1. Concept and Meaning of Motivation

Motivation is the process of stimulating people to action to accomplish desired goals. Motivation is a managerial function which has been defined by different scholars. Some of the important definitions are as follows:

According to **Edwin B.Flippo**, "*Motivation is the process of attempting to influence others to do your will through the possibility of gain or reward.*"

According to **Dalton E. McFarland**, "*Motivation refers to the way in which urges, drives, desires, aspirations, strivings or needs direct, control or explain the behavior of human beings.*"

According to **William G. Scout**, "*Motivation means a process of stimulating people to action to accomplish desired goals*".

According to **Fred Luthans**, "*Motivation is the process which begins with a physiological or psychological need or deficiency which triggers behavior or a drive that is aimed at a goal or incentive.*"

2. Nature of Motivation

1. Motivation is an internal feeling which influences the human behavior.

2. Motivation is affected by way the individual is motivated.

3. Motivation results in achieving goals positively in the organization.

4. Motivation is related to satisfaction.

5. Motivation can be positive and negative.

6. Motivation is a complex process as the individuals are heterogeneous in their expectations, perceptions and reactions.

7. Motivation is stronger when it springs from a person's needs which are consistent with his values.

3. Importance of Motivation

1. It helps the manager to ignite the will to work amongst the workmen.

2. Good motivation method helps in improving the abilities and capabilities of the employees.

3. It helps in finding out the hidden talents and calibre of the employees.

4. Motivated employees means satisfied employees i.e. satisfied in terms of job as well as their personal motives.

5. Motivation reduces the chances of industrial unrest, strikes and similar labour problems.

6. Motivation helps to change the negative or indifferent attitudes of employee to positive attitudes so as to achieve organizational goals.

7. motivation helps to reduce the employee turnover and thereby saves the cost of new recruitment and training.

8. motivation helps in reducing the absenteeism in the organization.

4. Theories of Motivation

A. Maslow's Need Hierarchy Theory:

This is the most well-known theory of motivation of Abraham Maslow, a clinical psychologist. A basic assumption of this model is that as we satisfy one type of need, other needs then occupy our attention. Once we satisfy our need for food, air and shelter, then we can move on to safety needs, love needs and so on. Although Maslow argued that most people tend to experience these needs in the order that he described, for some people, the so-called higher-level needs will dominate lower-level needs. Some people will be so enthralled by a book or a movie that they will forget they are really hungry. Maslow described the hierarchy of needs as follows:

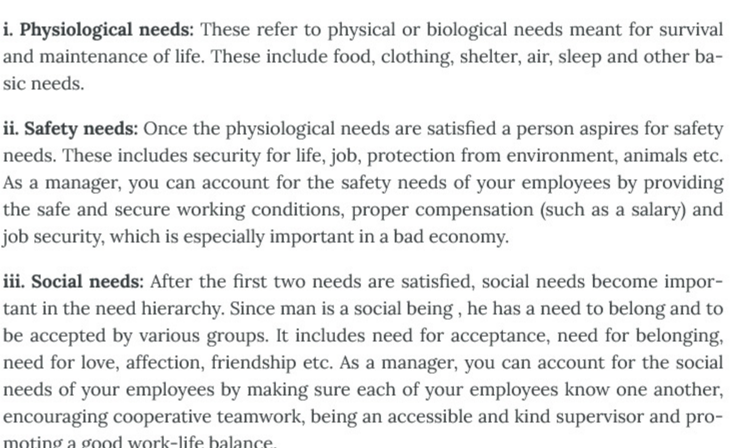


Figure1- Maslow's need Hierarchy Theory of Motivation

i. Physiological needs: These refer to physical or biological needs meant for survival and maintenance of life. These include food, clothing, shelter, air, sleep and other basic needs.

ii. Safety needs: Once the physiological needs are satisfied a person aspires for safety needs. These includes security for life, job, protection from environment, animals etc. As a manager, you can account for the safety needs of your employees by providing the safe and secure working conditions, proper compensation (such as a salary) and job security, which is especially important in a bad economy.

iii. Social needs: After the first two needs are satisfied, social needs become important in the need hierarchy. Since man is a social being , he has a need to belong and to be accepted by various groups. It includes need for acceptance, need for belonging, need for love, affection, friendship etc. As a manager, you can account for the social needs of your employees by making sure each of your employees know one another, encouraging cooperative teamwork, being an accessible and kind supervisor and promoting a good work-life balance.

iv. Esteem and status needs: these needs are concerned with self-respect, self-confidence, a feeling of personal worth, feeling of being unique, and recognition. As a manager, you can account for the esteem needs of your employees by offering praise and recognition when the employee does well, and offering promotions and additional responsibility to reflect your belief that they are a valued employee.

v. Self-actualisation needs: Self-actualisation is the need to maximize one's potential whatever it may be. These needs arise only after the four categories of need are fulfilled. These needs are more like mission, lifetime aspiration, e.g., leprosy eradication mission, mission of Mahatma Gandhi to liberate India from British Rule.

Maslow's needs theory has received wide recognition, particularly among practicing managers. This can be attributed to the theory's intuitive logic and ease of understanding. Following are some problems which are not solved by this theory:

a) This theory is common with many other theories also, that there is lack of direct cause-effect relationship between need and behaviour. Thus a particular need may cause behaviour in different ways in different needs.

b) There is another problem in applying the theory into practice. A person tries for his higher-level need when his lower-order need is reasonably satisfied. What is this reasonable level is a question of subjective matter. Thus, the level of satisfaction for particular need may differ from person to person.

B. Theory X and Theory Y: Douglas McGregor has proposed two models i.e., Theory X and Theory Y. Under Theory X, managers believe that employees inherently dislike work and must therefore be directed or even coerced into performing it. In this type of theory, workers generally shirk work and do not like to work. They avoid responsibility and need to be directed. While under theory y , manager assume that employees can view work as being as natural as rest or play and therefore the average person can learn to accept, and even seek responsibility. Good motivation makes workers readily accept responsibility and self-direction.

Comparison between Theory X and Theory Y

Theory X	Theory Y
1. Inhernet dislike for work.	Work is natural like rest or play.
2. Unambitious and prefer to be directed by others.	Ambitious and capable of directing their own behaviour.
3. Avoid responsibility.	Accept and seek responsibility under proper conditions.
4. Lack creativity and resist change.	Creativity widely spread.
5. Focus on lower-level (physiological and safety) needs to motivate workers.	Both lower-level and higher-order needs like social, esteem and self-actualisation are sources of motivation.
6. External control and close supervision required to achieve organisational objectives.	Self-direction and self-control.
7. Centralisation of authority and autocratic leadership.	Decentralisation and participation in decision-making. Democratic leadership.
8. People lack self-motivation.	People are self-motivated.

C. Hezberg's Two-Factor Theory: Frederick Herzberg proposed a two-factor theory or the motivator- hygiene theory in 1959. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of "Satisfaction" is "No satisfaction" and the opposite of "Dissatisfaction" is "No Dissatisfaction".

Herzberg classified these job factors into two categories-

i. Hygiene Factors: Herzberg used the term 'hygiene' to describe factors which are related to the conditions under which job is performed such as compensation, job security, organizational politics, working conditions, quality of leadership, and relationships between supervisors, subordinates, and peers. These factors are extrinsic to work. Hygiene factors are also called as dissatisfiers or maintenance factors as they are required to avoid dissatisfaction. Since any increase in these factors will not affect employee's level of satisfaction, these are of no use for motivating them.

ii. Motivational Factors: According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are: achievement, recognition, advancement, works itself, possibility of growth and responsibility. Most of these factors are related with job contents. Any increase in these factors will satisfy the employees; however any decrease will not affect their level of satisfaction.

D. McClelland's Theory of Needs: This theory was developed by David McClleland and his associates. The theory focuses on three needs, defined as follows:

- Need for achievement (nAch): it is the drive to excel, to achieve in relation to a set of standards, to strive to succeed. McClleland has identified four basic features of high achievers:

i. Always ready to take risks.

ii. provide immediate feedback

iii. accomplish the task easily on time.

Iv. Preoccupied the task till its completion.

- Need for Power (nPow): it is the need to manipulate others or the drive for superiority over others. People with high power need have a great concern for exercising influence and control.

- Need for Affiliation (nAff): It is a need for open and sociable interpersonal relationships. In other words, it is a desire for relationship based on co-operation and mutual understanding. Such individuals are effective performers in a team. These people want to be liked by others. They prefer having friends rather than experts as work partners, and they avoid conflict whenever possible.

