedure for making decisions. Though, this technique seems cheap and less time consuming, but the probability of taking wrong decisions is extremely high.

(c) Mutual Consultation

Mutual consultation calls for conducting meetings and formation of committees. Here, decision maker, decides an issue through diverse and creative ideas of a number of people present in the meeting or present on the board of committee formed for the purpose. This result in getting specialized knowledge and expert comment on the issue under consideration.

(d) Facts

Facts refer to the background information for developing and evaluating an alternative. However, facts and figures do not speak for themselves, they require systematic processing and interpretation by the decision makers. Fact, in itself in not an independent technique of decision making. They simply, serve as a basis of decision making by a manager who prefers to take decisions on a sound basis.

(e) Standard Plans

Standard are the pre-established guidelines to perform a particular task. This technique is normally adopted in situations where routine decision making is involved.

Managers at lower levels in an organization generally follow this technique. They have to take large number of routine decisions during the normal course of performing their organizational duties and these standards help them in quick decision making.

(f) Delphi technique

This Technique calls for making a decision, when there is convergence of opinion. Under the technique, a panel of experts related to a particular problem area is prepared. Experts are deliberately kept apart and their identity id kept secret from one another. A Pre-drafted questionnaire is prepared and given to each expert, for obtaining his response to the questions contained therein. Answer of each expert is evaluated and on those answers on which experts have varied opinion, need to be scrutinized through feedback provided to such experts. Experts are requested to communicate the reasons for their divergence and again feed back is sent to them. The process of providing feedback is repeated till convergence of opinion begin to emerge.

(g) Brain Storming

Through this technique, often, unique solutions to complicated problems are obtained. In brain storming session, a problem is posed before a number of managers and ideas are invited from them for a solution to a problem. Each one in this session offer his/her own idea for solving the problem. After the session gets over, each idea is critically examined, and useful ideas are further processed to arrive at solution to the problem.

(h) Consensus Mapping technique

Consensus mapping technique is used for consolidating results from several taskforces or project groups and is suitable for solving problems that are multidimensional and have interconnected elements. This technique begins after the first task group has developed and evaluated a list of ideas**.**

The technique is used to pool the ideas generated by several task subgroups to arrive at a decision. The facilitators encourage participants to search for clusters and categories of ideas. This search for structure includes the listing and discussion of alternative clusters and categories by the subgroups, and then generation of a single classification scheme by group members working as a group or in pairs or trios. After this, the facilitators consolidate the different schemes developed by subgroups into a representative scheme that act as a 'strawman map' tor the entire group. Group members then work to revise the strawman map into a mutually acceptable solution this exercise is repeated until the group as a whole arrives at a single consolidated map and a final decision based on that.

QUANTITATIVE / MATHEMATICAL TECHNIQUES

The main objective of developing and introducing quantitative techniques is to ensure
a high degree of precision and accuracy. Some of the techniques are as follows: -

(a) Liner Programming

The technique is used for determining the optional combination of limited resources for achieving a given objective. It is based as the assumption that there exists a relationship between the variables. With the help of a linear equation, optimum combination of cost, time and utilization of machine can be prepared. The objective function of this technique is either to maximize benefit or to minimize cost.

(b) Queuing theory

It involves a mathematical study of queue or waiting lines. It is to be applied for maintaining a balance between cost of waiting line and cost of preventing the waiting line in respect of utilization of personnel, equipment and services. It is based on the premise that although delays are costly (in that customers may decide to do business in other institutions); the costs of eliminating them may be even more costly. The technique may be used in service organizations like transportation, hospitals, banks etc.

(c) Probability theory

This statistical device is based on the assumption that certain things are likely to happen in the future in a pattern which can be predicted to some extent by assigning various probabilities. Though probability is not a certain phenomenon, but deviations from probabilities are within fairly predictable margins. It plays a major role in techniques like pay off matrices and decision trees.

(d) Marginal Cost Analysis

It is also known as marginal costing as under this analysis, the additional revenues from additional costs are compared. The profits are maximum at the lever where marginal revenues and marginal costs are equal. It can also be used for comparing factors other than costs and revenues. For example, in order to find maximum output of a machine, one can vary inputs against output unit until additional inputs equal additional output. This would be point of maximum efficiency of the machine. Break even analysis is the modification of this technique which tells the management the point of production, where there is no profit no loss.

(e) Cost Benefit Analysis

It is the techniques of weighting alternatives, its terms of costs and benefits, so that an alternative where benefit is maximum against costs involved may be selected. Cost models may be developed to show cost estimates for each alternative and benefit model to show the relationship between each alternative and its effectiveness. Next, synthesizing models may be developed to show the relationship between costs and bene fits of each alternative. This technique is used when objective is less specific, for example, social objective.

(f) Network Analysis

Network analysis is used for planning and controlling the project activities. Under this, a project is broken down to small operations which are engaged in a logical cycle. The next step is to decide the sequence of operation to be performed. A network diagram may be drawn to present the relationship between all the operation involved. The diagram will reveal gaps in flow plans. It will also show the interdependence of various activities of project and point out the activities which should be completed before others are initiated. PERT (Program Evaluation and Review Techniques) and CPM (Critical Path Method) have become very popular as network analysis technique**.**

Information Technology (I T) and Decision Making

In present day industrial and commercial scenario, decision making has become very complex. To improve the quality of decision, managers require vary fast processing and transmission of huge quantity of data. IT performs this function efficiently.

IT is a combination of various techniques for capture, storage, processing and transmission of data, information retrieval and its display. It consists of hardware, software, data base management, telecommunications and other information processing techniques used in computer- based information system.

IT enables installation and operation of MIS (Management Information System); under which computer performs the functions of data organization and formatting; it makes available the information at the proper time to proper decision maker/s.

Main components of IT are

1. **Computer hardware** i.e. physical equipment used for input, processing and output of data.
2. **Computer software/programs** consist of detailed programmed instructions to coordinate computer hardware components.
3. **Data base management** is the organized set of data that is stored in a computer and can be looked at and used in various ways. It implies technical and operational aspects of managing data, including data base design and operations.

4. **Telecommunications** are the methods for dispersing information among different computers located at different places. For this linkage are created through network.

It has become an essential tool for management. Through I T, managers can perform many functions in lesser time and that too cheaply. It helps in providing competitive edge to the managers. Data processing and transmission has become very fast in modern era due to IT revolution making improvement in the quality of decisions being made. IT helps in collection, processing and communication of information very quickly and at low cost so that prompt actions for the problems can be obtained. In fact, IT helps managers to improve efficiency and effectiveness of their organization.

Decision Support System (DSS)

Decision-making can be structured (i.e. programmed), unstructured (non-programmed) or semi-structured (in-between phase).

Structured decisions are those whose objectives are clear; procedures are standardized and for which standard solution exists. For novel problems. It involves considerable judgment and a creative solution. For this decision no standard solution exists. **Semi-structured decisions** involve a combination of both standard solution and individual judgment.

A DSS can improve the quality of information on which decision is based by providing a range of alternative solution in case of unstructured and semi-structured decision**.**As per Scott Morton, “DSS means interactive computer – based systems which help decision makers utilize data and models to solve unstructured problems.”

DSS use computers to facilitate the decision-making process of semi-structured tasks. These systems are designed not to replace managerial judgment but to support it and make the decision-making process more effective. DSS helps managers to react quickly to changing needs. The availability of minicomputers and microcomputers, as well as communication networks, has made it possible to access and utilize a huge amount of information at low cost. Thus, DSS provides managers with an important tool for decision-making under their control.

DSS are designed in such a manner so that users can work with them directly. These systems exclusively include user friendly software. DSS are interactive in nature, so user can change assumptions, ask new questions and include new data.

Features of DSS

The characteristics of DSS are as follows-

1. DSS improves decision effectiveness, not the efficiency with which decision are being made.
2. DSS provide tools required for analysis of data in a flexible manner.
3. They are focused on specific set of decisions such as routing, queuing etc. which are not meant for general use.
4. They support managerial judgment particularly at top and middle level, rather than replacing it.
5. In DSS, reliable communication networks, computer terminals are more important than large scale data processing systems.
6. Extensive participation of end users is desirable.

Objectives of DSS

A DSS must achieve following objectives-

(1) To support managerial judgment rather than replace it.

(2) To assist managers in making decisions to solve semi-structured problems.

(3) To improve the effectiveness of decision-making rather than improving efficiency. Manager's valuable time should not be saved at the cost of quality of decisions. Proper algorithms and models should be developed to provide decision options.

Earlier, DSS focused mainly on individual decisions making. But later on, group decision support system was developed to support group decision making. Examples of DSS are – Data Analysis system, suggestions models, optimization models, accounting models, pricing decisions, investment evaluation etc.

DSS incorporate both data and models. DSS software system manages the creation, storage and retrieval of models from model base and integrates them with data in the data base. It also provides a graphic and easy to use flexible user interface Lotus 1-2-3 or MS-Excel are examples of DSS software.

Thus, a DSS is a specialized Management Information System (MIS) designed to support a manager's skills at all stages of decision-making whether it is identification of problem or choice of data or evaluation of alternative courses of action. It can therefore be concluded that DSS is MIS is not always DSS because of their different purposes.

Management Information System (Mis)

An organization is managed by taking various decisions at the various levels of its hierarchy. Information is needed to take such decisions Quality of decisions rests on the nature and quality of information provided for taking them Thus, designing of an effective information system is a prerequisite for efficient working of an organization. MIS is pertinent to supply information required for managing an organization effectively. MIS can, therefore, be defined as a system designed to supply information required for effective management of an enterprise.

Objectives of MIS

Some of the objectives of MIS are as follows-

1. To make the information available to the right person, at the right time and in the right form.
2. To supply the information at reasonable cost.
3. To process data by using most efficient methods.
4. To keep the information up to date.
5. To maintain secrecy and security of confidential information.

Functions of MIS

Management Information System can be classified into two categories-

A. **Data Collection:** The responsibility for collection of data, frequency of data required, and presentation of information should be decided in advance. The nature and form of data will vary from organization to organization. The manner of data collection will depend upon the purpose for which it is going to be used. Filtration is very essential to delete irrelevant data so that relevant data can be easily tabulated and classified for usage.

B. Data Management: The data management process should be capable of giving efficient service in terms of routine processing of information. At the same time, the system design should not be rigid. It should be capable of meeting changes in the demand from different sources. A good data management system involves various sub functions like-processing operations, storage of data, retrieval of data, evaluation and dissemination of information.

Therefore, it can be concluded that the prime purpose of developing an information system is to support corporate planning and control systems. An MIS which is not tailored to the needs of planning and control systems is meaningless. Similarly, planning and control. Systems which are not served by an effective information system may be only of marginal utility. The designing of MIS should thus, take into account its contribution to effective planning and control systems.

LESSON 2

NATURE AND PROCESS OF ORGANISING

Organising is one of the major functions of management. It consists of identifying and grouping of activities, assigning of authority to managers and providing for coordination.

Every organisation is created with a set of purposes. For achieving these purposes, we must first of all, determine what activities will have to be performed. For example, before the organisers of a hospital can help the sick, they will have to determine what equipment to buy, how many doctors, nurses and other staff to hire, how many departments to create, and so on. In other words they have to first decide about the total work to be done for achieving the hospital's objectives. Thus, organising process begins with the detailed enumeration of various activities that will have to be performed for achieving the organisational goals.

The second step in the organising process is to group various activities in some meaningful way. It is useful to put activities of a similar nature in one group. Generally, various activities are grouped in different departments. The grouping of activities in accordance with the functions of an enterprise is a widely accepted practice. In a manufacturing concern, sales, production, personnel and finance are some of the typical departments. One important feature of grouping various activities into departments is that activities in one department happen to be clubbed together because of their essential similarity and contrast with the activities of other departments because of their dissimilar nature. Thus, the second step in the organising process is to group various activities into departments.

The third step in the organising process is to assign each department to a manager with authority necessary to supervise it. This is the most important step in the organising process because nothing systematic happens in an organisation unless every one knows what is expected of him, what authority he has and to whom he is accountable. This aspect of organising is known as delegation. A manager, because of his limited physical and mental capabilities, cannot do all the work himself. He keeps a part of the total work with himself and delegates the other part to his subordinates. These subordinates have to be given adequate authority so that they can discharge their responsibilities satisfactorily. At the same time they have to be made accountable to the manager so that he may account for the tasks entrusted to him by his superior. Thus, the three elements of delegation, namely, authority, responsibility and accountability constitute a very important part in the organising process.

The fourth and the final step in the organising process is to provide for horizontal and vertical coordination in the organisation structure. As individuals and departments perform their assigned tasks, the overall goals of the organisation may become submerged or conflicts among organisation members may develop. For example, marketing manager may press for larger advertising budgets to stimulate demand even though the larger interests of the organisation may be best served by investment in automatic machinery for reducing the cost per unit. To prevent such a situation it is necessary to establish coordination between the production and the marketing departments. Such a coordination is known as horizontal coordination. Vertical coordination between the different levels of organisation is also necessary for its smooth functioning.

PRINCIPLES OF ORGANISING

Let us now discuss the principles of organising. These principles are more in the nature of criteria for good organising than any hard and fast rules which must be followed while organising any structure. It is important to note that there can not be any one best organisation structure suitable for all organisations or for all times. Following are some of the important principles of organising:

1. **Unity of Direction:** This principle implies one head and one plan for a group of activities having the same objectives. Unity of direction is achieved when every department and section attempts to specialize in the activity assigned to it.
2. **Unity of Command:** This principle states that a subordinate reports only to one boss. This is necessary to avoid conflict which may develop if the subordinate receives conflicting orders from more than one boss.
3. **Authority:** Every individual in an organisation has some responsibility which he can discharge properly only when authority granted to him is in accordance with his responsibility.
4. **Span of Control:** Span of control refers to the number of persons which a manager can effectively supervise. According to this principle, the span of control must be limited because the physical and mental capabilities of a manager are rather limited.
5. **Flexibility:** The organisation structure must be sufficiently flexible to accommodate changes occurring within and outside an organisation.
6. **Management By Exception:** This principle requires that organisation structure should be so designed that managers are required to go through only the exceptional matters. All the routine decisions should be taken by the subordinates, whereas problems involving unusal matters and policy decisions should be referred to the managers.
7. **Scalar Principle:** According to this principle, there must be clear lines of authority running form top to bottom in the organisation structure. The clearer the line of authority from the top management to every subordinate position, the more effective will be the performance.

Formal and Informal Organisation

The formal organisation is the outcome of the organising process. It is deliberately designed for achieving the organisational objectives. It specifies who is to be what, with whom and under whose supervision. Informal organisation, on the other hand, emerges spontaneously as a result of human interaction. When people interact, they develop likes and dislikes. As a result, they happen to find themselves as members of informal groups. Normally, these informal groups are not planned to come into existence. They evolve over time and influence the behaviour of their members to a considerable extent. The organisers should not try to suppress the growth and functioning of these informal groups which are merely expressions of shared sentiments or values. Rather they should try to utilise them for achieving the organisational objectives.

Span of Control

There is limit to the number of persons a manager can effectively supervise. This limit varies depending on the situation. As a result of this limit, organisational levels come into existence. A wide span of control is associated with few organisational levels; a narrow span results in many levels.

In every organisation, it must be decided how many subordinates a supervisor can manage. The classical theory recommended specific numbers of subordinates—six at the top and twenty at the bottom. But a more recent view is that there are too many variables in a management situation to specify any particular number of subordinates which a manager can effectively supervise. There is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend upon underlying factors that affect the difficulty and time requirements of managing.