E Alderfer's ERG Theory:

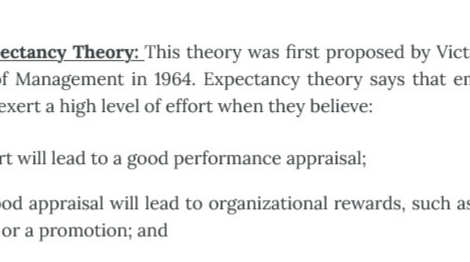
Clayton Paul Alderfer, an American psychologist further expanded Maslow's hierarchy of needs by categorizing the hierarchy into his ERG theory (Existence, Relatedness and Growth). Alderfer has categorized the various needs into three categories:

- **Existence Needs:** it consists of physiological and safety needs such as hunger ,thirst etc (Maslow's first two levels)

- **Relatedness Needs:** it consists of social and external esteem needs that involve relationship with other people. (Maslow's third and fourth level).'

- **Growth Needs:** it consists of self-actualization and internal esteem needs like feeling of being unique, feeling of personal growth etc. (Maslow's fourth and fifth level)

Figure 1: How Maslow's and Alderfer's Levels Relate



ERG Theory recognizes that the importance of the three categories may vary for each individual. Managers must recognize that an employee has multiple needs, which must be satisfied simultaneously. According to the ERG theory, if you focus exclusively on one need at a time, this will not effectively motivate. In addition, the ERG theory acknowledges that if a higher level need remains unfulfilled, the person may regress towards lower level needs, which appear easier to satisfy. This is known as: the frustration-regression principle.

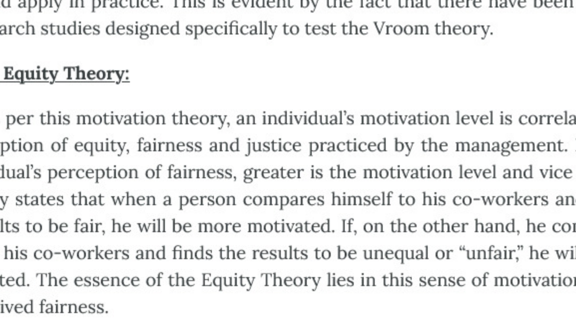
F. Vroom Expectancy Theory: This theory was first proposed by Victor Vroom of the Yale School of Management in 1964. Expectancy theory says that employees will be motivated to exert a high level of effort when they believe:

- That effort will lead to a good performance appraisal;

- That a good appraisal will lead to organizational rewards, such as bonus, a salary increase, or a promotion; and

- That the rewards will satisfy the employees' personal goals.

Expectancy theory must focus on three things i.e. Efforts (E), Performance (P) and Outcomes (O). In order to be motivated to act or perform their job, employees must perceive that their efforts (E) are likely to lead to good performance (P). In other words, effort has to be instrumental to good performance. Second, people must expect that their performance is clearly linked to certain outcomes (O). And finally they have to value (V) the outcome they obtain when they perform. If all these paths and linkages are clear, the person will be motivated. Two other factors that can affect motivation are ability and role clarity. A person might be highly motivated, but if she does not have the ability to perform the job or task and a clear understanding of how to direct her efforts in a manner that is appropriate to her organizational role, then the task might not be accomplished.



One of the important features of this theory is that it recognizes individual differences in work motivation and suggests that motivation is a complex process as compared to Maslow's or Herzberg's simplistic models. It also clarifies the relationship between individual and organizational goals. Further, this theory is difficult to research and apply in practice. This is evident by the fact that there have been only a few research studies designed specifically to test the Vroom theory.

G. Equity Theory:

As per this motivation theory, an individual's motivation level is correlated to his perception of equity, fairness and justice practiced by the management. Higher is individual's perception of fairness, greater is the motivation level and vice versa.The theory states that when a person compares himself to his co-workers and finds the results to be fair, he will be more motivated. If, on the other hand, he compares himself to his co-workers and finds the results to be unequal or "unfair," he will be less motivated. The essence of the Equity Theory lies in this sense of motivation through perceived fairness.

A referent group is a selection of people an individual relates to or uses when comparing themselves to the larger population. If a salesperson compares themselves to the rest of the sales staff, the referent group is the sales staff.

There are four referent comparisons that an employee can use:

a. Self-inside: An employee's experiences in a different position inside the employee's current organization.

b. Self-outside: An employee's experiences in a situation or position outside the employee's current organization.

c. Other-inside: Another individual or group of individuals inside the employee's organization.

d. Other-outside: Another individual or group of individual outside the employee's organization.

There are two assumptions on which the theory works:

a. Individuals make contributions (inputs) for which they expect certain rewards (outcomes).

b. Individuals decide whether or not a particular exchange is satisfactory, by comparing their inputs and outcomes with those of others and try to rectify any inequality.

Various types of inputs and outcomes of an individual which are as follows:

Inputs: Efforts, Time, Education, Experience, Training, Ideas, Ability

Outcomes: Pay, Promotion, Recognition, Security, Personal Development, Benefits, Friendship opportunity

Employee might compare themselves to friends, neighbours, co-workers or colleagues in other organizations or compare their present job with past jobs. Which referent an employee chooses will be influenced by the information the employee holds about referents as well as by the attractiveness of the referent. This has led to focusing on moderating variables, such as gender.

Exchange relationship between a person's inputs/outcomes in relation to those of other persons may be of three types: overpaid inequity, underpaid inequity and equity.

Overpaid Inequity: In this case, the person perceive that his outcomes are more as compared to his inputs in relation to others. This relationship can be expressed by:

$$\frac{\textit{Person's outcomes}}{\textit{Person's inputs}} > \frac{\textit{others otutcomes}}{\textit{others inputs}}$$

In this case, the person experiences guilt feeling

Underpaid Inequity: In this case, the person perceives that his outcomes are lower as compared to his inputs in relation to others. This relationship can be expressed as:

$$\frac{\textit{Person's outcomes}}{\textit{Person's inputs}} < \frac{\textit{others otutcomes}}{\textit{others inputs}}$$

In such a relationship, the person experiences dissonance.

Equity: In this case, the person perceives that his outcomes in relation to his inputs are equal to those of others. This relationship can be expressed by:

$$\frac{\textit{Person's outcomes}}{\textit{Person's inputs}} = \frac{\textit{others otutcomes}}{\textit{others inputs}}$$

In this case, the person experiences satisfaction.

The impact of inequity on the person is as follows:

i. Perceived inequity creates tension in the person.

ii. The amount of tension is proportional to the magnitude of inequity.

iii. The tension created in the person will motivate him to reduce it.

iv. The strength of the motivation to reduce inequity is proportional to the perceived inequity.

Elements of Sound Motivation System:

1. Adequate Motivation: The motivation system should be adequate covering the entire workforce in the organisation and it should also cover entire activities of the workforce. Sometimes, the presence of a motivational factor fails to produce any effective result, particularly when its amount is too small.

2. Analysis of Motives: A good motivation system also attempts at analysing the factors which motivate the employees in the prevailing organisational environment.

3. Simplicity in Motivation System: The system should be simple both in terms of its understanding by the employees and its applicability in the organization.

4. Uneven Motivation: In an organization, all the employees are not of same type. They differ in education, attitude, ambition, etc. Thus, more educated, ambitious persons can be motivated up to very high level, while others cannot be.

Summary

Motivation is an important element in the management without which the working of the organization cannot be performed smoothly. Number of theories of motivation have been

proposed over the years. Most popular theories of motivation have been discussed in this module that can help increase workplace productivity. These are Maslow's need Hierarchy Theory of Motivation, Douglas McGregor's Theory X and Theory Y, Hezberg's Two-Factor Theory, McClelland's Theory of Needs, Alderfer's ERG Theory .Various theories regarding motivation have their own implications but all of them have one common motive i.e. to urge the employees for attaining their aim and goals.

Introduction

Directing is the fifth function of management. It is the heart of management process. Directing refers to instructing, guiding and overseeing the performance of the workers to achieve the predetermined goals. Directing helps to create an appropriate work environment that facilitates efficient discharge of duties. It is Directing that initiates action. Other functions create preconditions only. Directing is to related to dealing with human elements and is concerned with directing human efforts towards achieving organizational goals. The quality of direction determines the Satisfactory or non satisfactory performance of the organization.