Factors determining an effective span: In searching for the answer as to how many subordinates a manager can effectively manage, we discover that—aside from such personal capacities as quick understanding, getting along with people, and commanding loyalty and respect— the most important determinant is the manager's ability to reduce the time he spends with his subordinates. This ability naturally varies from one manager to another, but there are seven general factors which significantly influence the number and frequency of superior-subordinate relationships. These factors are as follows:—

1. Subordinate Training: The better the training of subordinates, the less the time consumption and frequency of contacts with the manager. A manager can afford to have a wide span if the subordinates are well-trained.

2. Clarity of Delegation of Authority: Although training enables managers to reduce the frequency and extensiveness of time consuming relationships, the main cause of the heavy burdens of such relationships is to be found in lack of adequate authority and lack of clarity of delegation. A manager, who clearly delegates authority to undertake a well-defined task and delegates the required amount of authority, can get the job done with a minimum of encroachment on his time. But if the subordinates' task is not clearly defined, or if he does not have adequate authority to perform the task, either the task will not be performed or the manager will have to spend a disproportionate amount of time supervising and guiding the subordinates' efforts.

3. Clarity of Plans: If organisational plans are well defined, if they are workable, if adequate authority has been delegated to undertake them, and if the subordinates understand what is expected of them, little of a supervisor's time will be required. On the other hand, where plans cannot be drawn accurately and where subordinates must do much of their own planning, their decisions may require considerable guidance.

4. Use of Objective Standards: A manager must find out whether his subordinates are following plans. He often requires standards against which he can compare the actual performance of his subordinates. If these standards are set objectively i.e., do not require subjective judgement, then manager's job becomes easier and enables him to avoid many time-consuming exercises and relationships.

5. Rate of Change: Certain enterprises change much more rapidly than others. The rate of change is important in determining the degree to which policies can be formulated and stability of policies maintained. Slower the rate of change, broader the span can be had. However, if the rate of change is rapid, a narrow span would become necessary.

6. Communication Techniques: The effectiveness with which communication techniques are used also influences the span of control. If every plan, instruction, order, or direction has to be communicated by personal contact, a manager's time will obviously be heavily burdened and he will not be able to supervise the work of too many subordinates. An ability to communicate plans and instructions clearly and concisely or comprehensively also tends to increase a manager's span. The subordinate, who after leaving a superior's desk or receiving instructions, is still in doubt as what is wanted or what has been said is sure to increase the meetings with his superior. As a result, his span of management will be reduced.

7. Amount of Personal Contact Needed and other Factors: In many cases, face-to-face meetings are necessary, these meetings obviously draw upon a manager's time. Greater the number of such meetings, lower the span of management. Besides the listed factors, there are factors that influence the span of management. For example, a competent and trained manager can effectively supervise more people than one not having these attributes. Furthermore simple tasks allow for a wider span than tasks that are complex. To sum up, we can say that there is a limit in each managerial position to the number of persons an individual can effectively manage, but the exact number in each case will vary with underlying variables and their impact on the time required for effective managing.

Line and Staff Authority Relationships

Line and staff are viewed in various ways. One widely held concept of line and staff is that line functions are those that have direct responsibility for accomplishing the objectives of the enterprise, while staff functions are those that help the line to work most effectively in achieving the primary objectives of an enterprise. Those who subscribe to this view almost classify production and sales as line functions, and purchasing, accounting, personnel, plant maintenance, and quality control as staff functions.

Such a view is confusing. Staff functions are not really any less essential to the achievement of company's objectives. A more precise and logically valid concept of line and staff is that they are simply a matter of relationships. According to this view, line authority gives a superior a line of authority over a subordinate. This authority exists in all organisations. The nature of the staff relationship is advisory. The function of people in pure staff capacity is to investigate, research and give advice to line managers to whom they report.

The distinction between line and staff is important. Superior and subordinate alike must know whether they are acting in a staff or a line capacity. If in a staff capacity, their job is to advice and not command; in a line capacity, they must make the decisions and issue orders.

A. Line Organisation: An organisation structure consisting of line personnel only may be called a line organisation. In such an organisation, each position has general authority over all the lower positions (Fig. I).

Figure I : Line Organisation

In a line organisation, as shown in the above figure, authority flows downwards in a straight line. No subordinate is under more than one superior. Scalar principle and the principle of unity of command are strictly followed.

Advantages: The main advantages of the line organisation are as follows:

1. It is simple to work. There are no staff positions.
2. It is economical and effective, for it permits of rapid decisions and effective coordination, as all the activities affecting the department are in the hands of one individual.
3. It makes for unity of command and also conforms to tasks in a definite manner upon the concerned individuals.
4. It fixes responsibility for the performance to tasks in a definite manner upon the concerned individuals.
5. It is conducive to effective control because a subordinate is answerable to only one boss.

Disadvantages: The system has the following drawbacks:

1. The system is not workable in large organisations.
2. It suffers from lack of specialisation. Each department manager has to buy his own materials, design his own product, engage his own labour, keep his own records, set his own standards of output and cost. Therefore, because of the lack of specialized skill each head of the department is inclined to be a jack of all trades and master of none.
3. The fixation of responsibility on the shoulder of the manager can crush under the load of too much work.
4. The system cannot reap or provide the benefits of expert advice of the staff personnel because it does not provide for their appointment.

B. Line and Staff Organisation: In line and staff organisation, line authority moves down in the same manner as in the line organisation. In addition, specialists are attached to line managers to advise them on important matters, as is shown in figure II.

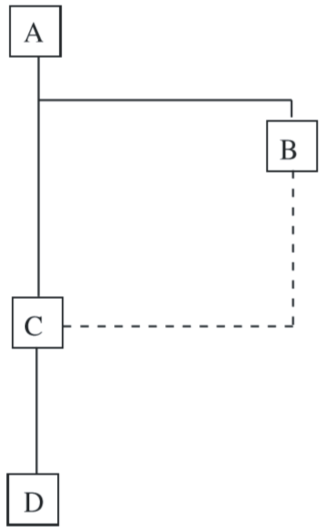


Figure II : Line and Staff Organisation

In Fig. II, A, C and D are parts of the chain of command. As far as the relationship of B to A is concerned, B is subordinate to A, but he is not a part of the chain of command. The relationship between B and C is just advisory in nature and B enjoys no authority over C. However, B may enjoy a higher status than C does, though the relationship between B and C is not that of superior and subordinate. Thus, those who develop ideas and render advice on various aspects of organisational functioning and fall outside the chain of command are staff personnel. Those who implement these ideas and form part of the chain of command are line personnel. Most organisations have both line and staff personnel and are, therefore, called line and staff organisations. We must, however, remember that even a head of the staff department enjoys authority in his own unit. He has line relationship with his subordinates and enjoys authority over them.

Advantages: The line and staff organisation has all the benefits of the line organisation. It has the following additional advantages:

1. Line managers get the benefit of specialized knowledge of staff specialists at various levels.
2. Staff specialists relieve the line managers from the botheration of concentrating on the specialized functions like accounting, selection and training, public relations, etc. and thereby enable them to do their work more effectively.
3. Staff specialists help the line executives in taking better decisions by providing them adequate information of right type at the right moment.
4. Line and staff organisation is more flexible than line organisation because experts can be appointed for helping the line personnel.

Disadvantages: Line and staff organisation suffers from the following drawbacks:

1. There is generally a conflict between the line and staff executives. Staff personnel may complain that their advice is not accepted by the line managers who in their turn, may complain that the staff personnel have only theoretical knowledge and don't understand the practical problems. Such a conflict is not good for organisational health.

2. Because staff personnel are not accountable for the results, they may not perform their duties properly.

3. Because the promotional avenues for the staff personnel are rather limited, they compete with each other to gain favour of the senior line officer. This promotes the cult of flattery and is highly undesirable. Moreover, in the event of any opportunity becoming available outside, the staff personnel are, without any hitch, prepared to leave the organisation. This is also undesirable from the point of view of the organisation.

C. Functional Organisation: One of the most important organisational principles is that a subordinate should receive command from and report only to one boss. If there are more than one boss for the same subordinate, he will be confused as to whose orders he should obey. This principle is called the unity of command principle. However, in modern organisations which are huge in size and highly complex, it is often seen that the same workers have to receive commands from more than one superior in different matters. It is just not possible for one superior to supervise the worker in respect of time scheduling, quality control, material handling, etc. Therefore, different superiors performing different functions command the same order in respect of their respective functions. Such an arrangement is known as functional organisation, as shown in Fig. III.

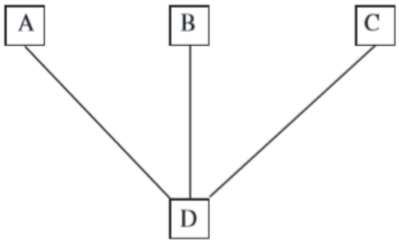


Figure III : Functional Organisation

It should be obvious from Fig. Ill that D receives command from A, B and C. This violates the principle of unity of command, but this violation has become necessary in view of the increasing size and complexity of organisations in which it is difficult for one supervisor to supervise in all matters. Therefore, in a functional organisation, a worker receives commands from different sources on different matters for his functioning. This is more clearly explained in Fig. IV:

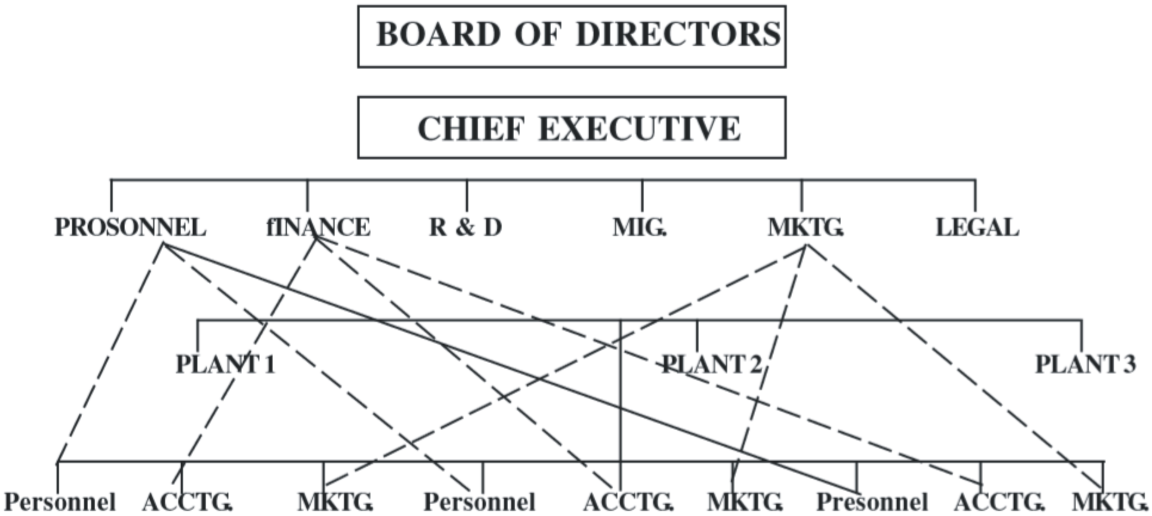


Figure IV. Functional Organisation

In Fig. IV one finds that personnel departments in all the three plants are being directed in personnel matters by the personnel department at the apex level. The personnel departments of various plants are also being controlled by the plant manager concerned. So is the case with all other departments in a particular plant. In this case, the line authority of plant managers is being shared by the functional heads for respective functions at the apex level. This is because the benefit of expert knowledge of staff departments at the apex level becomes available to all the plants. Besides, it helps in maintaining uniformity of policies and procedures. For example, the personnel manager of the plant is accountable to the plant head for personnel problems of the plant, but he is accountable to the personnel head at the apex level for implementation of personnel policies of the organisation.

Advantages: The functional organisation has the following advantages:—

1. It helps in achieving the benefits of specialisation of work, as one man devotes his entire time and energy in doing one thing.
2. Each person gives his best efforts which he develops according to his best abilities.
3. It makes supervision easier, because each manager is expert only in a narrow range of skills.

Disadvantages: Some of the drawbacks of functional organisation are:

1. Because of the failure to define the exact nature of the functional authority, the system proves confusing from the point of view of procedures of control.
2. The clear-cut lines of responsibility and authority of the line organisation are totally lost.
3. It complicates the control process by making the workers work under different superiors.
4. It makes difficult for the management to fix responsibility for unsatisfactory results.

Delegation and Decentralisation

There is a limit to the number of subordinates a manager can effectively supervise. Once this limit is reached, delegation of authority becomes necessary. Delegation of authority is the most important step in the organising process.

To delegate means to grant authority to the subordinate to accomplish a particular assignment. Delegation enables a manager to distribute his work load to others and concentrate on more important functions which he can perform better because of his organisational position. Delegation is the process which a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively, and so that he can get others' help for whatever remains to be done.

Delegation of authority is widely recognised as an art of getting the best results. The process of delegation comprises the following three components:

1. Entrustment of responsibility (duty or work) to the subordinate for performance;

2. Granting of authority to make use of resources, take necessary decisions and so on for carrying out the responsibility; and

3. Creation of an obligation or accountability on the part of the person accepting the authority to perform in terms of the standards established. Let us briefly discuss these components:

1. Entrustment of Responsibility: Responsibility means the work or duty assigned to a person. It arises from the superior-subordinate relationship. In order to enable the subordinate to perform his responsibility well, the superior must clearly tell him as to what is expected of him.

2. Granting of Authority: Authority is the right granted to an individual to make possible the performance of work assigned. Power to use resources, power to hire and fire people, power to take necessary decisions, etc., has to be delegated to individuals to whom the work is assigned.

3. Creation of Accountability: Once a subordinate is entrusted with responsibility to perform certain jobs and he is given sufficient authority to perform the assigned work, the final phase in delegation is holding the subordinate answerable to his superior for the actual results. Accountability is the obligation to carry out responsibility and exercise authority in terms of performance standards established. For accountability to be effective, the standards of performance should be determined before entrusting a task and should be understood and accepted by the subordinate.

The three components of delegation are like three legs of a stool. Each depends on the other two. If one leg is weaker or shorter, the stool of delegation will be unstable See fig. V.

Figure V. Stool of Delegation

Principles of Delegation

The following principles are guides to delegation of authority:

1. **Delegation by Results Expected:** This principle states that before delegating authority the manager should look first at the goals to be achieved and then delegate authority sufficient to achieve the expected results.

2. **Principle of Functional Definition:** This principle states that there must be clear definitions of results expected and activities to be undertaken. The more clear the definitions, the more adequately the individuals can contribute towards accomplishing enterprise objectives.

3. **Scalar Principle:** The scalar principle refers to the chain of direct authority-relationships from superior to subordinate throughout the organisation. Subordinates must have a clear idea as to who delegates authority to them and to whom matters beyond their authority must be referred.

4. **Authority-level Principle:** This principle states that decisions within the authority of individuals must be made by them and not be referred upward in the organisational structure. In other words managers at each level should make whatever decisions they can in the light of their delegated authority, and only matters that they can not decide because of limitations on their authority should be referred to superiors.

5. **Unity of Command:** This principle requires that an individual should report to only one superior to avoid conflict.

6. **Absoluteness of Responsibility:** This principle states that a manager who has delegated authority and assigned duties cannot escape his responsibility for the activities of his subordinates. This responsibility of the manager is absolute and cannot be delegated.

7. **Parity of Authority and Responsibility:** This principle requires that the amount of authority should correspond to the amount of responsibility. It should neither be more, nor less. According to this principle, managers should not hold their subordinates responsible for duties for which they have not been given the necessary authority.

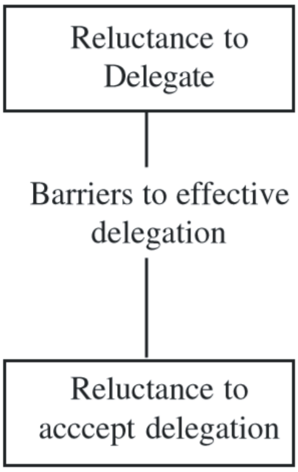
Advantages of Effective Delegation: When used properly, delegation has several important advantages. The first and most obvious is that the more task managers are able to delegate, the more opportunity they have to seek and accept increased responsibility from higher-level managers.

Another advantage of delegation is that it frequently leads to better decisions, since subordinates closest to the actual operating level are likely to have a clearer view of facts.

In addition, effective delegation speeds up decision making. Valuable time is lost when subordinates must check with their superiors before making a decision. This delay is eliminated when subordinates are authorised to make the necessary decisions on the spot. Finally, delegation causes subordinates to accent responsibility and exercise judgement. This not only helps to train subordinates but also improves their self-confidence and willingness to take initiative.

Barriers to Effective Delegation

Inspite of the advantages, many managers are reluctant to delegate authority and many subordinates are reluctant to accept it. Both these barriers hinder effective delegation:



Reluctance to Delegate: There are a number of reasons that managers commonly offer to explain why they do not delegate: "I can do it better myself; "My subordinates are just not capable enough"; "It takes too much time to explain what I want to be done". These reasons are often excuses that managers use to hide the real reasons.

Insecurity may be a major reason behind reluctance to delegate. Managers are accountable for the actions of subordinates, and this may make them reluctant to 'take chances' and delegate tasks. Or the manager may fear a loss of power if the subordinate does too good a job.

An additional case of reluctance to delegate is a manager's lack of ability. Some managers may simply be too disorganised or inflexible to plan ahead and decide which taskü should be delegated to whom or to set up a control system so that subordinates' action can be monitored.

Lack of confidence in subordinates is a third major reason why managers avoid delegation. In the short run, tnis lack of confidence may be justified if subordinates lack knowledge and skill. In the long run, there is no justification for failing to train subordinates. Managers who lack confidence in their subordinates—perhaps because of an inflated sense of their cwn worth will severely limit their subordinates' freedom to act.

Reluctance to Accept Delegation: Insecurity can also be a barrier to the acceptance of delegation. Some subordinates want to avoid responsibility and risks and would like their bosses to make all decisions. Similarly, subordinates who fear criticism of dismissal for mistakes are frequently reluctant to accept delegation.

Another common reason for reluctance is that subordinates may not be given sufficient incentive for assuming extra responsibility. Accepting delegation frequently means that they will have to work harder under greater pressure. Without adequate compensation subordinates may be unwilling to do so.

Overcoming the Barriers: The most basic prerequisite to effective delegation is the willingness of managers to give their subordinates real freedom to accomplish delegated tasks. Managers have to accept the fact that there are usually several ways to solve a problem and that subordinates may legitimately choose a path different from their own. And, subordinates will make errors in carrying out their tasks. But they must be allowed to develop their own solutions to problems and to learn from their mistakes. The solution to subordinates' mistakes is not for the manager to delegate less, but to train subordinates more.

Improved communication between managers and subordinates will reduce mutual understanding and thus help to make delegation more effective. Managers who know the abilities of their subordinates can more realistically decide which tasks can be delegated to whom.

A useful method for overcoming barriers to delegation is to reduce the complexity of delegated assignments and increase the degree of delegation over a span of time. Thus, a manager can delegate successfully more work and subordinates will accept more responsibility for particular tasks.

Decentralisation

The delegation of authority by individual managers is closely related to an organisation's decentralization of authority. Delegation is the process of assigning authority from one level of management down to the next. The concepts of decentralisation and centralization refer to the extent to which authority has been passed down to lower levels (decentralisation) or has been retained at the top of the organisation (centralisation). The greater the amount of authority delegated throughout the organisation, the more decentralised the organisation is.

The advantages of decentralisation are similar to the advantages of delegation: unburdening of top managers; improved decision making because decisions are made closer to the scene of action; better training, morale, and initiative at lower levels; and more flexibility and faster decision making in the changing environments. These advantages are so compelling that it is tempting to think of decentralisation as good and centralisation as bad.

But total decentralisation, with no coordination and leadership from the top, would clearly be undesirable. The very purpose of organisation-efficient integration of subunits for the good of the whole—would be defeated without some centralised control. For this reason, the question for managers is not whether an organisation should be decentralised but to what extent it should be decentralised.

Factors Determining the Degree of Decentralisation: The appropriate amount of decentralisation for an organisation will vary with time and circumstances. It will also vary for the different subunits of the organisation. For example, production and sales departments may afford a high degree of decentralisation, whereas financial departments may have to be comparatively centralised. In determining the amount of decentralisation appropriate for an organisation, the following factors are usually considered:

1. **Costliness of the Decision:** As a general rule, the more costly the action to be decided, the more probable it is that the decision will be made at the upper levels of management. Thus, quality control in drug manufacturing, where a mistake might endanger lives, to say nothing of the company's reputation, would normally report at a high level, while the quality inspection in toy manufacturing might report at a much lower level.

2. **Desire for Uniformity of policy:** Another factor favouring centralisation of authority is the desire to obtain uniform policy. Those who value consistency, above all, invariably favour centralised authority, since this is the easiest way to reach such a goal. They may wish to ensure that customers will be treated alike with respect to quality, price, credit, delivery, and service; that the same policies will be followed in dealing with suppliers; or that public relations policies will be standardized. Thus, a desire to have uniform policies will not permit of a high degree of decentralisation.

3. **Size of the Organisation :** The larger the organisation, the more decisions to be made, and the more places in which they must be made, the more difficult it is to coordinate them. The larger the size of an organisation, the greater the need for high degree of decentralisation.

4. **History of the Enterprise:** Whether authority will be decentralised frequently depends upon the way the business has been built. Those enterprises which expand from within, i.e., without manager or consolidation, show a marked tendency to keep authority centralised as do those which expand under the direction of their owner-founders. On the other hand, enterprises that result from mergers and consolidation are likely to show a definite tendency to retain decentralised authority. This is because of the desire of the merged units to retain their pre-merger independence.

5. **Management Philosophy:** The character and philosophy of top executives have an important influence on the extent to which authority is decentralised. Sometimes top managers are absolute rulers and do not tolerate any interference with their authority and information. Naturally, such managers can not be expected to believe in decentralisation of authority and the organisation will have a centralised structure. On the other hand, some managers believe, in a more democratic set up and hence in a decentralised structure. Thus, managers' character and their philosophy influence the extent to which authority will be decentralised.

6. **Availability of Managers:** A real shortage of managers would limit the extent of decentralisation of authority, since in order to delegate, superiors must have qualified managers to whom to give authority. But too often the scarcity of good managers is used as an excuse for centralising authority. Executives who complain about the scarcity of managers are often trying to magnify their own value to the firm. Thus, any shortage of managers-real or imagined-would limit the extent of decentralisation of authority.

7. **Control Techniques:** Decentralisation also depends on the availability of control techniques and the ability and willingness of managers to use them. Because some managers do not know how to control, they are unwilling to delegate authority. They may think that it takes more time to correct a mistake than to do the job themselves in the first place.

8. **Decentralised Performance:** Decentralised performances refers to the situation where the operations of an organisation are spread over a geographic area.

Authority tends to be decentralised when performance is decentralised. It does not follow that when performance is centralised, authority is centralised. But one thing is clear, decentralisation of performance limits the ability to centralise authority.

9. **Environmental Influences:** Some of the important external factors affecting the extent of decentralisation are governmental controls, labour unionism and policies.

Government regulation of business makes decentralisation difficult and sometimes impossible. If prices are regulated, sales managers cannot be given much real freedom in determining them. If materials are allocated and restricted, purchase managers' freedom will be restricted. If labour may be asked to work only a limited number of hours at a given rate of pay, the local division manager cannot freely set hours and wages.

Similarly, labour unions at the national level tend to have a centralising influence on business. So long as department managers can negotiate the terms of labour contract by dealing either with local unions or with employees directly, authority to negotiate may be delegated by top management to these subordinates. But where a national union enters into a collective bargaining contract, with the terms of the contract applicable to all workers of a company wherever located, a company cannot afford a high degree of decentralisation.

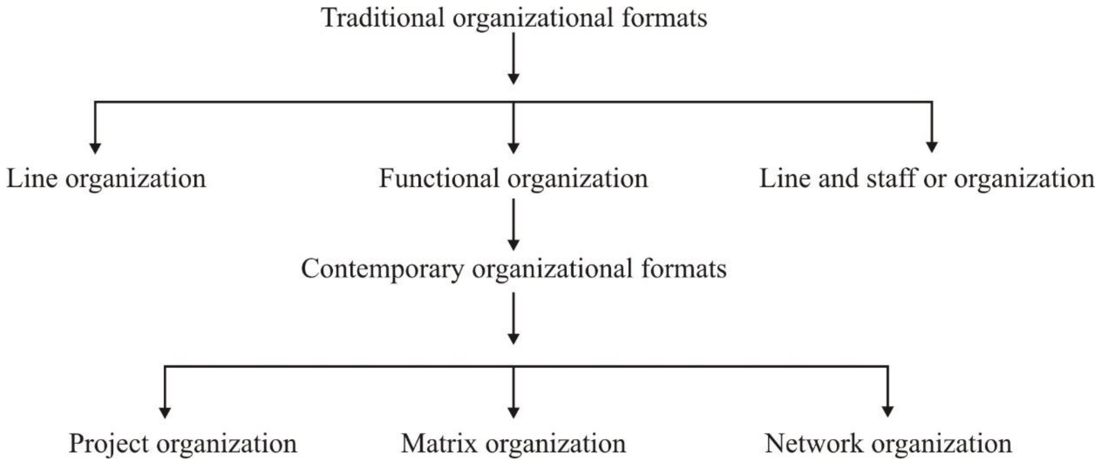
Balance-the Key to Decentralisation: Decentralisation is desirable for many reasons, but extensive decentralisation should be avoided. In addition to the damages from non-uniform policy and the problems of control, there are often real financial costs. As authority is decentralised, managers become more and more independent operators of small business. They may acquire their own accounting force, statisticians, and engineering staff, and these people may soon be duplicating specialised services of the top company organisation.

Perhaps the main problem of decentralisation is loss of control. No enterprise can decentralise to the extent that its existence is threatened and the achievement of its goals is frustrated. If organisation disintegration is to be avoided, selective centralization of certain areas of vital major policy may be done. The company with well balanced centralisation and decentralisation will probably centralize decisions at the top of such things as financing, overall profit goals, capital expenditures, important new product programmes, major marketing policies, basic personnel policies, and the development and compensation of personnel. The key to effective decentralisation is the proper balance between what is to be centralised and what is to be decentralised.

Organizational Formats or Structures

Organizational formats refers to types of organization structure used by different enterprises. These formats are classified under two heads;

1. Traditional organizational formats
2. Modern/contemporary organizational formats.



Traditional organizational structures like line organization, line and staff organization etc are suitable for undertaking large, technical projects given the changing and dynamic external environmental conditions of the present times. Therefore, emerged the need for modern or contemporary organizational structures which satisfies the competitive urges of new age business units.

In this chapter, we will discuss various contemporary organizational formats.

Project Organization

Project organization is oriented towards the completion of a big project or a small number of big projects. Under this a team of specialists is created for each project. Such a team is separate from and independent of functional departments. The size of project team differs from one project to another. The activities of the project team are coordinated by the project manager who can obtain advice and assistance of experts both inside and outside the organization. Specialists and workers from various functional departments are brought under the leadership, control and coordination of a project manager to complete the project of technical and costly nature.

According to G.R. Terry, 'a project organization is a preferred means whenever a well defined project must be dealt with or the task is bigger than anything, the organization is accustomed to'.

The basic principal of the concept of project organization is to gather a team of specialists to work on and complete a particular project. The project staff is different and independent from the functional staff. The project team functions under the overall control and leadership of the project manager. During the continuance of the project, functional managers renounce their authority over subordinates (part of project team) in favour of the project manager.

The need for project organization is felt when a organization is to execute a project which subject to high standards of performance as in case of air craft industries. if the project organization is created for one time project, it will have a temporary set up and will be disbanded when the project is over and the team personnel go back to their respective functional departments. However often, project organizational system is a permanent feature with many functional organizations. As such, after completion of one project, the old project team members may be assigned roles towards some new project.

Suitability of a Project Organization

Modern organizations use project structures under following circumstances.

1. The project is a one time assignment with well-defined specifications and the organization wants to continue concentration on its regular activities.

2. Projects is of a technical nature, requiring atmost precision.

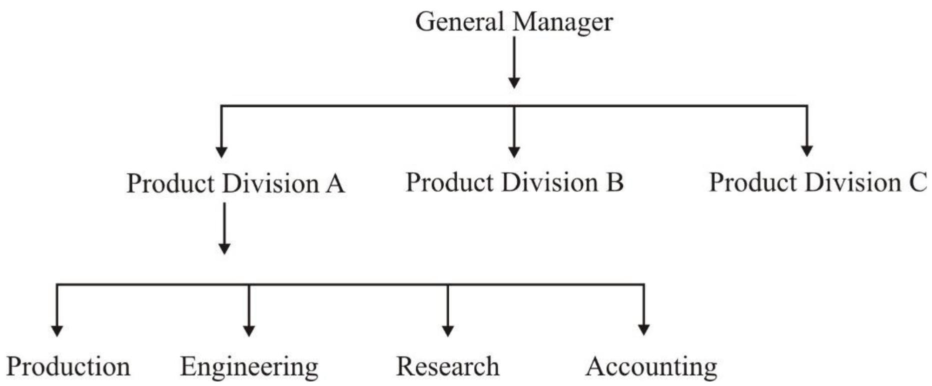
3. Assignment is to be completed within given time framework.

4. Project completion requires huge capital outlay.

This type of organization structure is employed in ship building, construction, aero space, aircraft manufacturing, satellite launching etc. In such organizations, projects have high standard of performance and there is strong emphasis on horizontal relationship among specialists.

Chart of Project organization

Following chart depicts typical project organizational structure :



In the above figure, a project structure has been depicted. here, a General Manager is looking after three independent projects. Each project has number of autonomous teams such as production, engineering, research, accounting etc. The project structure is created without affecting existing structure (functional) of the organization.

Merits of Project Organization

The benefits of project organization are as under:

1. The job of project manager becomes very difficult because of lack of clearly defined responsibility, lack of clear communication pattern and lack of standards of performance for various professionals.
2. A project organization suffers from the limitation of duplication of efforts involved in project completion. This may eventually affect overall organizational efficiency and profitability.
3. Thee is considerable fear among personnel that the completion of a project ma result in loss of job. the feeling of insecurity and varying status creates considerable worry about career progress.
4. Uncertainty in project structure arises because the project manager has to deal with specialists from a number of diverse fields. These specialists often have different approaches and interests.

Matrix Organization

This is one of the latest types of organizational designs which have been developed to establish flexible structure to achieve a series of a project objectives. Matrix organization also known as grid, has been designed as as an answer to the growing size and complexity of undertakings which require an organization structure more flexible and technically oriented than the traditional line and staff or functional structure.

Matrix organization is the imposition of a project structure over the permanent functional structure of the organization, and members of the project team are subjected to dual line of command, forming matrix or a grid.