Definition:-

According to **Haimann**: "*Directing consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned.*"

According to **Koontz and O'Donnel**: "*Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objectives*"

According to **Urwick and Brech**: "*Directing is the guidance, inspection and the leadership of those men and women that constitute the real course of responsibility of management.*"

According to **G. R. Terry** "*Directing means moving to action and supplying simulative power to a group of persons*".

According to **Dale** ,"*Direction is telling people what to do and seeing that they do it to the best of their ability*".

According to **Marshall**, "*Directing involves determining the course, giving orders and instructions and providing dynamic leadership*".

Direction Ensures that sub-ordinates do their work. well as per the expectation of management in order to achieve the goals. It also develops interpersonal relations in a group.

There are four elements of Directing

- Supervision
- Motivation
- Leadership
- Communication

Nature of Directing

Nature of Directing can be briefly explained as follows:

1. Pervasive Function: – Directing is required at every level in an organization. every manager provides guidance and inspiration to his subordinates. It is to be performed from top level to lower level in the organization.

2. Executive Function: Directing is an executive function. The guidance and instructions are given by all managers and executive at all levels throughout the working of an organization. A subordinate always gets instructions from his superior only.

3. Human Factor: – Directing function is related with human beings. It relates to guiding and inspiring subordinates. And since human behaviour is complex and unpredictable, Direction function becomes all the more important.

4. Continuous Activity: – Directing is a continuous activity as it continues throughout the life of an organization. The mangers has to give direction to his subordinates, guide and motivate them continuously so that the desired goals can be achieved.

5. Creative Activity: – Directing function helps in converting plans into performance. A manager needs to have a creative and innovative thinking so that he can guide and motivate his subordinates in such a way, that it leads to realization of organization objectives. Without directing, employees become inactive

6. Flow from Top to Bottom Level: – Directing functions includes providing instructions to the subordinates. Directing flows from top to bottom. It starts with top level management and ends with subordinates at the lower level.

7. Facilitates Co-ordination: – Directing brings harmony among employees and balance between all the activities of an organization. A good system of communication between the superior and his subordinates helps to improve coordination. Upwards communication helps a manager to understand the subordinates feelings.

8. Dual Objective: – Direction helps to achieve dual objectives of an organization. On the one hand it aims at getting things done by the subordinates and on the other hand, it provides an opportunity to the managers to prove their leadership qualities.

9. Psychological Factor: –Directing function is directly related to an individual working in the organization. Directing function deals with human behaviour which varies from individual to individual and is unpredictable. Leader has to take care of feelings, emotions, etc. while giving direction to the subordinates. The manager has to take care that the feelings and emotions of any employee do not get hurt.

Importance of Directing

Direction is described as the heart of the management process. It is the life spark of an organization which sets the organizational machine into motion. Direction function is important because of the following reasons:

1) Direction initiates action: Management through direction motivates individuals in the organization to function in the desired way to achieve organizational objectives. In the absence of direction no one can understand what he is supposed to do and whether he is doing it in the right way or not.

2) Integration of objectives: Direction helps in integration of personal goals with the organizational goals. Employees are made to know as how the achievement of organizational goals will help in fulfilling their personal goals as well. Thus Employees feel motivated to achieve their personal goals through achieving organizational goals.

3) Direction facilities changes in the organization: Changes in the work system are disliked by the employees and they always resist it. Any changes in the business environment may necessitate changes in the organization as well. Resistance to change can be avoided through proper direction. In order to accept and implement these changes management has to motivate the employees affected by these changes, which is the essential part of direction. For example, a company wants to introduce computerization, employees will hesitate to accept it as they may lose their jobs since they don't know how to handle the computers. Here leadership plays an important role. Leaders can communicate employees that they will be given training to use computers and also there will be no loss of jobs.

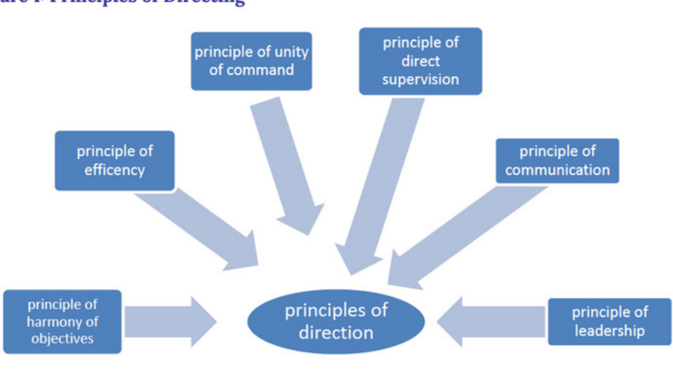
4) Direction provides stability and balance to the organization: Direction through effective motivation communication and leadership provides stability to the organization and helps in maintaining balance between different departments in the organization. Hence the organization can function efficiently and effectively over a long period of time. For example, a Sales Manager is of the opinion that the price of a product be reduced so that more orders can be generated whereas, General Manager does not hold the same opinion.. In such a situation, directing function may try to balance both the opinions by instructing and guiding say, the Sales Manager to find out other ways of increasing sales.

Thus direction stands out as an important function of management. It has also been observed that there is a high correlation between direction and work performance.

Principles of Direction:

The principles of direction have been shown in fig 1 below. Principles of direction serve as a guide as to what is to be observed while directing. These principles are:

Figure 1: Principles of Directing



1) Principle of Harmony of objectives:

Direction should bring harmony between the individual and organizational objectives. Directing is regarded as essential in personnel management as it helps all the members to satisfy their personal goals through organizational goals.

2) Principle of efficiency:

Direction should bring efficiency to the operations. Leaders should try to motivate sub-ordinates to increase performance & attain objectives at minimum cost by avoiding wastages.

3) Principle of unity of command:

Command must come from only one executive or one superior. Workers must come to know from only one executive as to what to achieve & how to achieve. If there is no unity of command there will be duplication of work leading to confusion and chaos.

4) Principle of direct supervision:

The superior should directly supervise his subordinates. It boosts the morale of the subordinates. This also makes the atmosphere trustworthy in the organization.

5) Principle of communication:

A good system of communication between executives & sub-ordinates ensures success. Effective communication serves as an instrument of direction, supervision & advice. Leader should maintain an effective system of communication within the organization. It also helps clear misunderstandings.

6) Principle of leadership:

Good leadership ensures cooperation, co-ordination & confidence in the work force. Direction should provide leadership for guiding employees in their work and also timely solution to the problems faced by them.

Elements of Directing:

Communication, Supervision, Motivation and Leadership are the four essential elements of directing. Now we shall discuss the nature and significance of each of these components.

1) Communication: – The word communication is derived from the Latin word "Communis" which means common i.e. sharing of information. Communication refers to the process of sharing knowledge, information and understanding from one person to another. Communication is the sum of all things one person does when he wants to create understanding in the mind of others. Not only the human beings but also animals and plants communicate. The main purpose of communication is to convey ideas, thoughts, and opinions by one person to other.

Definition:-

According to **Keith Devis**: "Communication is the process of passing information and understanding from one person to other. It is essentially a bridge of meaning between people by using this bridge of meaning a person can safely cross the ruin of misunderstanding that separates all people."

According to **Leland Brown:** "Communication is the transmission and interchange of facts, ideas, feelings or course of action".

According to **George Terry:** "Communication is a continuous and thinking process dealing with the transmission and interchange with understanding of ideas, facts and course of action."

Thus, communication has the following features:

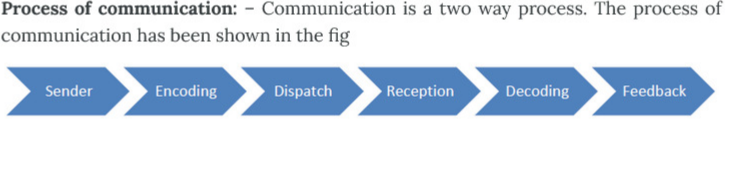
- Communication is a two way process.
- There are two parties, one is known as the sender and the other is known as receiver.
- There is a message sent by the sender to the receiver.
- The receiver receives the message and understands it.
- Communication is not complete until the other person perceives it in the same way as intended by the receiver.

Communication does not always flow from supervisor to subordinate. It can also be from a subordinate to a supervisor. For example, subordinates can pass information to the supervisor about the problems at work.