Functional structure is a permanent feature of matrix organization and retains authority for overall operation of the functional units. Project teams are created whenever specific projects require high degree of technical skill and other resources for a temporary period. Functional departments create vertical line of command while project teams form the horizontal chain. these functional or vertical lines of authority intersect product or horizontal lines, thereby forming a matrix.

Sometimes, matrix and project organizations are considered as one and the same. however, there is difference between the two. In project organization, separate identifiable units are created for executing large projects. Every project managers has complete responsibility and authority for the use of resources required for the achievement of the project. However, in matrix organization project manager share resources with functional managers. He does not have complete authority over resources usage.

Matrix organizations are developed to meet the needs of large and complex organization which require a flexible and technically oriented structure rather than the functional structure. For example, chemical, electronic, mechanical and industrial engineers may work together with accountants and other professionals to develop a new product.

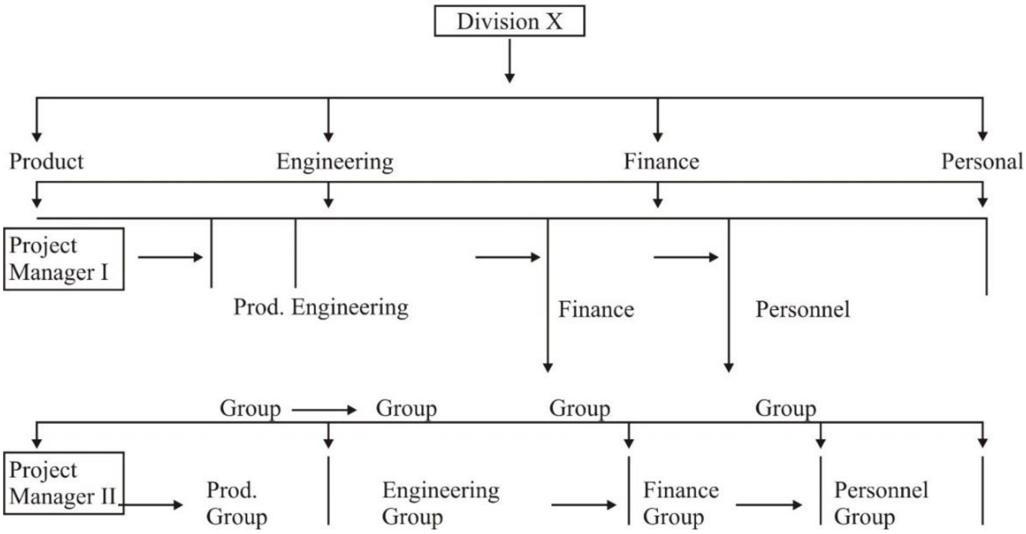
Important features of matrix organization are as follows:

1. Matrix organization is built around a specific project. The project manager is entrusted with the authority to complete the project in accordance with time and cost constraints as per top management directions.

2. Personnel to complete the project are drawn from various functional departments. Upon completion of the project, they are reverted back to their respective functional departments for reassignment to other projects.

3. Matrix organization offers diverse roles to functional and project managers. The project manager follows a general management approach with regard to his project, while functional managers is responsible for maintaining the integrity of his function.

Organizational Chart



The matrix organization is depicted in above figure. Division X is composed of two projects each with specific objectives and a period of completion. The division has four functional departments namely: production, Engineering, Finance and Personnel which provides functional support to the projects. Each of the project organization is composed of a project manager and functional work groups from various functional departments. The project manager achieves the project objectives with the help of functional groups who are assigned back to their respective departments when their assignment is over. During the continuation of the project, the personnel assigned to the project have two bosses-the functional head and the project head. This violates the principle of unity of command. To avoid serious problems because of this, it is essential to demarcate the nature and extent of authority with each boss of that both the supervisors and their subordiantes can function smoothly.

Merits of matrix Organization

Following are the chief merits of a matrix organization.

1. If focuses attention and resources on each project separately which facilitates better planning and control. It also helps in timely completion of the project.
2. Matrix structure is a flexible structure. it undertakes completion of large number of small projects. Depending on needs of environmental situations and others organizational factors more projects could be undertaken by the organization by forming additional project teams.
3. It provides a system of organizational functioning, under which people learn new skills through involvement in many projects. Matrix organization provides a training ground for personal to develop a diversity of professional skills.
4. It provides motivation to project staff as they can focus directly on the completion of a particular project. It improves communication by encouraging direct contact and reducing the inhibitions arising from the formal rank. The problems of coordination

are reduced in so far as the project manager acts as the integrator of personnel from diverse discipline.

5. It focuses attention and resources on each separately which facilitates better planning and control.

Limitations of Matrix Organization

1. The serious most limitation of matrix organization is the confusion caused by the double line of command: so that a project team member is always in a fix as to whose orders functional head or project head to obey first. principle of unity of command is violated.
2. Apart from formal relationship, informal ones also operate in the matrix organization. Thus, organizational relationship become more complex and they create the problem of coordination.
3. Conflicts may arise due to heterogeneity of team members. people are drawn temporarily from different departments. project manager does not have line authority over his heterogeneous group of personnel. this results into problems of coordination and control.
4. Deputation of personnel from functional departments to a number of projects over a period of time makes it difficult for the functional heads to appraise employee performance. In some cases, the personnel may find it difficult to adjust to requirements of new projects.
5. In matrix organization, there is usually continuous communication horizontally and vertically. This causes increased paper work. Because of conflicting communications from two quarters completion of projects becomes costlier and time consuming.
6. Scalar principle is also violated, as there is no definite hierarchy. Project manager and functional managers are distinct but do not stand in scalar relationship. Working relationship is not very clear.

Project Organization vs Matrix Organization

	Project organization	**Matrix organization**
1. Structural	Independent structure	Combination of functional and project structure.
2. Command system	Single command system	Multiple command system
3. Resource management	Exclusive use of resources by each project manager.	Sharing of resources by functional head and project head.
4. power struggle	No such power struggle	Possibility of power struggle between functional heads and project manager.
5. Suitability	Suitable for limited number of projects	suitable for multiple projects.

Network Organization (Virtual Organization)

In this modern era to remain globally competitive an organization requires flexible organizational structure. Designing a networking organization is the result of this desire of entrepreneurs to be fulfilled in a satisfactory manner.

One of the rapidly developing practices in business worldwide, involves a firm in cooperative relationship with its suppliers, distributors and other business associates. This network of relationship enables the firm to achieve both efficiency and flexibility. it provides the benefits of both mechanistic and organic structures.

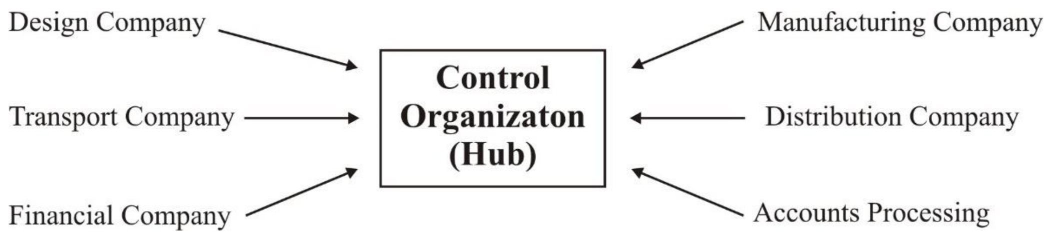
A network organization is one that is created around a central organization (called the hub organization) that has relationship and arrangement with some organization, to perform functions like designing, manufacturing, marketing etc for the central organization, on a contractual basis.

The networking enables the principal organization to rely upon the smaller, closer to the market, partner to sense the impeding changes in the environment and to respond at the local level, thus relieving the parent organization of that necessity.

If a network structure, the principal firm subcontracts many of its functions to other organizatons and coordinate their activities. the services are outsourced to separate firms that are connected electronically to the central office. Sub-contractors flow in and out of the network depending upon its changing requirements. The hub organization maintains control over work processed by various subcontractors.

A networking organization is called a **boundary less** organization, as the central organization has relationship and arrangements with many business partners beyond its own boundary lines. In an extreme case of a networking organization the hub organization has arrangements with so large a number of business partners that it, on its own does only the coordination work. A networking organization is also called a virtual organization, in that it is nearly a complete organization, and any slight difference in the structure of organization is not important.

Chart of Network Organization



Network organization is created around central organization that relies on other organizations to perform manufacturing, distribution, financing, transportation and other crucial business functions on a contract basis as depicted in above figure. Virtual organization allows different organization engaged in design, financing, transportation etc. to bring their best capabilities together. The core of network organization is the central organization which coordinates the relationships and activity with the other organizations in the network.

Feature of network Organization

The following are the important features of a network organization:

1. Emphasis on cross hierarchical teams and participative decision making.
2. Central organization management is specially involved in strategic decisions of developing new relations and abandoning other relations.
3. Based on principles of coordination and cooperation.
4. Facilitated by electronic technology, such as computer, e-mail, fax etc.
5. Network organization exploit emerging opportunities quickly and easily.

Merits of a Network Organization

The chief advantages of virtual organization are as follows:

1. Theoretically, performance of a networking organization is very high. This type of organization allows different organizations engaged in performing different tasks for the hub organization to bring their bet capabilities together.
2. Hub organization is devoid of vertical and horizontal boundaries, leading to highly motivated staff. Due to minimum status and rank differentials people work with a sense of enthusiasm.
3. A networking organization is boon for small firms. Small firms facing problem of survival may become part of a networking organization, as a partner. networking organization protects the small firms who are efficient but cannot face environmental challenges.
4. These organizations easily adapts to environmental changes. New alliances can be created and old can be dropped depending upon changing environmental scenario.

Limitations of network Organization

Network structures can be successful only when it can have reliable business partners. But for ensuring reliability, there has been no method devised so far.

1. Coordination is one of the major problems faced by networking organization. Harmonizing the activities of business partners is a tough job. Each partner has his own way of performing without any concern with the method of functioning of related business partners.

2. Various activities of networking organization cant be controlled closely. performance of an organization may suffer dramatically due to lack of proper control over various activities like marketing, manufacturing etc.

The network organization may emerge as a dominant form of organizational structure for globally competitive firms. however, there is no standard format of a networking organization. guidelines for organization and management are not yet defined. Critics of networking organization call it 'hollow corporation' i.e., a corporation without real value. But still, popularity of this type of organization is gaining momentum, due to its widespread global advantage.

UNIT-IV

LESSON 1

DIRECTION- COMMUNICATION, LEADERSHIP AND MOTIVATION

Direction may be defined as the function of management which is related with instructing, guiding and inspiring human factor in the organisation to achieve organisational objectives. The direction is not merely issuing orders and instructions by a superior to his subordinates but it includes the process of guiding and inspiring them.

Importance of Direction

Direction is an important function of management. Through direction management initiates actions in the organisation, gets things done through orders and provides subordinates' opportunities for developments. It integrates employees' efforts. Their actions are interrelated in such a way that each individual's performance affects the performance of others in the organisation. Moreover, direction facilities changes, in the organisation. To incorporate and implement these changes, management should motivate individuals affected by these changes.

Direction has the following features:

(1) It is an important managerial function.

(2) It is a pervasive function— it is performed at all levels of management.

(3) It is a continuous process.

(4) It starts at the top level in the organisation and follows down to bottom through hierarchy.

Principles of Direction

Direction is of one of the most complex functions of management as it deals with people whose nature itself is quite complex and unpredictable. Following are the important principles of good and effective direction:

(1) *Unity of Command*-An employee to receive orders from one boss at a given time.

(2) *Principle of Managerial Communication*- A superior, through downward communication, passes to his subordinates orders, ideas about work and through upward communication, he knows how his subordinates are working.

(3) *Principle of Use of Informal Organisation*-Managers should understand, accept and use the informal organisation to supplement and support the formal channels of communication. (4) Effective Leadership—Dynamic leadership is essential to effective direction. An effective leader guides and counsels his subordinates on work problems as well as on their personal problems.

Elements of direction

The process of direction consists of the following functions:

(a) Supervision, (b) Communication, (c) Leadership, (d) Motivation

Supervision

Supervision refers to guiding, commanding and regulating the efforts of subordinates towards the goals. It involves direct personal contact with subordinates. Supervision is essential for the execution of plans. The supervisor acts as a link between workers and management. Supervision is necessary at all levels of management. It is an important function of every manager.

Quality of a good supervisor: To be effective, must have the following qualities:

1. Technical competence, 2. Managerial skill, 3. Leadership qualities, 4. Initiative. 5. Sense of responsibility, 6. Tact and persuation.

Functions of Supervision

A supervisor is generally expected to perform the following functions:

1. To issue orders and instructions and explain management plans.
2. To establish methods and procedures and enforce rule and regulations.
3. To maintain discipline and cooperation.
4. To supply data on current operations to management.
5. To supply tools, materials etc. to workers.
6. To hear workers' complaints, grievances and suggestions.
7. To coordinate and control operations.
8. To recommend pay increases, promotions, transfers etc.

Communication

Communication is the sum-total of all things one person does to create understanding in the mind of another. It involves interchange of information and thoughts to create mutual understanding. It involves a continuous process of telling, listening and understanding.

This definition reveals the following features:

(1) Communication involves exchange of facts and thoughts from one person to another.

(2) It is a two-way process involving sending of a message and receiving the reaction to that message.

(3) It is a continuous process.

(4) It is a pervasive function i.e. performed at all levels of management.

(5 It aims at creating mutual understanding.

Communication Process

The communication process has the following elements:

1. ***Sender-***The person who intends to make contact with the objective of passing information, ideas to other person is known as sender.

2. ***Ideas-*** This is the subject matter of communication e.g. opinion, attitude, views, suggestion, order etc.

3. ***Encoding-***Involves expressing the message in words and symbols.

4. ***Channel-***A communication is transmitted through a channel e.g. radio, telephone etc.

5. ***Receiver-***Receiver is the person to whom message is meant for.

6. ***Feed-back-*** Feed back is the response reaction to the message. It is necessary to ensure that the receiver has received the message and understands it in the same sense as a sender wants.

Channels of communication-Communication may be classified as:

(1) Formal and informal communication, and

(2) Vertical and horizontal communication.

Formal communication

The formal channel is deliberately created, officially prescribed path for flow of information between the various positions in the organisation. It is designed to ensure that desired information flows smoothly and accurately to the specified points.

The downward and upward communication between a superior and his subordinates are implicit in a formal structure. In order to avoid delays in decision making, organisations now permit lateral or horizontal communication.

Formal communication is systematic and permits an orderly flow of information.

Informal Communication

The informal channel of communication, also known as 'grapevine' is the result not of any official action but of operation of social forces at workplace. While formal communication exists to meet the utilisation needs of the organisation, formal communication is the method by which people carry on social, nonprogrammed activities within the formal structure.

Informal communication is faster and more flexible than the formal communication. However, it is erratic and unsystematic. It generally carries rumours and it is not possible to fix responsibility for the distorted information.

It serves as a safety valve for emotions of the employees. It fills a vacuum in formal communication and people often learn managerial decisions long before the formal announcement.

The informal communication is a part and parcel of the organisational process. The only thing management can do is to take suitable action to minimize the adverse effects of this channel. As such, proper analysis of informal communication and a suitable clarification in this aspect will be helpful in making its use towards organisational efficiency.

Vertical communication

Vertical communication refers to the communication between a superior and his subordinates. Vertical communication may be upward or downward.

Upward communication flows from a subordinate to a superior in the from of discussions, suggestions, grievances, reports etc. Downward communication refers to communication from a superior to his subordinates in the form of orders, instructions, rules, clarifications.

Horizontal Communication

Horizontal communication takes place between equals. It helps in creating coordination between different departments and divisions. This type of communication is more relevant to an organisation engaged in research activities.