Importance of communication: – Communication in organisations is so important that it is said to be the lifeblood of the organisation. Success of direction largely depends on how effectively the manager can communicate with his subordinates. Proper communication in organisations at all levels and between all levels can improve both the quantity and quality of output. Some of the benefits of communication are as follows:

- Communication helps employees to understand their role clearly and perform effectively.
- It helps in achieving co-ordination and mutual understanding which in turn, leads to industrial harmony and increased productivity.
- Communication improves managerial efficiency and ensures cooperation among the staff.
- Effective communication helps in moulding attitudes and building up employees' morale.
- Communication is the means through which delegation and decentralisation of authority is successfully accomplished in an organisation.

Process of communication: – Communication is a two way process. The process of communication has been shown in the fig



1. Sender:

When an idea or information is generated in the sender's mind the communication cycle begins. The sender should have some idea which he wants to convey to the receiver.

2. Encoding:

Sender cannot convey his idea until he gives some form to that idea. The process of converting thoughts into any form of message which may be verbal or non verbal is called encoding. In simple words, giving shape to the idea is called encoding. When the sender wants to sends the information, the choice of the form should be made carefully so that receiver can properly understand it and is suitable for the receiver. The most common form of encoding is using verbal encoding i.e. encoding in words, either written or oral.

3. Dispatch and reception:

A message is the actual physical product from encoding .When we speak, speech is the message and when we write, writing is the message. For sending the message some medium has to be used. It may be oral or written communication for eg. face to face communication . The encoded message is dispatched to its destination using the appropriate medium. There may be some time interval between dispatch and reception. Face to face communication reach immediately. Today medium of communication have become too fast. The message gets transmitted at the click of a button.

4. Decoding:

Receiver receives the message and tries to understand the meaning of it. The receiver's understanding of the message that was sent to him, is called decoding or The process of retranslation is called as decoding. The message should be understood by the receiver in same sense as intended by the sender.

5. Feedback:

Feedback is the response which is communicated back to the sender. Feedback again includes the process of encoding, dispatch, reception and decoding. So the receiver of the message becomes sender and original sender becomes the receiver. Feedback can be given by using same signals or different signals. One cycle of the communication is completed by decoding of feedback. In face to face communication both the sender and receiver continuously give feedback. The responses likely to be as rewards are called as positive feedback and the responses likely to be as punishment are called as negative feedback. Communication becomes complete if message is understood by the receiver in same sense as intended by the sender.

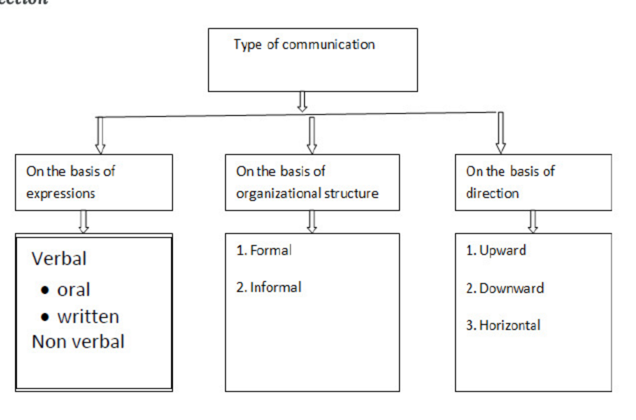
Types of Communication:

Communication may be categorised based on:

a) Expressions

b) Organisational structure

c) Direction



Let us know these briefly: –

Verbal and Non-verbal Communication: –

(a) On the basis of the expressions, communication may be verbal or non-verbal. Verbal communication may be oral or written. Face to face communication, as in interviews, meetings and seminars, are examples of oral communication. Issuing orders and instructions on telephone or through an intercommunication system is also oral communication. The written modes of communication include letters, circulars, notices and memos. Communication which is based on gestures like facial expressions is called non verbal communication or gestural communication. It also supports verbal communication and make it more effective. Examples of non verbal communication are: wave of hand, a smile or a frown etc. This is also termed as the gestural communication

(b) Formal and Informal Communication: –

In every organisation we have both formal and informal channels. The communication which flows through the well defined path as established by the management is called formal communication. When a General Manager communicates a decision to the production manager who may then issue orders or instructions to the foremen is an example of formal communication.

Communication, which takes place on the basis of informal or social relations among staff, is called informal communication. For example, any sharing of information between a production supervisor and an accountant, as they happen to be friends or so. Mostly informal channels are based on friendly interaction of members of an organisation. In fact, it may be purely personal or related to organisational matters.

(c) Upward, Downward, Horizontal and Diagonal Communication: –

On the basis of the flow or direction of communication in organisations, it can be classified as upward, downward, horizontal or diagonal. When communication flows from lower level to upper level , it is called upward communication. For instance, when a foreman reports breakdown of machinery to the factory manager, the flow of communication is upward. Upward communication encourages employees to participate actively in the operations of their department.

The communication which flows down the hierarchy is called a downward communication. For instance, when superiors issue orders and instructions to subordinates, it is known as downward communication. When the General Manager orders supervisors to work overtime, the flow of communication is downward i.e., from top to bottom.

When Communication is amongst members at the same level in the organisation, it is called horizontal communicatoion. For instance, production manager may communicate the production plan to the sales manager. This is known as horizontal flow of communication. Such communication facilitates coordination of activities that are interdependent.

When communication is made between people who are neither in the same department nor at the same level of organisational hierarchy, It's called diagonal communication. For example, cost accountant may request for reports from sales representatives, not the sales manager for the purpose of distribution cost analysis. This type of communication does take place under special circumstances.

2) Supervision

The process of ensuring that employees have performed the work as per instructions given to them is known as supervision. Supervisors clarify all instructions and guide employees to work as a team in co-operation with others. Supervisors solve most of the routine job-related problems of subordinates. Supervisor, thus, performs the following functions:

- Clarifies orders and instructions issued to subordinates and ensures that they understand and follow them.
- Ensures that subordinates have the required facilities to perform their jobs
- Keeps a watch and guides the activities of subordinates in performing their jobs
- Coordinates the work of different subordinates
- Detects errors and omissions and ensures their rectification.

Though supervision is required at all levels of management, it is of great importance at the operational level i.e., at the level of first line supervisor. Managers at this level devote maximum time in supervising the work of subordinates. Though the top or middle level managers also supervise the work of their subordinate managers, but it is the first line supervisors who are in direct and constant touch with operatives i.e., workers in the factory and clerical staff in the office. Thus, they are directly responsible for getting the work done through most of the employees in an organisation.

3) Motivation

Motivation refers to inspiring a person to use the best of his ability for achievement of specified objectives. Motivation is one of the important elements of directing. Issuance of proper instructions or orders does not necessarily ensure that they will be properly carried out. It requires manager to inspire or induce the employees to act and get the expected result. This is called motivation. It may be in the form of financial incentives like such as bonus, commission etc. or, non-financial incentives such as appreciation, growth etc. . It may also be positive or negative motivation. Motivation is directed towards goals and prompt people to act.

Motivation aims at creating an environment which will develop the personnel of an organization.

1. To take initiative

2. To show dynamism and curiosity

3. To work willingly and co – operatively

4. To work in a disciplined manner

5. To take interest in their work

6. To be dynamic and enthusiastic

7. To be responsible and loyal

8. To take pride in their job

9. To have job satisfaction

10. To have personal and group morale satisfaction and

11. To contribute their best to achieve their personal and organizational objectives.

Types of motivation

1) Motivation may be positive or negative

Positive motivation is the process which influences the employee through rewards. e.g. Bonus, promotion, permanent settlement, increase in working condition, etc. Negative motivation is based on fear of an undesirable outcome . Fear is a powerful motivator when it relates to survival or in case of employee's income.

2) Motivation may be financial or non-financial

Financial motivations are those which are associated with money. It includes wages, salaries, bonus and retirement benefit. Non-financial motivations are not associated with monetary rewards. It includes ego satisfaction, participation in the process of decision making, providing good working conditions and providing more responsibility to them.

3) Primary & secondary motivation

Primary motivation relates to satisfying basic human needs & secondary motivation relates to social needs & esteem needs and self actualization needs.

4. Leadership

While motivation is the process through which employees are made to contribute voluntarily to work, leadership is the ability to persuade and motivate others to work in a desired way for achieving the goal. Thus, a person who is able to influence others and make them follow his instructions is called a leader. For example, in an organisation the management decides to install some new machines to which the workers are resisting. However, one of the workers takes the initiative, explains the fellow workers the benefits of working with the new machines and moulds them to accept the management's decision, he is said to be leader as he is able to influence a group of workers

In practice, the managers have to guide and lead their subordinates towards the achievement of goals, so, an effective manager should have leadership qualities as well. An effective leader is able o integrate the individual goals with the organisational goals. The main purpose of managerial leadership is to get willing cooperation of the workgroup to attain the goals.

Importance of leadership

The objectives of any organisation can only be fulfilled if its employees are working towards accomplishment of such objectives. To make people work in the desired manner, proper instructions and guidance are necessary. And this direction process becomes effective when the persons who give such direction have leadership qualities. Leadership is essential in functioning of any organisation and its importance and benefits are varied. Some of these are:

Leadership improves the performance of the employees. Leaders can motivate the followers to work and hence enhance their performance. With continuous support and guidance, leaders are able to build confidence among the followers, thereby increasing speed and accuracy and decreasing wastage. With friendly and cooperative efforts the leader is able to build employees' morale which in turn contribute to higher productivity.

Summary

Directing is the forth function of management. Other functions of management create preconditions. Direction makes use of these preconditions for achievement of objectives. Directing consists of human factors. Direction refers to the process of issuing orders and instructions to the subordinates to achieve goals within prescribed frame of time . It integrates the individual goals with organizational goals. The four elements of Direction are Supervision, Motivation, Leadership & Communication. Managers make use of these elements to direct employees. Directing initiates action. It is from directing that actual work starts. Directing is a continuous activity and is required at all levels. Every manager guides and inspires his subordinates. Without direction, goals cannot be achieved.

1. Learning Outcome:

After completing this module the students will be able to:

- Understand the concept and meaning of Controlling
- Understand the features and characteristics of controlling.
- Describe various types of control
- Understand the controlling process.

2. Introduction

Controlling is the last and an important function of managerial process which is executed after planning, organising, staffing and directing. Under planning function, future activities are decided in advance. Once, activities are decided, the second function of management is 'organising' which aims at implementation of activities decided in planning by providing all necessary resources through an organisational structure. The organisational structure sets out the authority and responsibility relationships between superiors and subordinates. The posts created by the organisational structure are filled through the function 'Staffing'. The next step comes is 'directing' which means providing guidance to all the people working in the organisation. At last, the organisation has to ensure that all the activities which were being planned under the first four functions of management are being performed as per the plans or not. The performance of work is assessed and compared with plans, and if any discrepancies' are sought out, remedial action is taken immediately to avoid any adverse situations and this function is known as 'controlling.' Hence, controlling refers to a process which consists of various steps to ensure that the performance of organisation is according to the plans.

2.1 Meaning and Definition of Controlling

In Management, Control refers to assessing the progress of work from time to time so that the actual progress of work is according to the expected progress. If actual progress is not in accordance with expected one, deviations are found out, and corrective action is taken so that mistakes are not repeated. Control is applicable to all business functions, e.g. finance, purchase, production, marketing, materials, cost, quality etc. different authors and scholars have defined controlling differently, following are some of the definitions given by some authors:

In the words of **Philip Kotler,** "control is the process of taking steps to bring actual results and desired results closer together."

Koontz and O'Donnel defined Controlling 'as the measurement and correction of performance of activities of subordinates in order to make sure that enterprise objectives and plans devised to attain them are being accomplished'.

In nutshell, controlling is a managerial activity which brings the actual results closer to the expected results. It is concerned with setting performance standards, measurement of actual performance, comparing the actual performance with standards, analysing deviations (if any) and taking corrective actions.

3. Nature/Characteristics/Features of Controlling

Following are the characteristics of controlling which reflects its nature:

3.1 Fundamental Managerial Function

Management as a process includes various activities like planning, organising, staffing, directing and controlling. Out of all these functions, controlling is the most important function. Without controlling, all other functions are meaningless. In its absence, it will be difficult to determine, what we want to do and what is being done? Hence, controlling is a fundamental managerial function.

3.2 Pervasive Function

The second characteristic of controlling is that it is being performed at all managerial levels. Every manager has to control the activities and behaviour of subordinates. The scope of control may differ at every level of management. Top level managers perform administrative controlling keeping in view plans and policies. The middle level managers implement the policies and plans of the organisation by way of controlling and the lower level managers control the actual work performed by the subordinates.

3.3 Continuous Process

Control is not performed once or twice. It is needed at all times. It is a continuous activity. The performance of the work has to be assessed on a continuous basis. The performance standards have to be changed as per changing situations. Hence, controlling is a continuous process of measuring, comparing and verifying regularly.

3.4 Universal Process

The control process and its components are universal. The control process remains same regardless of the location in the organisation or the activity involved. Every control process includes four steps, fixing standards, assessing actual performance, comparing actual performance with standards and finding deviations and taking corrective actions.

3.5 Both the beginning and the end of Management Process

The need of control arises both at the beginning and at the end of the management process. The management process starts with planning and ends with controlling. To perform control function, standards are to be fixed which are laid down in planning. In this way, process of management starts with planning which is also the first step of controlling. On the other hand, to achieve the standards already determined comes under controlling which is the last step of process of management. Hence, in this way, controlling is the beginning as well as the end of the management process.

3.5 Forward Looking

Controlling is forward looking function. Though, it is also looking back function, because under control actual results are compared with predetermined standards. But it is forward looking also. Under control, when actual results are compared with expected ones to find out the deviations and corrective action is taken, this corrective action is taken with reference to future; also it provides standards for future performance. Hence, control looks forward also.

3.6 Action oriented

Controlling is an action oriented function. It involves taking corrective action to achieve predetermined results. Control is not only concerned with measuring performance, it also takes corrective actions for correcting the deviations coming out of desired performance. Hence, control is action oriented.

3.7 Goal-oriented function

Control is a goal oriented function. It is concerned with accomplishing the organisational goals. It aims at taking actions which results in achievement of desired goals. Though it should be remembered that control is not an end in itself, it is just a means to achieve the desired goals.

3.8 Dynamic Process

Control is a dynamic process rather than a static one. It is concerned with continuous review of standards in view of changing circumstances and comparing results with standards to achieve desired goals. Hence, control is dynamic process which keeps on changing with change in situations.

3.9 Positive process

Control is a positive process as it is concerned with making things happen as desired. It should not be viewed as negative. It does not mean to accuse the employees or acting as a hindrance or interfering in their work. It aims to inspire them to achieve the desired results.

3.10 Information is the guide to controlling

Controlling depends upon timely availability of sufficient information about the progress of actual work. The information related to actual performance and set standards and their difference, help the managers to take necessary action. Hence, an efficient system of control depends upon a well designed information system.

3.11 Emotional and Motivational Implications

Control function has both emotional and motivational impacts upon employees. Some people who take control as a restrictive tool feel it to be a burden and remain in stress. While others take control as a motivational act, as they know that their performance will be measured and recognised by the management in case of good results.

3.12 Wide Scope

The scope of control is very wide. It includes all aspects of performance like quality, quantity, cost, time etc.

3.13 Control of actions and behaviours

Control does not aim at controlling the people and their freedom. It aims at controlling the actions and behaviour of human beings and regulating them towards organisational objectives.

4. Types of Control

There are two main categories of control:

a) Direct Vs. Indirect Control and

b) Physical Vs. Financial Controls

a. Direct Vs Indirect Control Direct Control:

Various control measures like cost control, quality control, budgetary control are known as direct control because, the results can be directly compared in this case.

Indirect Control

Indirect control involves devising a control system whereby control is maintained automatically. Control can also be categorised as physical control and financial control

b. Physical Vs. Financial Control Physical Control

Physical control involves control over quality and quantity. Output standards may be fixed in terms of per day or per man. Similarly quality standards may also be fixed such as hardness or softness of product etc.

Financial Control

Financial controls are expressed in terms of monetary value like cost per unit of output or sale price per unit etc.

Sometimes, physical and financial controls may be applied jointly as in case of budgetary control. In case of budgetary control, physical as well as financial standards are fixed in advance and actual performance is compared with the fixed standards.

c. Other Classifications

Control can also be categorized on the basis of various activities of the business enterprise such as inventory control, sales control, credit control, personnel control, production control, capital expenditure control, safety control etc.