The more important thing is to find a proper balance between the various types of channels of communication.

Importance of Communication

The need of good and effective communication arises on account of the following factors:

(1) ***Company Image-***An effective system of communication plays an important role in building harmonious relations with trade unions, consumers, government, etc.

(2) ***Effective Administration-*** Through communication, management issues orders and instructions and comes to know of the reactions of subordinates.

(3) ***Coordination-*** communication is the most effective means of building coordination.

(4) ***Better Delegation of Authority-*** Through communication, subordinates come to understand clearly the limits of their authority and responsibility.

Barriers to Communication

The following are the important barriers to communication:

(1) ***Badly Expressed Message-***Messages may lack in the coherence, inadequate vocabulary and inappropriate language. The use of semantic words (having more than one meaning) may lead to communication problems.

(2) ***Inattention-***It is a common phenomenon that people simply fail to react to bulletins, notices, minutes and reports.

(3) ***Premature Evaluation-***Premature evaluation is the tendency of prematurely evaluating communications rather than to keep an uncompromised position during the interchange.

(4) ***Resistance to Change-***When the communication involves a change that seriously affects employees, they may not take the message seriously. The basic problem in communication is not of techniques but of proper climate.

(5) ***Mutual trust-***-Effective communication is possible when there is lack of confidence and mutual understanding between superior and subordinates.

A good communication atmosphere requires mutual trust and confidence to enable people to appreciate one another's point of view.

(6) ***Fear-***Subordinates may not disclose the facts fully because of the fear of the consequences of such a disclosure. They may deliberately mislead the superior to seek clarification due to the feeling that it will lower down their prestige.

(7) ***Complex Organisational Structure-*** An organisational structure involving several layers of supervision, use of staff specialists and a long chain of command is a major barrier to effective communication.

Principles of effective communication

The following are the principles for effective communication:

(1) ***Principle of Clarity-***Clarity of communication will overcome several barriers to communication. The contents of the message should be clear.

(2) ***Principle of Integrity-***All communications must be formed and transmitted in such a way as to support the integrity of the formal organisation.

(3) ***Principle of Strategic Use of Informal Organisation-***Manager should engage the informal organisation to supplement and strengthen formal channels of communication.

(4) **Principle of participation-**Both the communicater or sender and the communicater or receiver should take active part in the process of communication.

LEADERSHIP

Nature of Leadership

Leadership is the process of influencing the activities of an individual or a group for goal achievement in a given situation. According to Keith Davis, "Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is a human factor which binds a group together and motivates it towards goals." Leadership process consists of three factors—leader, the follower and other variables. The following are the important elements in the process of leading.

(1) Leader tries to influence the individual in a particular way.

(2) Leadership makes interpersonal influence possible. It is rooted in feelings.

(3) It is a dynamic and ever evolving process; a manager must lead continuously.

(4) It is exercised in a particular situation. The situation variables affect the effectiveness of leadership.

Leadership and Management

Leadership is sometimes interpreted as synonymous or similar to managership. Management has been defined as the technique of executive leadership. A good leader is not necessarily a good manager but an effective manager must have many of the qualities of a good leader. He is likely to be more effective if he has leadership qualities. A successful manager does not depend only on formal authority. As a leader, a manger must interpret the common objectives to his subordinates and inspire them towards the achievement of these objectives.

Type of Leadership (Leadership styles)

The problem of leadership style is basically concerned with deciding the extent to which a manager should be dictatorial and the extent to which he is supposed to be participative. Different leadership styles can be categorised as follows:

1. Authoritarian or autocratic style.
2. Democratic or participative style, and,
3. Laissez faire or free rein style.

Autocratic leadership This type of leadership is one-man orchestra. He shows the following characteristics:

1. He gives orders which he insists shall be obeyed.
2. He determines policies for the group without consulting them.
3. He gives no information about future plans but simply tells the group what immediate steps they must take.
4. He makes personal praise or criticism to each member on his own initiative.
5. He remains aloof for the greater part of the time.

Democratic leadership

This type of leader has the following qualities:

1. A democrat gives orders only after consulting the group.
2. He sees to it that policies are worked out in group discussion.
3. He never asks people to do things without giving long term plans on which they are working.
4. He makes it clear that praise or blame is a matter for the group.
5. He participates in the group as a member.

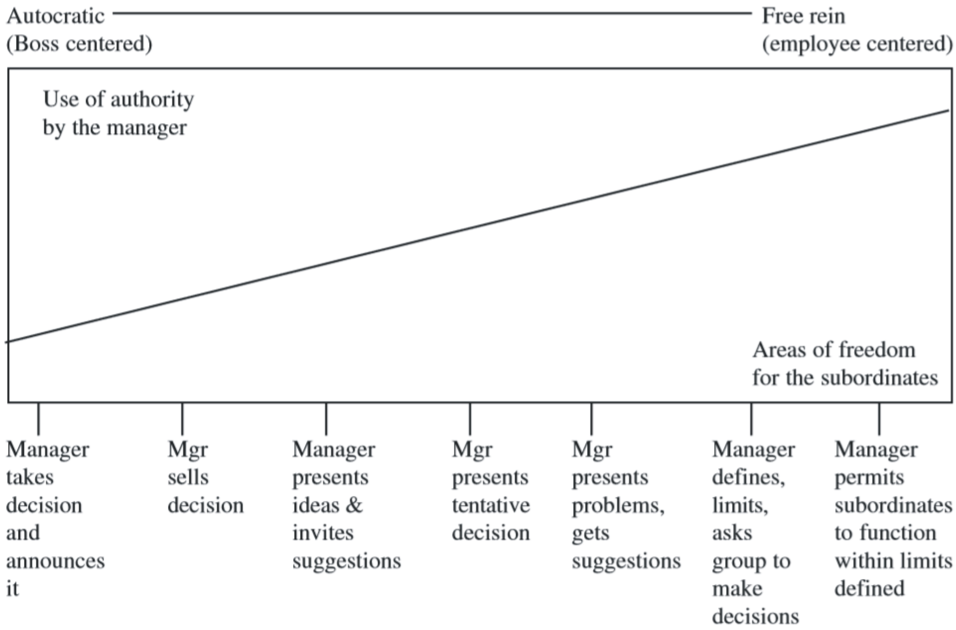
Laissez faire leadership

Such a leader shows the following qualities:

1. This leader does not lead.
2. He leaves the group entirely to itself.
3. He does not participate. He may be a man who has been given leadership on grounds of technical knowledge but may be incapable of assuming any control over his subordinates.

Leadership as a Continuum

There are, in fact, a variety of styles of leadership behavior between two extremes of autocratic and free rein. Tennenbaum and Schmidt have depicted a broad range of styles on a continuum moving from autocratic to free rein.



Functions of Leadership

A leader creates confidence by his superior knowledge and builds enthusiasm by setting an example through his conduct and expression. In the process of initiating important changes and coordinating efforts to manage them, he performs the following functions:

1. To set goals for subordinates-A leader gives guidance to the group by setting and interpreting their goals.
2. To co-ordinate individual and organisational goals-A leader reconciles individual and common objectives. His main job is to develop voluntary co-operation among employees.
3. To motivate employees to perform the allotted tasks.
4. A leader maintains order and discipline and creates positive response on the part of members of the group.
5. A leader represents the group to his superiors and peers or associates of his status.

Importance of leadership

A leader guides and directs the members of an organisation towards established goals. He creates and maintains an environment conductive to the effective performance of those individuals for which he is responsible. It is the quality of leadership that generally determines the failure or success of a business enterprise.

Leadership is the essence of direction and is provided by a manager who has leadership ability. The leader initiates changes, convinces people about the enterprise goals. No organisation can function effectively without leadership. Leadership is the cohesive or binding force which holds the group intact or as it is, the disciplinary power that keeps the group working towards the goals. He electrifies the current that energies human action, the force that transforms chaos into order, the insight that converts despair or loss of hope into hope and changes half-hearted efforts into superior performance. In fact, there is no substitute for good leadership.

Theories of leadership

Leadership is a dynamic and ever-evolving concept. Over the years, different concepts about leadership styles have emerged. However, research in this field still continues. Starting with an emphasis on personal abilities and traits of one leader, different approaches about the nature of leadership have evolved. The more important of these approaches are :

(1) **The trait theory-**This theory believes that there are very few persons in society or organisations who are leaders. The vast majority of people constitute of the followers. But what is it that distinguishes leaders. This theory believes in the inborn qualities of an individual.

A number of studies have been conducted to identify traits that can be used to identify successful leaders from unsuccessful leaders. As Ivancevich has also suggested, the most research traits include the following:

1.	Physical characteristics	-	Age, appearance and height
2.	Social back-ground	-	Education, Social status and mobility
3.	Intelligence	-	Judgement, knowledge, decisiveness and fluency
4.	Personality	-	Alertness, dominance, independence, creativity and self confidence.
5.	Task related characteristics	-	Achievement drive, initiative, persistence
6.	Social characteristics	-	Attractiveness, popularity, socialibility and interpersonal skills.

Different studies have identified the different number of traits. Though with each study, the list of traits has become longer, some traits are, however, common to all studies. There seems to be a consensus or general opinion that effective leader has intelligence, social maturity, motivation and achievement drive and a human relations attitude.

Evaluation (i) Skill are sometimes mistaken for traits.

(ii) No two lists agree about the essential characteristics and interpretations of different traits also differ.

(iii) The theory fails to pinpoint the intensity and extent to which each of the agreed traits also differ.

(iv) The theory fails to pinpoint the intensity and extent to which each of the agreed traits should be present in an individual.

2. **The Behavioural Approach—**This approach assumes that leadership is based on what the leader does. The leadership behaviour is the product of the personality of the leader, nature of task, type of group of followers, the goals and the environment. A leader uses technical, conceptual and human skills to exercise influence and modify behaviour of his subordinates.

The term technical skill i.e. ability to plan, organise, delegate, analyse and control refers to a person's knowledge and proficiency in any type of technique. Human skill is the ability to interact effectively with people and to build team work. Conceptual skill deals with ideas and enables a manager to deal successfully with abstractions, to set up models and devise plans. Behaviour of a manager in a particular situation will make him good leader while opposite of this discard him as a leader.

The basic difference between trait approach and behavioural approach is that former emphasizes some particular traits to the leader while latter emphasises particular behaviour by him. It is true that favourable behaviour provides greater satisfaction to the followers and the person can be recognised as a leader. However, this approach suffers from one weakness, that is, a particular behaviour at a time may be effective while at other times, it may not be effective.

3. **The Situational Approach :** The situational approach does not deny the importance of individual traits in leadership. It goes further and asserts that leadership pattern is the product of situation in a particular group and that leadership will be different in different situations. An individual who is leader in one situation may cease to be so in another situation. Thus, this theory views leadership as a function of the interactions among the managers, the group and the organisational environment.

The situation theory is based on the notion that leaders are made, not born. This approach focusses its attention not on the personality of a leader as such, but on the character of the organisation. Anyone can become a leader if circumstances allow him to perform functions dictated by the situation. According to situational theory, an effective leader is one who understands the forces of the situation and works accordingly.

For example, during the historic Railway Strike of 1974 the socialist leader Mr George Fernandes became national hero. This strike was total and spread all over India. After some years when he fought election, he just could not win (in 1980 elections). This example speaks of the contribution of situation theory. When Mr Fernandes was a trade union leader, he was a success. When he came into power, he could not ensure even his election victory.

This theory overemphasies the influence of situational variables. The theory does not point out that the way by which good leaders may be developed. Therefore, the situational approach does not provide a complete explanation of leadership.

Qualities of a good leader

It is difficult to provide a complete list of leadership qualities. But successful leaders have been found to possess the following types of qualities irrespective of their job and their leadership style—

1. ***Sound Physical and Mental Health-***A good leader should have proper physical & mental health.
2. ***Empathy-***It refers to the ability to see things from others' point of view.
3. ***Self-Confidence-***A successful leader has confidence in his own ability to lead others.
4. ***Objectivity-***A leader must be fair and objective in his dealings. Emotional balance, patience, honesty and integrity of character are important virtues of an effective leader.
5. ***Decisiveness-***A leader must take initiative, be open minded and should have maturity of his judgement.
6. ***Intelligence*—**Ability to think clearly and argue precisely is necessary to see the problems in the right perspective.
7. ***Responsibility-***A leader needs to have a sense of purpose and responsibility in order to inspire others towards the accomplishment of goals.

MOTIVATION

What is Motivation?

The term motivation has been derived from the Latin word—movere—which means to move. In our language of management, it implies something that energises an individual or a group of individuals to work. Let us consider some definitions by leading authorities on management on what is a motive.

According to Bernard Berelson and Gary A. Steiner, "A motive is an inner state that energises, activates or moves (hence motivation), and that directs or channels behaviour towards goals." Paul Hersey and Ken Blanchard define motives and needs, wants, drives or impulses within an individual and they ae directed towards goals.

Koontz and O'Donnell consider motivation as "a general term applying to the entire class of drives, desires, needs, wishes and similar forces.

In essence, therefore, motivation (as caused by motives) is essentially a manifestation of individual's desire to work and produce. In a given social organisation (and business in one such organisation), motivation means a force representing impulses, desires, needs, and actions which direct human behaviour towards common goals.

Need for Motivation

A manager with the best plan in his hand and having a team or group of accomplished persons would fail to achieve the goals set forth unless his subordinates are well-motivated. Motivation is thus something crucial to achieve what has been planned. Again, the use of best machines, and the use of elaborate information system may not achieve the organisational goals. "Motivation is what a motive power or energy is for a machine. Motivation is something that makes a person work with zeal and gusto. A well-motivated workgroup, though ill-equipped, is able to achieve what better equipped workgroups are not able to achieve. Motivation must thus be considered as the core of directing.

Understanding Terms Used in the Study of Motivation, including Theories of Motivation

Before we proceed further it would be better if we understand the meaning and implications of the terms that would be used in our subsequent study.

(i) Behaviour: Behaviour is the manifest ion or the result of how a human reacts. A rational behaviour is goal oriented. This Behaviour is the result of motivation.

(ii) Satisfaction: Satisfaction is different from motivation. As already explained, motivation refers to the drive and effort to satisfy a want or goal. Satisfaction refers to the contentment a person experiences when a want is satisfied. Thus, satisfaction is the result of motivation. Talking about the relationship between satisfaction and motivation, koontz and O' Donnell state the following:

From a management point of view, this means that a person might have high job satisfaction but a low level of motivation for the job, or the reverse might be true. There is understandably the probability that highly motivated persons with low job satisfaction will look for another position. Likewise, those people who find their position rewarding but are being paid considerably less than they desire or think they deserve will probably search for another job.

(iii) Motivators: "Motivators are those things which induce and individual to perform." In simple words, motivators are those factors which motivate a person to act in a given situation. A motivator is something that influences and individual's behaviour. Motivators may include higher pay, a prestigious title, a name on the office door, the appreciation of co-workers and a number of other things that give people a reason to perform. They are in the nature of possible future rewards and they sharpen motivational factors.

Process of Motivation and the Motivation Cycle

Fred Luthans (Organisational Behaviour) explains the motivation process by stating the motivation cycle. He states, "In a system sense, motivation consists of three interacting and interdependent elements: needs. Drives and goals."[1]

These three terms are explained as follows:

1. Needs. Need can be described as a deficiency that must be taken care of. These needs may be physiological needs or psychological needs.

2. Drives. Drives or motives are the forces that fulfil needs. They can be described as deficiency with direction. They are the very basis of the motivational process, for example, the needs for food and water are translated into the hunger and thirst drives, and the need for friends becomes a drive for affiliation.