5. Controlling Process

As discussed above, control is a process which involves various steps which remain same irrespective of activity involved or its location. A control process involves various steps which are essential for effective implementation of planning. These steps are mainly classified into four parts: a). Fixing standards, b) Measurement of actual performance, c) Comparison of actual and standard performance and d) Correcting deviations from standards. Following figure shows the steps of control process:

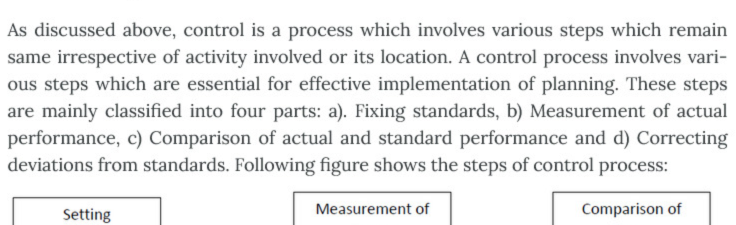


Figure 1: Control Process

5.1 Setting Performance Standards

The first step in controlling process is establishment of standards of performance. Standards serve as a criteria or a test on the basis of which actual performance can be measured. In business context standards mean objectives to be achieved. In order to check whether actual performance is in right directions, there need to have certain standards. In this way, standards become bench marks against which actual performance is measured and compared. In the absence of standards, there will be no use of measuring actual performance. Hence, standards act as the basis of control. They should be established very carefully, objectively and scientifically. Different standards of performance are established for different operations of the organisation. Standards are mainly of two types:

a. Quantitative Standards: standards which are expressed in numerical terms like quantities of goods to be produced, cost to be incurred, investments to be made, profits to be earned, man hours to be worked, speed to be achieved etc.

b. Qualitative Standards: standards which cannot be expressed in numerical terms or which are established for intangible things like improvement in employee morale, customer or employee opinion etc. these cannot be measured directly. E.g. in order to measure employee morale, labour turnover rate, absenteeism rate etc. will be considered. If rate of all these factors is low, it means employee morale has increased. Similarly to measure opinion of customers, variations in sales can be taken into consideration.

5.1.1 Basis of Standards

There are mainly four basis for establishing standards. These are a) Quantity b) Quality c) Cost and d) Time.

Quantity standards are set for production, sales, stock etc. Quality standards are set relating to raw material, finished goods, customers service, employee satisfaction etc. Cost standards are related to material, labour and other expenses. Time standards are related to time consumed in production of goods.

5.1.2 Factors to be considered while setting standards

While setting standards, following factors/points should be kept in mind:

a. Standards should be attainable

b. Standards should be fixed for all key areas of business

c. Standards should be in accordance with goals and policies of the organisation

d. Standards should be expressed in quantitative terms, as far as possible, or they should be easy to measure.

e. Standards should be precise and tangible so that they can be easily understandable.

f. Standards should be focused on achievement of results not on procedures and policies.

g. Standards should be flexible and can be changed according to changing situations.

h. Standards should be objective and based on facts.

i. Standards should be reviewed and revised periodically.

j. Standards should be set in consultation with employees

k. A deviation tolerance limit should be prescribed. It means to what extent deviation of actual from standard performance can be tolerated and there will be no need to

take unnecessary action. E.g. if production of 1950 as against standard target of 2000 units is achieved, it should be acceptable without any extra corrective action.

l. Standards should be capable of achieving with reasonable cost, time and effort.

5.2 Measurement of Actual Performance

After setting standards, the second step of controlling process is to measure actual performance of various individuals, groups or units. Actual Performance can be measured by using any method of evaluation e.g. supervision, observation, reporting, sampling, accounting statements etc. the actual performance should be measured according to fixed standards. The performance should be measured in quantitative terms if standards have been fixed in numerical terms. E.g. if standard is prescribed as number of units per hour, quantity of goods to be produced etc. then information relating to actual performance is same terms can be easily measured.

Managers should select the methods and time of measurement very carefully. Actual performance can be measured either during the course of its operation or after the actual work is completed. In first situation, when the work is in process, it can be measured with the help of supervision and observation to check if the work is being done according to plans and as per standards. If any negative result is found, corrective action can be taken immediately to avoid any further loss to the remaining work. However, in second situation, where work has been completed, in case of any negative result, corrective action can be taken only for future work and the loss cannot be compensated. Following points should be kept in mind at the time of measurement of actual performance:

a. The units of measuring performance should be same as were set at the time of fixing standards.

b. The facts and figures regarding performance of work should be as far as possible true.

c. The figures should be continuously prepared.

d. The time of measurement of performance should neither be too short nor too long.

5.3 Comparing Actual performance with Standards

Once actual performance has been measured, the third main step of control process is comparing actual performance with the fixed standards of performance. It includes two steps:

a) finding out the extent of deviations and

b) identifying the causes of these deviations. The comparison of actual performance with standards will be easy when standards have been fixed numerically.

In all other cases, where results cannot be measured quantitatively, techniques like personal observation, inspection, etc. can be used for evaluation. The managers can find out deficiencies or deviations in actual performance from the fixed standards. The deviations are of two types: positive and negative. When performance is less than fixed standards, it results into negative deviation, on the other hand, when performance is more than the fixed standard, it is positive deviation. Though, it is very important to analyse the causes of negative deviation, it is equally important to examine the causes of positive deviation.

5.4 Analysing Deviations

The deviations coming out of comparison of actual performance with standards are analysed. If there are no deviations, there is no need to take any action regarding this. The control process ends here. But if standards are not achieved and actual performance is below standards, it will be checked if deviation is acceptable i.e. if deviation is within deviation tolerance limits, then again there is no need to do anything and hence can be avoided. However, if deviation is large and not acceptable, they should be reported to management and finally, causes of such deviation will be identified and responsibility will be fixed accordingly. The standards will also be reviewed. If the standards are found to be wrong, these will be revised and new standards will be formed. There are two main principles which guide analysis of deviations:

5.4.1 Principle of Critical Point Control

As per this principle, only those activities should be determined, which have an important impact on performance. These are also known as key result areas. Managers should pay more attention to those activities only where negative deviations can bring major loss to the enterprise and should avoid small and insignificant activities.

5.4.2 Principle of Exception

According to this principle, the manager should focus on more important deviations whether good or bad. It means manager should take corrective actions regarding those deviations, only after a thorough study, which are either too good or too bad and which have an important bearing on business. For example, if sales exceed the standards, it is called a positive deviation and is such as case, its cause can be good marketing. Hence, in this case, sales can be promoted by paying more attention to marketing.

The main difference between principle of critical point control and principle of exception is that, under first situation, only those activities or points are controlled which are profitable or important from business point of view, while in second situation, deviations are taken into consideration in respect of the pre-defined critical points. Only those deviations should be concentrated which are most important or which can cause heavy loss to business. Hence, both time and efforts are saved. The less important problems can be delegated to subordinates which will help in boosting their morale.

5.4.3 Causes of Deviations

Some of possible causes of deviations can be human causes like inefficiency of employees, some uncertain events like strikes, shortage of material, breakage of machines, interrupted supply of electricity, etc or wrong standards about sales, profits, costs etc.

Hence, deviations and their causes are identified and reported to concerned officers for taking corrective action.

5.5 Taking Corrective Action

The last and most important step in controlling process is taking corrective action. The purpose of taking corrective action is to bring the actual performance up to the level of expected performance standards. There may be two types of actions like removing deviation in the actual performance e.g. removing hurdles or defects in machines and stopping the repetition of any such problem in future e.g. modification of plans, revising of goals or standards, reassignment of duties etc.

5.5.1 Factors to be considered while taking corrective action

While taking corrective actions, managers should take into consideration following points:

a. Corrective action should be taken only after a thorough analysis of causes of deviations.

b. Standards should be revised if the need be.

c. Corrective action should be taken only by the concerned officers who are directly associated with the work.

d. Action should be taken without loss of time to avoid any further loss.

e. Policies, procedures etc. should also be revised if the need be.

f. Corrective action should be acceptable by the people involved in it.

g. Positive deviations should also be found and causes should be analysed so as to make further improvements in work.

Once corrective action is taken, the process of control repeats. Hence, control is a continuous process. The essence of a good control system is whether a correct action is taken at the correct time.

6. Summary

Controlling is the last and an important function of management process. It is concerned with establishing standards of work performance for various individuals, groups or units, assessing actual performance, comparing actual work performance with pre-established standards, finding and analysing deviations and taking corrective actions. Controls are of various types, direct or indirect, quantitative or qualitative, or depending upon various operations of the organisation like inventory control, sales control, cost control etc. while controlling, managers should take into consideration the principle of critical point control and principle of exception, which means managers should focus on only important activities and deviations which have a major bearing on the progress of the organisation. Once corrective action is taken, the process of control repeats itself. Hence, control is a continuous process. The essence of a good control system is whether a correct action is taken at the correct time.

1. Learning Outcome:

After completing this module the students will be able to:

- Understand various controlling techniques along with their implications.

2. Introduction

Controlling is the last and an important function of managerial process. The purpose of controlling is to bring the actual performance to predetermined standards. For this an organisation has to adopt an effective controlling technique. In present competitive scenario, it is important for an organisation to have such a system of control because of cut-throat competition from competitors. Hence, it is the need of an hour to adopt an effective system of controlling for enhancing the profitability by reducing the costs to the minimum.

There are a number of controlling techniques available for an organisation. The techniques can be classified under two major categories:

a. Traditional Techniques

b. Modern Techniques

Traditional techniques include;

i) Personal Observation

ii) Setting examples

iii) Plans and policies

iv) Organisation charts and manuals

v) Disciplinary system

vi) Statistical data

vii) Written instructions

viii) Special reports and records

ix) Operational audit

x) Financial statements

xi) Break-even analysis

xii) Cost Accounting and Cost Control

xiii) Budgets and budgetary control Modern Techniques include;

Modern Techniques include;

i) Return on investment

ii) Management audit

iii) Management information system

iv) Zero base budgeting

v) PERT/CPM

3. Traditional Techniques of Controlling

Following are the traditional techniques of controlling:

3.1 Personal Observation

Personal observation is the oldest and most important controlling techniques. Under this technique, managers or superiors personally visit the work place irregularly and observe the performance of employees. They check if the work is going as per plans or not. If any discrepancy is found, they give instructions on the spot immediately. Personal observation technique results into first hand evaluation of work. But control through this technique is time consuming and may not be applicable in all situations.

3.2 Setting Examples

Managers set their own examples of good performance before their employees and expect the same from them. For example if managers show their examples of punctuality before their employees, they will also follow the same easily. Hence, the exemplary behaviour of managers can control the behaviour and actions of their employees.

3.3 Plans and Policies

The organisational plans, policies, procedures, strategies, rules etc. govern and control all the activities of the organisation. They play an important role in controlling activities and prevent deviations and ensure the conformity of actions with plans and policies.

3.4 Organisation Charts and Manuals

Organisation charts and manuals sets out organisational relationships, responsibilities and duties of the employees of the organisation. These documents are also used to control the performance of employees and fixing responsibilities.

3.5 Disciplinary System

Disciplinary system comprising punishments, criticism, disciplinary actions etc. act as an important tool of control. It acts as a negative control tool. Where employees commit mistakes repeatedly and mistakes are crucial, strict disciplinary action is taken by the managers. This technique of control should be used by managers carefully as it results into fear in the minds of employees. It can cause reduced morale also.

3.6 Statistical Data

Statistical data is also used as an important controlling technique. Data is collected and presented in the form of tables, charts, figures, and graphs. Then it is analysed with the help of various statistical techniques like measures of central tendency, measures of dispersion, correlation, regression etc. to take certain decisions in the fields of production, quality, inventory, sales etc.

3.7 Written Instructions

Instructions in written form are issued by managers and superiors from time to time for the subordinates. Instructions are issued in the form of notices, letters, circulars, bulletins, etc. they provide information and instructions in the light of changing rules and situations. Written instructions act as supplementary control techniques.

3.8 Special Reports and Records

Special reports and records relating to different operations of the concern are also prepared in addition to normal reports and records. Experts prepare these reports. For example, in case of a serious problem in the organisation, expert committee may be appointed by the management to go into the depth of the problem and suggest the ways or means to solve the problem. The investigation reports relating to a specific problem or area are the examples of special reports and records.

3.9 Operational Audit

Audit is an effective controlling tool. Operational audit refers to audit of internal operations of the organisation. The organisation conduct internal audit with the help of some specialised internal staff or may also hire the services of external audit team. Internal audit gives a review of overall working of the organisation. It depicts whether organisational policies, plans, procedures etc. are being adopted by the employees in their day to day working or not. Thus internal audit provides an internal check over the operations of the employees and hence improve their efficiency.

3.10 Financial Statements

Financial statements comprise Profit and Loss account and Balance Sheet. These statements show the true picture of the organisation in the form of working and financial position of the
business. These statements also act as controlling technique. For example, the comparison and analysis of statements of different time periods reveal the trends in performance and depict the present position of the enterprise. This comparison and analysis can be used for controlling the financial position of the concern.

3.11 Break-Even Analysis

Break-Even analysis is a widely used technique of controlling. It is used to find out break-even point where the total cost is equal to total revenue, i.e. the point of no loss no profit. This point is used to identify the number of units of a product that must be sold to generate enough revenue so as to cover costs. Any production above this point will yield profits. This technique basically shows relationship between cost-volume-profit. With the help of this technique managers examine the impact of increase or decrease of units sold and increase or decrease in price or costs on the amounts of profits. Break Even analysis is done either mathematically or graphically. The formula to calculate beak even point is as follows:

$$\text{Break Even Point (B.E.P.)} = \frac{\text{Total Fixed Cost}}{\text{Contribution per unit}}$$

$$\text{Contribution} = \text{Sale price per unit} - \text{variable cost per unit}$$

$$\text{Margin of Safety} = \text{Total sale proceeds} - \text{sales at B.E.P.}$$

$$\text{Profit} = \text{Sales} - \text{Total costs (Fixed + variable)}$$

$$\text{Or, Profit} = \text{Total contributions} - \text{Fixed costs}$$

Break-even point can also be presented graphically. The Break-even chart presents the profitability of an organisation at various levels of activity or output and indentifies the point where there is neither profit nor loss. In the following diagram units of output sold (or sales volume) are shown on x- axis and cost, revenue and profits (in Rupees) are shown on y-axis. The horizontal line represents fixed costs. TC is the total cost of sales which includes fixed cost, it moves upwards proportionately with output. The TR line represents total revenue which moves upward from the origin of axis. The point of interaction of total cost line and total revenue line is the break-even point.

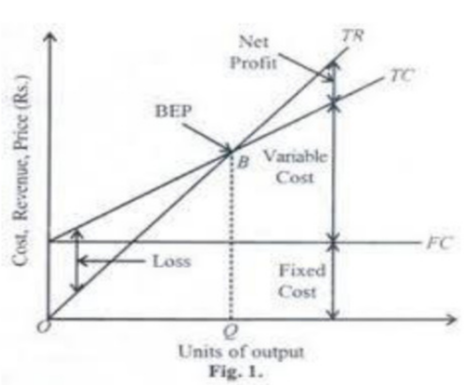


Fig. 1.

Every management tries to reach the break-even point as soon as possible. Sales over and above this point depict the margin of safety or profit area. Hence, this chart is useful to know relationship between revenue, cost and profit as it shows probable level of profits at different levels of output.

The limitation of breakeven analysis is that it takes into consideration only fixed and variable costs. The impact of semi-variables costs is not taken into account. It also ignore impact of other variables like marketing aspects, capital invested, etc. It also assumes fixed cost to remain constant, but it doesn't remain fixed in present scenario of changing technologies, size of the firm and other factors.

3.12 Cost Accounting and Cost Control

Cost accounting is a technique to determine the cost of a product, process, or a unit and cost control. Cost control includes control over costs by using various techniques. One such technique is standard costing. It includes determination of standard (or predetermined) costs. Standard costs are determined in respect of total cost as a whole as well as for each element of cost, i.e., material, labour and overheads. When actual costs are incurred, these are compared with standard costs and variations, if any, are found. The standard costing involves various steps which are explained as follows:

a) In first step of standard costing, standards or benchmarks for costs are fixed. Standards are fixed for each element of total cost on the basis of past records or through experiments and thorough analysis.

b) In second step, the actual cost is determined. The information is taken from cost accounting records.

c) A comparison between standard costs and actual costs is done to find out any deviations between the two. If there is no variation, or the variation is within prescribed and acceptable limits, no further action is required.

d) If the deviation is beyond the acceptable limits, it is further analysed. The causes for such variation are found and responsibility is fixed accordingly.

e) Future course of action is planned to avoid such deviation in future. It may also include review and revision of standards.

Hence, standard costing is an important tool of controlling of costs and wastages in the hands of managers.