[1] Fred Luthans : organisational Behaviour

3. Goals. At the end of the motivation cycle is the goal. A goal in the motivation cycle can be defined as anything that fulfils a need and reduces a drive. For example, eating food, drinking water and obtaining friends will reduce the corresponding drives, (food, water and friends are the examples taken for explanation of the drives as stated above.)

The following simple diagram explains the concept of motivation cycles:

Needs -------------→ *Drives* ----------------→ *Goals*
(Deprivation) (Deprivation with Direction) (Reduction of Drives)

Fig. The Motivation Cycle or the Basic Motivation Process

The Need-Want-Satisfaction Chain

Koontz and O'donnell Describe the motivation process as the Need—Want—Satisfaction Chain in which one element of the process sets the next process into motion. The following diagram depicts this chain:

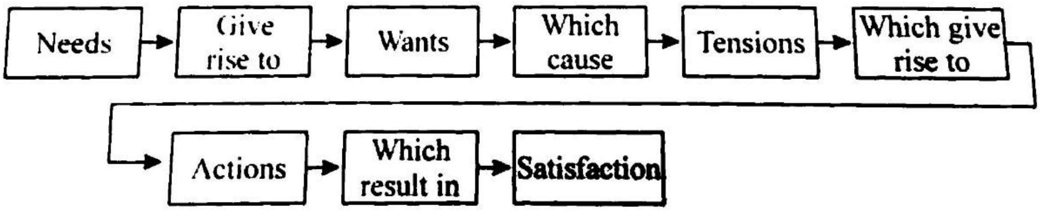


Fig. Need-Want – Satisfaction Chain

Model of Motivation

The above process of motivation has been described as the model of motivation by Keith Davis.

Whatever be the description of the process of motivation, the fundamental truth about motivation process is that the needs stimulate action drives or motives; and in turn actions or drives lead to satisfaction or reaching of goals.

Human Needs

Before we discuss the theories of motivation essential for our study, it would be desirable to consider human needs in some detail. Human needs can be classified into two categories which are:

(i) Primary Needs or Basic Physiological Needs;

(ii) Secondary Needs or Social and Psychological Needs.

(i) Primary Needs or Psychological Needs

They are the human needs which are basic to a human's physical existence and include food, water, sleep, sex and a reasonably comfortable temperature. They are universal among people. Of course, they vary from one individual to another, e.g., a child needs more sleep that an older person.

These basic needs are also influenced by social practice. If it is customary to eat three meals a day, then the body tends to respond that way. It could just do with two or four meals a day. If a tea hour is introduced in the morning, then it becomes a physical habit as well as a social one.

(ii) Secondary Needs

They are psychological and social needs. They are move vague because they represent the needs of the mind and spirit rather than of the physical body. Many secondary needs mature as one grows in age. Examples of secondary needs are self-esteem, rivalry, self-assertion, sense of duty, giving, belonging and receiving affections. These needs complicate the motivational process for a manager because these needs are vague, and not certain and definite.

Variations in Needs

Not only that they are vague, they also vary from person to person. They vary much more than the primary needs. They even exist as opposites in two different persons. For example, one person is submissive and yields to the aggression of others. Another person may be aggressive and thus more assertive with people. Needs also change with time and circumstance.

Characteristics of Secondary Needs

Secondary needs are hidden and are complicated in nature. Since they are complicated in nature and they are hidden, they cannot be easily recognised or identified. All this makes motivation quite difficult. Take for example, the case of dissatisfied workers who may say that the low wages are the cause of dissatisfaction. But in reality, many wage disputes may not concern wages at all and so granting more wages may not solve the problem of dissatisfaction at all. It is thus necessary for managers to understand their characteristics so that they are able to plan motivation in a better way.

Characteristics of secondary needs of employees are summarised as follows:

1. They are often hidden and cannot be thus easily identified.
2. They are strongly conditioned by experience.
3. They vary in type and intensity among people.
4. They are subject to change within any individual.
5. They work in groups rather than alone. In other words they are, in most cases, the needs of social groups.
6. They are vague feelings instead of specific physical needs.
7. They influence behaviour. Motivation is greatly influenced by them especially in more advanced economic societies.

Relationship of Primary and Secondary Needs

The two types of needs explained are found in a given individual. They are inseparable. The classification of the needs into primary and secondary is for discussion only. The state of body is affected by the state of mind, and, vice-versa, the state of mind affects the physical body. Thus, everyone must be treated as a whole person and not something as consisting of two parts.

Types of Motives

In the motivation cycle, as explained already, needs lead to drives, actions or motives. Like needs, they are primary and secondary. In other words, the motives are of two types, viz.,

Firstly, motives are primary motives; and

Secondly, motives are secondary motives.

An explanation of these two types of motives should help us to understand better the motivational process.

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An explanation of these two types of motives shall help us to understand better the motivational process.

Primary Motives and Their Types

Primary motives are based on physiological needs and are thus unlearned motives. An unlearned motive is one which is natural and biological. They include hunger, thirst, sleep, sex, maternal concern, etc. Some psychologists classify the primary drives into certain categories. For example, Berelson and Steiner use the following sub-classifications for primary motives:

1. Positive or supply motives. They are the direct result of homeostatic deficiency of the cells, e.g., hunger, thirst and sleep.
2. Negative and avoidance motives. They are the result of the presence of harmful factors or possible harmful factors, e.g., pain.

3. Species-maintaining motives. They relate to the human reproduction process, e.g., sex and maternal.

Secondary Motives and Their Types

Secondary motives are psychological and sociological. Secondary motives or drives are even more important than the primary motives. They are the learned motives or are acquired as a person starts growing. In economies which are economically more advanced, and consequently socially more advanced, these motives are much more important than the unlearned or primary motives.

Types of Secondary Motives. Following are the more important types of secondary motives:

1. The Power motives.
2. The achievement motives.
3. The affiliation motives.
4. The security motives.
5. The Status motive.

A brief discussion on each of these now follows:

1. The Power Motive[1]. Alfred Adler, a leading psychologist stated this motive as an important motive. The quest for power is an important part (or ingredient) of any society today. Politician is perhaps the best example. Besides politicians, people in other walks of life— Business education, military, etc.— want to have power or need power to carry out their commitments. This motive has become one of thee most important dynamics in the study or organisational behaviour.

2. The Achievement Motive. Of late, study of achievement motive has become very important. David C. McClelland, a Harvard psychologist is closely associated with the study of the achievement motive. The achievement motive explains how and in what situation a person achieves more than others. A high achiever is a person who attains more success vis-a-vis goals planned. In the present state of rat-race, achievement motive has come to occupy an important place even in the Indian urban society. In the industrially advanced countries, achievement training for managers starts early and continues till late.

3. Affiliation Motive. The affiliation motive denotes the affiliation of an individual with a group. Since most of productive work in a society is carried on by the groups, it is an important motive. Some authorities consider it even as an unlearned or primary motive. However, most of the psychologists consider it as an important secondary motive even when it is very intense in the case of many individuals and appears to be a part of basic human needs.

4. The Security Motive. Security motive implies freedom from fear ad possible future injury or insecurity. It is a very intense motive in a fast-paced highly technological

[1] Power means the will to dominate others

society and is less intense in economically less developed society. A person can be insecure in many ways, e.g., liability for payment on house and other assets, obtaining or keeping a good job, etc. Job insecurity has a great effect on a person's motivation. Security motive is a learned security motive in which a person tries to protect against known and unknown contingencies.

5. The Status Motive. The status of prestige motive is an important motive in a dynamic society. The modern, affluent person is often pictured as a status seeker.

MOTIVATION THEORIES

Number of motivation theories have been propounded over the years. Only some of these would be the focus of our attention. These theories aim at discovering how an individual can be best motivated.

Motivation: The Carrot and the Stick. The age-old concept of motivation has been the carrot and the stick approach. The "Carrot" signifies reward in terms of money in the form of pay and bonuses, etc. The "Stick" signifies fear – fear of loss of job, loss of income, reduction of bonus, demotion, or some other penalty. Bothy the "carrot" and the "stick" are strong motivators. Even in the industrially advanced countries, money still remains a strong motivator. The fear of punishment in one form or the other, still remains a great motivator since a human avoids possible economic and non-economic calamities. The power of the managers to withhold rewards or impose penalties give them an ability to control the actions of their subordinates.

Three theories of motivation are now considered. They are:

I. Douglas McGregor's "Theory. X— Theory Y."
II. Maslow's Theory of Need Hierarchy.
III. Herzberg's Two-Factor Theory of Motivation.
IV. Ouchi' s Theory Z

I. Douglas McGregor's Theory X and Theory Y

Before we consider McGregor's theory, it would be better to understand the concept of "rabble hypothesis" propounded by Elton Mayo of the Harvard Graduate School of Business. He conducted the now well-known Hawthorne Studies.

According to Mayo, too many managers assumed that society consisted of a horde of unorganised individuals whose only concern was self-preservation or self-interest. It was assumed that people were primarily dominated by physiological and safety needs, wanting to make as much money as they could for as little work as possible. Thus, management organised work on the basic assumption that workers, on the whole, were a contemptible lot. Mayo called this assumption the Rabble Hypothesis. He deplored the authoritarian, task-oriented management practices that it created.

The Rabble Hypothesis of Mayo has led to the development of McGregor's Theory X and Theory X and Theory Y.[1]

[1] Douglas McGregor, The Human side of Enterprise (New York, McGraw-Hill Book Company, 1960)

What is Theory X? According to him, traditional organisation with its centralised decision making, supervisor-subordinate pyramid, and external control of work is based upon assumptions about human nature and human motivation. Theory X assumes that most people prefer to be directed, are not interested in having responsibility, and want safety above everything. In addition to this philosophy is the belief that people are motivated by money, fringe benefits, and fear of punishment.

The managers who accept Theory X assumptions try of structure, control and closely supervise their employees or subordinates. These managers feel that external control is appropriate for dealing with unreliable, irresponsible, and immature people.

Criticism of Theory X. McGregor questioned the view of human nature which formed the basis of Theory X. He says that in a democratic set-up with increasing education (in the Western Society), people are capable of more mature behaviour. McGregor drew heavily on need hierarchy of Maslow (which we would study shortly). He concludes that Theory X assumptions, when applied universally, about human nature are often inaccurate and that management approaches that develop from these assumptions may fail to motivate many individuals to work toward organisational goals. McGregor contends that management by direction and control may not succeed because it is a questionable method for motivating people whose physiological and safety needs are reasonably satisfied and whose social esteem and self-actualisation needs are becoming predominant.

What is theory X? McGregor felt that management needed practices based on a more accurate understanding of human nature and motivation. As a result of his feeling, McGregor developed, and alternate theory of human behaviour called Theory Y.

McGregor felt that management needed practices based on a more accurate understanding of human nature and motivation. As a result of his feeling, McGregor developed an alternate theory of human behaviour called Theory Y. This theory assumes that people are not, by nature, lazy and unreliable. It postulates that people can be basically self-directed and creative at work if properly motivated. Therefore, it should be an essential task of management to unleash this potential in individuals. The property motivated people can achiever their own goals best by directing their own efforts toward accomplishing organizational goals.

Difference Between Theory X and Theory Y. The following table illustrates the difference between assumptions about human nature:

TABLE: List of Assumptions about Human nature That Underline McGregor's Theory X and Theory Y

Theory X	Theory Y
1. Work is inherently distasteful to most people.	1. Work is as natural as play, if the conditions are favourable.
2. Most people are not ambitious, have little desire for responsibility, and prefer to be directed.	2. Self-control is often indispensable in achieving organizational goals.
3. Most people have little capacity for creativity in solving organizational problems.	3. The capacity for creativity in solving organizational problems is widely distributed in the population.
4. Motivation course only at the physiological and safety levels	4. Motivation occurs at the social, esteem, and self-actualization levels, as well as physiological and security levels.
5. Most people must be closely controlled and often coerced to achieve organizational objectives.	5. People can be self-directed and creative at work if properly motivated.

The first impression that a person may form about these two theories is that Theory X is "bad" and not acceptable; and Theory Y is "good". This first impression is based on the assumption about human nature underlying these two theories. Basic assumptions of Theory X are that managers direct control and closely supervise; while Theory Y managers are supportive and facilitating. This kind of idea is wrong since no two situations, or individuals, or groups are similar. The same manager, although basically Theory Y manager, may direct, control and closely supervise with some people in the short run "to help them 'grow up' in a developmental sense, until they are truly Theory Y people."

Maslow's Theory of Need Hierarchy

It is psychologist Abraham Maslow's much known theory. He saw human needs in the form of a hierarchy, starting in an ascending order from the lowest to the highest needs. As the more basic needs are satisfied, a person seeks to fulfil higher order needs. If one's basic needs are not met, they claim priority, and the efforts to satisfy the higher-level needs must be postponed.

Five Levels of Needs. Maslow states that there are five levels of need hierarchy. These need levels include:

1. Basic physiological needs
2. Safety and security
3. Belonging and social needs
4. Esteem and status

5. Self-actualisation and fulfilment.

The important point about need levels is that they usually have a definite sequence of domination. Second-level needs do not dominate until first-level needs are reasonably satisfied. Third- level needs do not dominate until first level and second-level needs have been reasonably satisfied or achieved and so on. This has been illustrated in the following figure:

Need Satisfaction: Lower order needs. In the need hierarchy theory of Maslow, lower level needs generally have precedence in terms of economic pursuits. Let us consider needs at different levels.

The first-level needs involve basic survival and are thus attended to in the normal course of work. People must labour to satisfy these physiological (first level) needs.

Once the first level needs are satisfied, people wish to satisfy the safety and security needs. Basically, they are the future needs or needs for tomorrow. Their satisfaction is a kind or insurance against, uncertainty of future events. The first level needs and second level needs are quite closely interlinked in most cases.

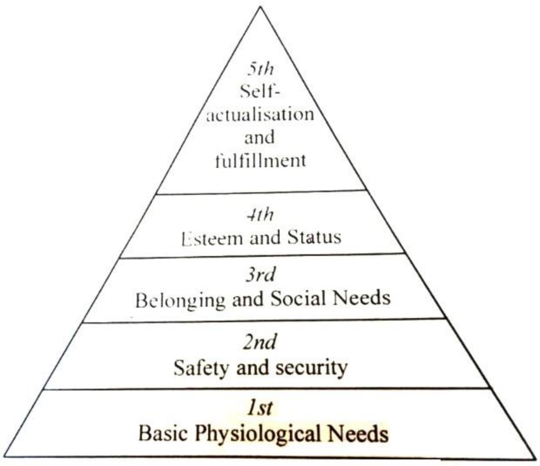


Figure : Maslow's Need Hierarchy : Need mix when physiological and safety needs are high strength.

The needs at the First two levels, as already indicated, are satisfied through economic or monetary rewards fir work. These two needs become unimportant after reaching certain levels of satisfaction.

Needs Satisfaction: Higher order needs. Higher order needs are basically the psychological needs in which economic pursuits of objectives have little involvement.

The third level needs relate to belonging and social involvement. These needs should be satisfied both while a person is at work and also when not working on the job.

The fourth level needs are of esteem and status both in the organisation in which a person works and the society in which a person works, and the society in which he/she exists. The esteem and status provide a kind of satisfaction that makes a person persist in achieving something that improves his personality, consequently making him more useful for the society in which he/she lives.

The fifth level need of self-actualisation is the ultimate in satisfaction. It means that a person achieves what he is capable of achieving provided he pursues the objectives. The need is neither strong in every individual nor at all times in the same individual.

Criticism of Maslow's Theory of Need Hierarchy. Based on this theory, a number of researches have been carried out in the U.S. A. Besides these researches, the theory also stands analysed. On these bases, the following points emerge. They basically point out a number of limitations of this theory, which are summarised as follows:

1. Needs levels interact within a single individual. It is not necessary that there are fixed levels of needs. It is not correct to say that each individual satisfies needs in the order stated by Maslow.
2. Some critics feel that is mostly a philosophical frame-work to describe typical attitudes of United States workers. The question that arises is whether such a philosophical framework can be applied to the Indian workers in the form in which it has been propounded. An important factor that is ignored is the influence of culture and the social environs on the priorities that are set forth by workers in satisfying their needs. In our cultural environment, perhaps, some of the higher order needs are to be satisfied first.
3. Many researchers feel that there is not hierarchy of needs after the lower level needs are satisfied. This is the conclusion of Porter. "He discovered that managers at all levels have similar security and social needs and that the three higher needs on the Maslow hierarch varied greatly with managerial ranks, with lower-level managers being less satisfied than higher level managers. Yet, in all ranks, except possibly that of the top-management group, satisfaction of these needs was definitely more or less deficient."

Conclusion About Maslow's Theory

The following conclusions are worth noting regarding application of Maslow's theory:

(1) In spite of its limitation, the need-hierarchy theory of Maslow gives some sound ideas for helping managers motivate employees. Parter and some of his associate reach the following conclusion:

"There is strong evidence to support the view that unless the existence needs are satisfied none of the higher order needs will come into play. There is also same evidence that unless security needs are satisfied, people will not be concerned with higher order needs."

(2) Leading authorities like Koontz and O'Donnell state that the identification of the kinds of needs appears to be useful.[1] They conclude that employees at all levels have needs of all these types. It is wrong to assume that only the higher-level

[1] Harold koontz and Cyril O'Donnell, Management, McGraw-Hill

employees have social and belonging, esteem, status, and self-actualisation needs. Employees at lower levels too have these needs although their nature, form or dimension may be different. Also, these needs would differ from situation to situation. The authors state this analysis in the following words:

"In practice, this means that perceptive managers must take a situational, or contingency, approach to the application of Maslow's theory. What needs they must appeal to will depend on the personality, wants, and desires of individuals. In any case, managers should not forget that most people, especially in a developed society, have needs that spread over the entire spectrum of Maslow's hierarchy."

(3) Maslow's theory and the Indian setting. As already stated, Maslow's model cannot be applied blindly to the Indian worker. The cultural ethos and the economic realities of the Indian industrial workers are different as from their counterparts in advanced countries like the U.S.A. There is, however, no denying the fact that the industrial worker in the urban setting is no longer a migratory phenomenon but a permanent part of industrial organisations. As a result, Maslow's model can be aptly applied to the Indian workers. Considering the state of economy and the unemployment dilemma, the two lower-order needs play a dominate role in his work psyche.

Herzberg's Two-factor Theory of Motivation or Motivator-Hygiene Approach to Motivation

This theory, as the name indicates, is developed by Herzberg, extended the work of Maslow and developed a specific content theory or work motivation. In the 1950s, he conducted a motivational study on about two hundred accountants and engineers employed by firms in and around Pittsburgh, Pennsylvania, U.S. A. He used, what is called, the critical incident

Method of obtaining data for analysis of the professional subjects in the study were told to state when they felt exceptionally good or exceptionally bad about their respective jobs. The responses obtained were interesting as well as consistent. There responses are summarised in the following two categories:

(1) "Reported good feelings were generally associated with job experiences and job content."

(2) "Reported bad feelings, on the other hand, were generally associated with the surrounding or peripheral aspects of the job – the job context."

Herzberg then concluded that there were two types of factors. These two types of factors. These two types of factors were classified as:

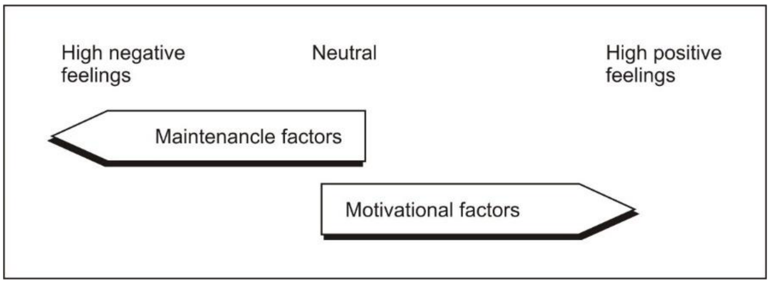


Fig. 3.1 Maintenance and Motivational Factors

(i) Job satisfiers. They were related to job content. They were called the motivators.

(ii) Job dissatisfiers, They were related to job context. They were called the hygiene factors, or also maintenance factors.

Thus, Herzberg found a two-factor explanation to motivation. His conclusions were summarised and became known as Herzberg's two-factor theory of motivation. Prior to Herzberg's time, people assumed that motivation and lack of motivation were merely opposite of one factor on a continuum. Herzberg upset the traditional view by stating that certain job factors primarily dissatisfy employees, as already stated. Other factors were the satisfiers or motivators. He outlined a general tendency only. The following figure illustrates this concept.

In the above diagram, there is overlapping of the two factors. The explanation for this is that the factors which are dissatisfiers for some employees may be satisfiers for others, and vice versa, satisfiers for some may be dissatisfiers for others. Neither factor is thus wholly one-dimensional.

Job Content and Job Context. The following Fig. 3.2 shows the Herzberg factors:

Maintenance factors	**Motivational factors**
Dissatisfiers	Satisfiers
Hygiene factors	Motivators
Job context	Job context
Extrinsic factors	Intrinsic factors

Examples	**Examples**
Company policy and administration	Achievement
Quality of supervision	Recognition
Relations with supervisors	Advancement
Peer relations	Work itself
Relations with subordinates	Possibility of growth
Pay	Responsibility
Job security	
Working conditions	
Status	

Fig. 3.2 Herzberg's classification of maintenance and motivational factors.

As already stated, the motivators or motivational factors are related to the job content, e.g., achievement and responsibility. Since they related to job content, they are also known to be job centered.

On the other hand (as also stated earlier), maintenance factors relate to the job context, because they concern the environment external to the job content and job context is very significant. It shows that employees primarily are motivated very strongly for what they do for themselves. They get strongly motivated if they take responsibility or gain recognition through their own behaviour, If these conclusions are correct, then management's role is to provide a proper environment for employee performance. Management helps rather than bosses.

Intrinsic and Extrinsic Factors. Keith Davis states that the difference between job content and job context is similar to the difference between intrinsic and extrinsic motivators in the field of psychology. Intrinsic motivators are internal rewards that a person feels when performing job, so there is direct connection between work and reward. In this situation, an employee is self-motivated. **Extrinsic motivators** are external rewards which an employee gets, and give no direct satisfaction at the time the work is performed, e.g., retirement plans, health insurance, etc.

Support of the Herzberg Model. Many researchers have come in support of the Herzberg model of motivation. They indicate its superiority on an account of the following reasons:

1. Better understanding of the motivational process. Prior to Herzberg's research, managers centered their attention on extrinsic maintenance factors. This approach often gave poor results. Herzberg's model provides a better understanding of the difference between the intrinsic and extrinsic factors. This has resulted in giving more emphasis to the intrinsic factors because this approach leads to better results for the employees, the organisation, and society.

2. Wide support and application. Its supporters have shown wide application in the U.S.A as well in other countries. It has found acceptance in the application to the managerial, professional, and upper-level white-collar workers.

Criticism of the Herzberg Model. The Herzberg model has criticised by many. They advance the following arguments against it:

1. Number of Factors. Most critics of the model do not accept the idea or two separate factors affecting motivation. They believe that motivation is based on one factor along a continuum and not on two factors.

2. Model is method-bound. The critics feel that the Herzberg model is method-bound, which gives it a limited usefulness. They state that it is easiest to get results favourable to the model by using the Herzberg method. Many other methods have failed to produce similar results. The reason, as stated by Keith Davis is that the egos lead to state the favourable or unfavourable situations.

3. Quite a few critics state that the model does not give enough emphasis to the motivating qualities of pay, status and relations with others, which the model identifies as maintenance factors.

Whatever be the grounds of criticism, the method has proved to be useful. Keith Davis, sums up its usefulness in the following words:

"In spite of all the criticism of this model, it remains useful because of its distinction between factors that motivate employees and factors that primarily help maintain employees who are ready to be motivated. This kind of information helps managers make better human resources decisions." Important developments from the two-factor idea are job enrichment and the quality of work life.

Comparison Between the Herzberg and Maslow Models. The two models are similar as shown in the following table:

Comparison of the Herzberg and Maslow Models

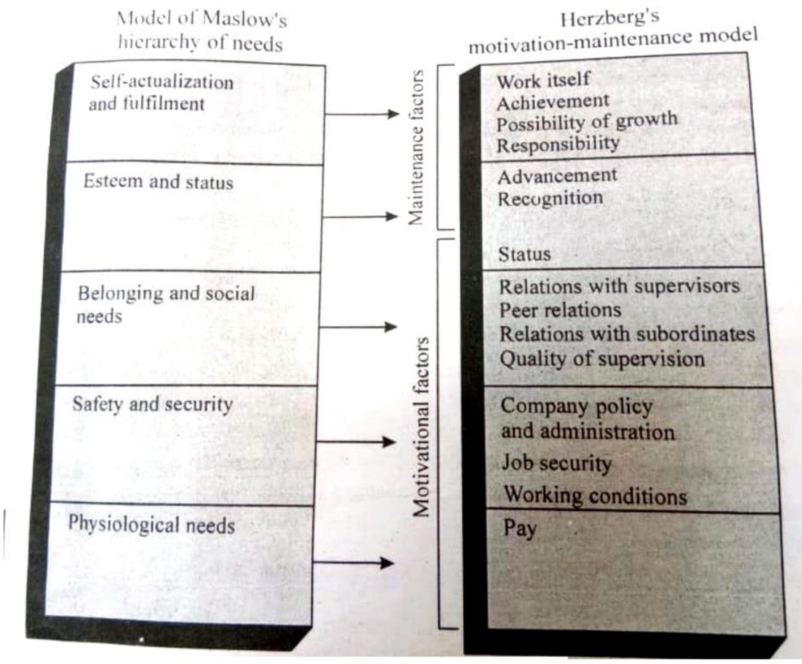


Fig. 3.3 A Comparison of the Maslow and Herzberg Models

Difference between the two models. Although the two models appear to be inter-related, yet there appears to be some fundamental difference between the two. Herzberg focuses on job conditions for need satisfaction, but Maslow

Centres on the needs of the psychological person. The Herzberg model states that in modern society, many workers have satisfied their lower-order needs are no longer strong, driving forces for an employee, Rather, they merely ensure maintenance at the current level of progress of the employee.

Ouchi's Theory Z

Theory Z is an integrated model of motivation. William Ouchi developed theory Z after making a comparative study of Japanese and American management practices. He came to the conclusion that many of the Japanese management practices can be adopted in

American context. He suggested the adoption of theory Z. It describes human behaviour as in the case of theories X and Y. The

Special features of Theory Z are as follows:

1. Mutual Trust: According to Ouchi, trust between employees, supervisors, work groups, unions and management is essential for an effective organisation. When trust and openness exist between employees, workgroups, union and management, conflict is reduced to the minimum and employees co-operate completely to achieve the organisation's objectives.

2. Strong bond between Organisation and employees: There should be cordial relation between the enterprise and its employees. To do so, theory Z suggests life-time employment in the company as followed in Japan. This, in turn, leads to loyalty towards the enterprise. Financial as well as non-financial incentives should be used to motivate the workers. The needs of the workers must be satisfied. During adverse business conditions, share holders may refuse to take dividends to avoid retrenchment of workers. Similarly, promotions may be slowed down.

3. Employees' participation: The employees must be involved in decision-making process, particularly in matters directly affecting them. According to theory Z, such participation creates a sense of responsibility and increase enthusiasm in the implementation of decisions. Thus, top managers serve as facilitators rather than decision-makers.

4. Integrated Structure: Theory Z does not recommend any formal structure as such. Focus is one teamwork where there are no formal reporting relationships, and work is done in a team spirit. There is also emphasis on job rotation which improves understanding about interdependence of tasks. Such understanding, in turn, leads to group spirit.

5. Coordination: According to this theory the leader should try to coordinate the efforts of human beings. He can do so by using the processes of communication, discussion and analysis.

6. Informal Control System: According to theory Z, as far as possible, organisational controls should be informal and flexible. Mutual trust and cooperation should be given more importance than superior-subordinate relationships. Further, there should be free flow of information throughout the organisation so that the corrective actions could be taken quickly whenever needed.

7. Human Resource Development: Under theory Z, ability and talent of every person is recognised & attempts are made to develop and utilise it through job-enlargement, career planning, training research & development, etc.

Thus, theory Z is a hybrid system which incorporates the merits of American management (individual freedom. Risk-taking, quick decision making, etc.) and Japanese companies working in the United States have successfully used theory Z. After collaboration between Japanese and Indian Companies, some expert have suggested application of this theory in India. In Maruti Udyog, which has collaboration with Suzuki Motors of japan an attempt has been made to apply theory Z. For example, the same uniform has been introduced for all employees irrespective of their designation. Similarly, the workplace has been designed on the Japanese pattern which involves open offices. There is a common canteen for all. These practices avoid status differential and class feeling among employees. This, in turn, encourage teamwork in the company.

Evaluation of Theory Z: Although Theory Z is a good mixture of good qualities of American and Japanese management, but has certain limitations, that has certain limitations that are as follows:--

1. Life-time employment provision to employees may fail to motivate employees with higher-level needs. When better jobs are offered to an employee, he or she may leave the organisation. Likewise, employers also do not like to retain inefficient employees permanently.
2. It seems difficult that employees participate in the decision-making process. Management may make it a prestige issue and may not feel motivated. Due to this, decision-making process may get delayed.
3. Another criticism of Theory Z is that a common culture in the organisation may be lacking. The reason is that employees in the organisation may have different attitudes, habits, languages, customs, aptitudes, religions, etc.
4. There is special feature of Theory Z that organisation has no formal structure. But in reality, we all know that without any formal structure, there may be confusions in the organisation as regards authority-responsibility relationships.
5. Another point made in this regard is that one theory that is suitable in one culture may not be suitable in all types of cultures. Thus, theory Z, that has emerged from Japan's unique culture may not be applicable in all cultures.

Thus, we can say that Theory Z is not merely a theory of motivation but a philosophy of managing. It is suggested that Japanese style should be applied in Indian companies also. But it does not serve as the best motivational technique or philosophy in all organisations operating under different economic, social, cultural and political environment.

LESSON 2

CONTROL : CONCEPT AND PROCESS

Controlling involves measuring and correcting the actions of subordinates to assure that events conform to plans. Thus it measures performance against goals and plans, shows where negative deviations exist, and. by putting in remedial action to correct deviations, helps assure accomplishment of plans. The basic control process involves three steps: (1) establishing standards, (2) measuring performance against these standards, and (3) correcting deviations from standards and plans. Let us discuss these steps one by one:

(1) Establishment of Standards: Because plans are the yardsticks against which controls must be devised, it follows logically that the first step in the control process would be to establish plans. However, since plans vary in detail and complexity and since managers cannot usually watch everything, special standards are established. Standards are by definition simply criteria of performance. These standards may be stated in physical terms, such as qualities of products, units of service, man hours, or speed, or they may be expressed in monetary terms, such as volume of sales, cost, capital expenditure, or profit. They may also be expressed in qualitative terms or in any other way that can give a clear indication of performance. No matter how these standards are expressed, these are the selected points against which actual performance is compared so as to give managers signals as to how things are going without their having to watch every step in the execution of plans.