3.13 Budgets and Budgetary Control

Budgets are used as a controlling technique by most of the organisations. A budget represents a statement of expected results expressed in numerical terms. It is formed in advance for the period to which it will apply. Budget serves as a benchmark against which the actual results will be compared and the performance of the organisation can be identified. Budgets make management by exception possible. Budget is used as a technique of planning as well as controlling. As a tool of planning, budget depicts the plans in numerical figures which are to be achieved. As a tool of controlling, budget serves as a standard for measurement and comparison of actual performance. It helps in delegation of authority and fixation of responsibilities.

Budgeting is the process of making budgets. Budgets are prepared for various operations of the organisation, like, sales budget, production budget, financial budget, overheads budget, personnel budget, etc.

Budgetary control is a technique to use budgets for controlling activities. Budgetary control is the process of establishing various budgets for different operations of the concern for the future period, and then actual results are recorded. The actual figures are compared with the budgeted one and discrepancies are found out and remedial actions are taken.

3.13.1 Objectives of Budgetary Control

Budgetary control is an important tool of planning as well as of controlling. The main objectives of budgetary control are as follow:

a. To determine business policies for the achievement of desired objectives during a particular period of time. It sets out definite targets of performance and also act as a guide to the actions of others.

b. To help in co-ordination of activities and efforts of different departments.

c. To control the activities of the people to ensure the conformity of actual results with budgeted results.

d. To operate various cost centres and departments efficiently.

e. To correct the deviations from the predetermined standards and also provide a basis for revision of policies and plans.

Budgetary control helps organisations to enhance efficiency by controlling costs and wastages. It increases efficiency of the organisation. Hence, budgetary control is an important technique in the hands of management.

4. Modern Techniques of Controlling

The modern techniques of controlling are as follows:

4.1 Return on Investment (ROI)

Return on Investment (ROI) is a controlling technique to control the overall performance of an organisation. ROI measures the rate of return on investment. Under this technique, profit is considered in terms of capital employed. Following is the formula to calculate ROI:

ROI = Net Profit / Total Investment

ROI is used to evaluate the efficiency of an investment. The managers can compare ROI between two or more periods of the organisation or of the two or more other organisations to draw certain conclusions regarding the efficiency. Higher ROI reflects higher performance as compared to concerns with lower ROI. However, while doing comparisons over period, it should be considered that value of money differs in different periods. Hence, time value of money can be incorporated. Secondly, while comparing with other organisations, the terms used in ROI i.e. what components are included in profits and investments and in which units. On the basis of such calculations, mangers control the activities of their own organisation.

4.2 Management Audit

Management audit evaluates the performance of various management functions and processes. This audit intends to examine and review the management policies and actions on the basis of certain objective standards. It is a comprehensive audit which reviews all the aspects of management. Management audit is a systematic and independent review activity within an organisation which appraises the operations of all the departments. The objective of management audit is to help all managerial levels to perform their responsibilities effectively by providing them objective analyses, appraisals, recommendations regarding the activities reviewed. Management audit usually contains the following steps:

a. The first step of management audit is to identify the objectives of the organisation. Objectives of organisation should be clearly defined.

b. The overall objectives of the organisation are divided into various targets and plans for various segments.

c. The organisational structure is also evaluated to check whether it can achieve the overall objectives and targets effectively. The managers also identify each functional area as a responsibility centre.

d. The performance of each responsibility centre is examined. It is compared with the objectives and targets.

e. Pragmatic course of action is suggested on the basis of above examination. Motivation system is also devised to provide incentives to various personnel as per the results of management audit.

Management audit is result oriented. Management audit helps to assess the performance or progress of various mangers and accordingly, a suitable incentive system can also be linked to it. The performance is evaluated by relating inputs like man-hours, materials, wages etc. with outputs like quantity, return etc. Hence, the thrust of management audit is on results. The management audit acts as an important tool of management control if undertaken properly. Following techniques can be used for conducting management audit:

a. Inquiry: Management auditor prepares a questionnaire containing relevant questions for obtaining relevant evidences. Relevant questions may be asked in such a way as to provide answers to a hidden problem.

b. Examination: in many situations, the management auditor examines records and documents. The need may arise to cross check the documents along with information obtained from inquiry.

c. Confirmation: Management auditor may get written or oral information from various persons to confirm the information acquired by him.

d. Personal Observation: in many cases, management auditor may have to go for personal observation of various activities and situations in the organisation.

e. Correlation of Information: the information collected from various techniques has to be correlated so as to draw conclusions.

4.3 Management Information System (MIS)

In present age of information technology, Management Information System or MIS is an important technique for providing quick information to the management. MIS provides all necessary information to the managers and superiors at different levels to help them to discharge their functions like planning, organising, decision making and controlling properly. MIS is a scientific way of collecting, organising, processing, and storing and communicating information to various levels of management so that decisions can be taken by the managers in time. MIS helps in increasing efficiency of the organisation by providing timely, accurate and relevant information for doing various operations of the organisation.

The importance of having an effective MIS also lies in the presence of changing economic, political, social and technological conditions. Timely information helps the organisations to take advantages of various opportunities available outside and to overcome threats by taking proper actions in time. MIS also provides internal information relating to various activities and also shows the manner of utilisation of resources in the organisation. It shows the performance of various resources. The information relating to idle time, labour turnover, wastages etc. can also help the managers to control various costs. In present information scenario, it is very important to have an effective management information system in the organisation. It will be very difficult to manage and control the operations without an effective MIS.

4.4 Zero Base Budgeting (ZBB)

Zero base budgeting or ZBB is a new approach of budgeting. It is used as a control technique. Under ZBB, in determination of budgets, information or figures of previous periods is not taken into account. Budgets are prepared afresh without considering the information from previous years or periods. Budgets are prepared in the light of current situations.

ZBB starts with a base taken as zero. In this technique, all activities are analysed in terms of their needs and costs. In the budget, every expense has to be justified in the presence of prevailing conditions. Unlike conventional budgeting, where previous year inefficiencies can enter, zero base budget starts from scratch and is prepared every time. Following are the steps involved in the process of zero base budgeting:

a. Determination of the objective of budgeting: the first step of ZBB is to determine the objective of budgeting very clearly. Objective may be to reduce cost, it may be accomplished by cutting down salaries, or by dropping an unprofitable product or project. Hence, objective of budgeting should be clearly defined at the first instance.

b. Determination of Scope of application: scope of application of ZBB is decided. ZBB can be applied to whole organisation or to some specific areas.

c. Development of Decision Units and Decision Packages: in next step, decision units are developed and for each decision unit, decision packages are determined. A decision unit is that for which cost benefit analysis can be done so as to arrive at a decision regarding continuing or discontinuing any particular unit. A decision package involves ranking of all activities in order of their importance based on cost benefit analysis.

d. Allocation of resources: finally, resources are allocated according to ranking of decision packages to have optimum results.

Ranking of projects on the basis of cost benefit analysis help the management to eliminate the unnecessary expenditures. Hence, management uses ZBB as a controlling technique to achieve organisational objectives in an efficient manner.

4.5 PERT/CPM

The project management techniques, PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are useful for managerial functions like planning, scheduling and controlling. These techniques help the mangers in completing the projects on schedule. Presently, organisations are involved in various projects which are very large in size and take more time. Companies make use of these networking techniques to schedule the complex projects which involve many activities. Though the two techniques differ slightly, but both are based on same principles.

PERT/CPM is a tool used to plan, schedule and control large projects consisting of a number of independent activities and with uncertain completion time. In this technique, a network diagram is prepared that shows the sequence of activities needed to complete a project and time and cost associated with each activity. Hence the purpose is to identify critical activities which are essential to perform and complete the project and to identify the time (least possible) and cost associated with each activity. Thus, these techniques not only help in planning but also help managers to monitor and control the progress of the project, find out any obstacles and provide proper resources to complete the project as per schedule. The major limitation of PERT and CPM technique is that they can not be effectively applied in manufacturing operations as the main focus of these techniques is on time and not on quality which is a key factor in manufacturing.

5. Summary

Every organisation needs to have an effective controlling system for its efficient working. For this purpose, an organisation has a number of controlling techniques. Controlling techniques are mainly of two types: traditional techniques and modern techniques. The traditional techniques include, Personal Observation, Setting examples, Plans and policies, Organisation charts and manuals, Disciplinary system, Statistical data, Written instructions, Special reports and records, Operational audit, Financial statements, Break-even analysis, Cost Accounting and Cost Control, Budgets and budgetary control. While the modern techniques include Return on investment, Management audit, Management information system, Zero base budgeting and PERT/CPM. A combination of these techniques can also be applied by the organisations to have a proper control over the activities of the organisation.