(2) Measurement of performance: The second step in the control process is the measurement of the performance of the subordinates. The measurement of performance may be quite simple if it is to be compared against man-hour standards for the production of a mass production item. But it may be very difficult task if the item is made according to the likes and dislikes of individual customers. Similarly, appraisal of performance may be very difficult in the less technical kinds of work. Thus, we can say that appraisal depends upon standards—if they are definite, performance will be easy to measure; if they are vague, performance will be difficult to measure.

(3) Correction of deviations: This is the third step in the control process. Correction of deviations clearly brings out the relation between control and other functions of management. Managers may correct deviations by redrawing their plans or by modifying their goals. Or they may correct deviations by exercising their organising function through reassignment or classification of duties. They may correct it by additional staffing, by better selection and training of subordinates. Or again, they may correct it through better or fuller explanation of the job or by more effective leadership techniques.

Requirements For Adequate Controls

All alert managers want to have an adequate and effective system of controls to assist them in making sure that events conform to plans. The following requirements should be kept in mind for designing an effective control system:

(1) Control should Reflect Plans and Positions: All control techniques and systems should reflect the plans these are designed to follow. Every plan has unique features.

Managers require information on how well the various plans are working. The information required to evaluate the progress of different plans varies from one plan to another. The controls should be so designed that they provide different types of information for evaluating different plans.

In the same way, control should be tailored to positions. Different controls are required for different persons incharge of different departments. What may be suitable for one incharge may not be suitable for another incharge. Therefore, effective controls are those which best serve the specific requirements of different heads of departments or sub-departments.

(2) Controls must be Tailored to Individual Managers and their Personalities: Controls must be tailored to the personalities of individual managers. If they are not of a type that a manager can or will understand, they will not be useful. Some people, such as statisticians and accountants, like their information in forms of complex tables of data or bulky computer print-outs. In such cases, let them have it that way. The important thing is that various controls should provide the mangers with the information they need in a manner that they will understand and use.

(3) Control should Point out Exceptions at Critical Points: Controls should point out exceptions so that managers may concentrate on them for remedial measures. They should also indicate which deviations are more important and which are less. A manager, for example, might be concerned if the cost of labour deviated from budget by 5 per cent, but he is unworried if the cost of postage stamps deviated from budget by 20 per cent. Therefore, controls should point out exceptions only at critical points. It is true that more the managers concentrate their control efforts on exceptions, the more efficient their control mechanism will be. But this principle is best understood in the light of the fact that effective control requires managers to pay primary attention to those things which are most important.

(4) Controls should be Objective: Effective control requires objective standards. Whether a subordinate is doing a good job should ideally not be a mater of subjective determination because in that case judgements of performance will be inaccurate. But if the standards are objective and measurements are kept upto-date through periodic review, controls would be more effective.

(5) Controls Should be Flexible: Controls should remain workable in the face of changed plans, unforeseen circumstances, or outright failures. If controls are to remain effective, despite failure or unexpected change of plans, they must be flexible. The need for flexible control can readily be illustrated. A budget system may project a certain level of expenses and grant authority to managers to hire labour and purchase materials and services at this level. If this budget is based on a forecast of a certain level of sales, it may become meaningless as a system of control if the actual sales volume is considerably above or below the forecast. The inflexibility of such a budget would disqualify it from being an effective control technique. What is needed, therefore, is a budget that will reflect sales variations as well as other deviations from plans. This requirement is provided by the flexible budget.

(6) Controls should be Economical: Controls must be worth their cost. Although this requirement is simple, it if often difficult to accomplish in practice. It is difficult to undertake a cost-benefit analysis of a control system. However, controls should ideally bring to light the causes of actual or potential deviations form plans with the minimum of costs.

(7) Controls should Lead to Corrective Action: An adequate system will disclose where failures are occurring and who is responsible for them, and it will ensure that some corrective action is taken. Control is justified only if deviation from plans are corrected through appropriate planning, organizing, staffing and leading.

(8) Controls should be forward-looking: There is usually a time lag between the measurement of performance and correction of deviations. This time lag is undersirable. What managers really need for effective control is a system of control that will tell them in advance that problems will occur if they do not do something about now. Effective controls are those which are directed towards the future.

Significance of Control

Controlling is a basic function of management. It ensures that actions proceed according to plans. A well designed system of control permits top management to delegate authority, free itself of unnecessary detail, and ensure achievement of plans. Management control serves as a yardstick for allocating resources and evaluating performance. It provides a guide to future action. It provides order and discipline in the organisation. Realistic control simplifies supervision by pointing out only significant deviations. Realistic control helps the management in achieving the enterprise objectives in the most efficient manner.

Techniques of Managerial Control

A variety of tools and techniques have been used to help managerial control. Some of these techniques may be classified as traditional in the sense that they have been used for long by the managers. Some of the traditional techniques of control are: budget, statistical data, special reports and analyses, operational audit and personal observation. Other techniques like Programme Evaluation and Review Technique (PERT) etc. represent newer generation of planning and control tools.

Traditional Techniques

A. Budgetary Control: A widely used device for managerial control is the budget. A budget is a plan showing how resources will be acquired and used over a specified time interval. The act of preparing budgets is called budgeting, and the use of budgets as a means for controlling activity is called budgetary control.

Benefits of Budgetary Control: Budgetary control leads to maximum utilization of resources with a view to ensure maximum returns because it provides aid to managerial planning and control. Following are some specific advantages of budgetary control.

1. Budgets are the result of planning function and as such they direct every action of the organisation towards goal achievements. Budgets also provide a basis for coordination and integration of various activities in the organisation.

2. Budgetary control involves measuring performance and comparing it against budgeted figures. Through this process, the variations are struck out and responsibilities fixed. In this light, reports are prepared and presented to management and suitable actions are taken. Thus, budgetary control is used as an effective and integrated control tool.

3. Budgetary control makes people in the organisation conscious about cost and performance. This leads to effective utilisation of organisational resources such as labour, machines, and materials.

4. It is somewhat a democratic way of managing and control. In the organisation where budgetary control is exercised, generally more authority for preparing budgets is delegated to subordinates. Thus, there is no undue centralisation of authority. The delegation of authority is a condition nrecedent to the success of budgetary programme. Moreover, there is a participation in management at all levels of the organisation in the preparation of budgets.

B. Non-Budgetary Control

1. Statistical Data: Statistical analysis of the innumerable aspects of business operation is important to control. Analysis in terms of averages, percentages, ratios, correlation, etc. provides help for control. Such areas of control are production, planning and control, quality control, inventory control etc. Various tools indicate the deviations from the standard and suitable managerial actions in respect of these.

2. Special Report and Analysis: For control purposes reports and analysis help only in some particular problem areas. While routine accounting and statistical reports provide necessary information for control in general, there may be some areas where these may fall short of requirements, particularly in the case of specific problems of contingency. For this purpose, an investigating group may be assigned the job to go into details of the problem and to prepare a report for this purpose. The problem in this case is generally of non-routine type.

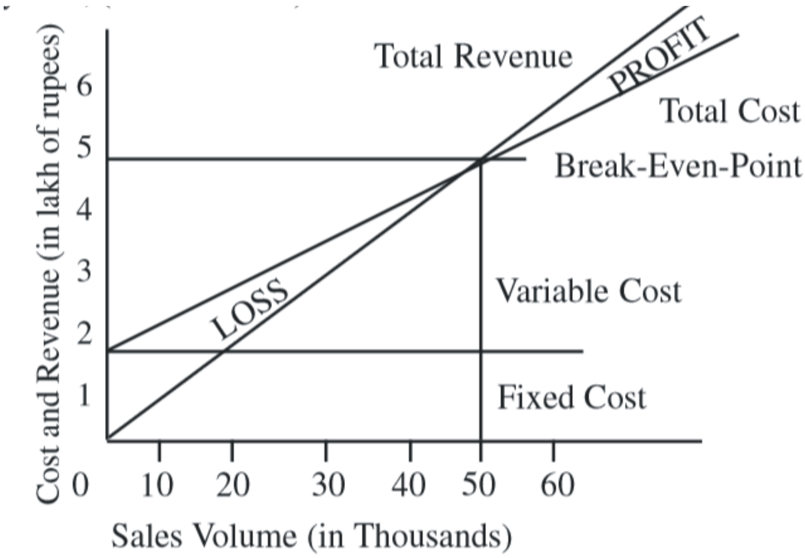
3. Internal Audit: Internal audit, now largely called operational audit is an effective tool of managerial control. Internal audit is carried out by mangers themselves or by special staff appointed for this purpose. In contrast to external audit which remains unconcerned with the operational aspects of the organisation, internal audit is much broader in scope and encompasses the whole range of activities of the organisation. Thus internal audit, in addition to ensuring that accounts properly reflect the facts, also appraises policies, procedures, use of authority, quality of management, effectiveness of methods, special problems, and other phases of operations; the latter aspects being more emphasised in present day internal audit. However, there are certain problems in broadening the scope of internal audit in these areas because of the limited ability of an organisation.

Internal audit provides managers with a perennial or everlasting supply of control information. By measuring performance and evaluating results in the light of the standard, internal audit makes suitable recommendations for managerial actions. It also scrutinizes the applicability and relevance of policy, procedure, and method which have a tendency to become obsolete. Such a scrutiny helps in choosing a suitable working procedure and methods. The introduction of internal audit tones up morale fibres and working efforts of all members in the organisation as it involves the risk of being exposed before the management and people try to avoid errors of omission and commission.

The internal audit is not free from its limitations. Its installation and operation require extra costs which may be too much for smaller organisations. Sometimes, the reports of internal audit team may not be acceptable to the manager because of some deficiency. The audit people have a tendency to look at every aspect of business operations from accounting point of view. This not only affects the scope of internal audit, but also leads to faulty conclusions. However, in recent years, the system of internal audit has been raised to new heights by organising a centralized audit unit for the purpose of supplying greater and wider control information to managers. In managing such a unit, accounting qualification alone are not adequate, but the greater emphasis is being given to managerial skill and experience. To avoid accounting bias, internal auditors in many organisations are selected from the rank of line managers.

4. Personal Observation: Though various devices of managerial control such as budgets, standard cost, statistical tools, audit reports and recommendations are quite helpful in managerial control, managers should not forget the importance of control through personal observation. Managers need to hold discussion with the persons whose work is being controlled and they should visit the actual operations. There are certain kinds of impressions and information that can be conveyed only through face-to-face contact, personal observation and conversation. When a man is new to the job, a supervisor will like to watch his work more closely than that of an experienced operator. Managers, after all, have responsibility of achieving organisational objectives, whatever control devices they may use. This largely involves measuring of human performance. Thus, the success of personal observation as a control method depends upon how much information a manger can collect through this process.

5. Break-even analysis: It is mainly concerned with the effect which changes in fixed costs, changes in variable costs, changes in sales volume, changes in the sales prices and changes in sales mix will have on profits. Therefore, it establishes a relationship between cost of production, sales at which total cost is fully covered and beyond which profits will be earned and below which there will be a loss. The volume of sales at which sales revenue exactly equals total cost or there is no profit or loss is known as 'break-even point' This break-even analysis can be shown graphically also, (shown below).



In the above graph, suppose fixed cost is Rs. 1,5 lakhs and variable costs and sales price are Rs. 7 and Rs. 10 per unit respectively. Here break even point is 50,000 units of sales because at this point the total cost is equal to the total revenue. At this point the total cost is Rs. 5 lakhs represented by fixed cost of Rs. 1.5 lakh and variable cost—Rs. 3.5 lakhs and the total revenue is also Rs. 5 lakhs (i.e., 50,000 × 10). The spread to the right of this point represents the profit potential and the spread to the left shows the loss potential.

Break even analysis presents information regarding total cost, revenues, profit/loss at various levels of production in such a manner that it is easily understandable. It is based on the division of total costs into fixed and variable. Some examples of fixed cost are represented by depreciation, insurance charges, property taxes, cost of maintaining office, etc. Variable costs may include direct material costs, labour costs and commission rates on sales. The management can't have control over the fixed costs, but it can exercise control over the variable costs. The assumption of this analysis is that it is possible to identify fixed and variable components of cost but this is not very true in actual practice. Moreover, fixed costs remain fixed only upto a certain level of production after which they will rise considerably. Another difficulty with this analysis is that the break-even point is not fixed. It changes with every management decision that is when selling price changes, while operating efficiency changes, when product-mix changes and so on.

2. Modern Control or Network Techniques

Network analysis is a means of planning and controlling the project activities. Under this, a project is broken down to small activities or operations which are arranged in a logical sequence. After this, the order in which the various operations should be performed is decided. A network diagram may be drawn to show the relationship between all the operations involved. So it will reveal the gaps in the flow plan.

The net work drawn thus shows the interdependence of various activities of a project and also points out the activities to be completed before the others are started.

The object of network analysis is to help in planning, organizing and controlling the operations to enable the management in accomplishing the project economically and efficiently. The most popular network techniques are:

A. PERT (Programme Evaluation and Review Technique)

It is an important technique in the field of project management. It involves planning, monitoring and controlling of projects. It specifies the techniques and procedures to assist project managers in:

1. Planning schedules and costs.
2. Determining time and cost status.
3. Forecasting man power skill requirements.
4. Predicting schedule slippages and cost plans.
5. Developing alternate time cost plans.
6. Allocating resources among tasks.

PERT uses probability and linear programming for planning and controlling the activities. Probability helps in estimating the timings of various activities in the project and linear programming is used to maximize the achievement of the project objectives. PERT is employed in the construction of ships, buildings and highways, in the planning and launching of new projects, in the publication of books, in the installation of computer system, etc.

B. C.P.M. (Critical Path Method)

It is most widely used as a planning and control technique in business. Unlike PERT, it is applied in those projects where timing are relatively well known. It is used for planning and controlling the most logical sequences of activities for accomplishing a project.

Under CPM, the project is analysed into different operations or activities and their relationships are determined and shown on the network diagram. The network is then used for optimizing the use of resources and time. CPM marks critical activities in a project and concentrates on them. Here assumption is that expected time is actually the time taken to complete the project. CPM requires a greater planning than required otherwise. Thus, it increases the planning cost, but this increase in cost is justified by concentrating on critical path only and avoiding expenses on the strict supervision and control of the whole project. Besides ascertaining time schedule, CPM provides a standard method of communicating project plans, schedules and costs.

REVIEW QUESTIONS

Q.1. (a) Explain the concept of management. Review in brief the main functions of management.

(b) Write short notes on "Organisation as a system"

Q.2. What is meant by management? What are the characteristics of management?

Q.3. "No enterprise can achieve its objectives without systematic planning". How far do you agree with this statement. Also discuss the limitations of Planning.

Q.4. (a) What is decision-making? Why is it important for any organisation?

(b) Briefly describe the quantitative techniques of decision making.

Q.5. (a) Explain the Organising process.

(b) Write notes on the following.

1. Line and staff organisation.
2. Matrix organisation.
3. Network Virtual Organisation.

Q.6. Distinguish between

(a) Maslow's Theory of Need Hierarchy and Herzberg's Two Factor Theory.

(b) Intrinsic and extrinsic awards.

Q.7. (a) What do you understand by leadership? Examine the different styles of leadership.

(b) Write notes on

1. Transformational vs. Transactional Leadership
2. Difference between leadership and management.

Q.8. (a) Explain the meaning, important and process of control.

(b) Explain the various techniques of control.