MODULE 6

Leadership

Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.

The ingredients of leadership are:

1) Power
2) A fundamental understanding of people
3) The ability to inspire followers to apply their full capabilities
4) The leader's style and the development of a conducive organizational climate

The Difference Between Leadership and Management

The main difference between leadership and management is that leaders have people that follow them, while managers have people who simply work for them.

Sl. No.	Managers	Leaders
(1)	Managers have subordinates	Leaders have followers
(2)	Managers use an authoritarian style	Leaders have a motivational style
(3)	Managers tell what to do	Leaders show what to do
(4)	Managers have good ideas	Leaders implement good ideas
(5)	Managers react to change	Leaders create change
(6)	Managers exercise power over people	Leaders develop power with people
(7)	Works in the present	Looks into the future
(8)	Do things right	Do right things
(9)	Managers Control	Leaders inspire
(10)	Statistics driven	Values driven

Trait Approaches to Leadership

The trait theory of leadership focuses on identifying different personal attributes (or traits) and characteristics that are linked to successful leadership across a variety of situations. This line of research emerged as one of the earliest types of investigations into the nature of effective leadership and is tied to the "great man" theory of leadership first proposed by Thomas Carlyle in the mid-1800s. The trait theory indicates that great leaders cannot be made, or learned. If you are not born with specific personality traits, you are not destined to be a leader.

In 1989, John W. Gardner published a study of a large number of leaders and concluded that there are some attributes that appear to make a leader successful in any situation. These traits included the following:

- Physical vitality and stamina
- Intelligence and action-oriented judgment
- Eagerness to accept responsibility
- Task competence
- Understanding of followers and their needs
- Skill in dealing with people
- Need for achievement
- Capacity to motivate people
- Courage and resolution
- Trustworthiness
- Decisiveness
- Self-confidence
- Assertiveness
- Adaptability/flexibility

Merits of Trait Theory

a) It builds on the premise that leaders are distinctive.
b) Unlike all other leadership theories, Trait Theory boasts a century of research to confirm the approach.
c) Trait Theory provides benchmarks for identifying leaders.

Limitations of Trait Theory

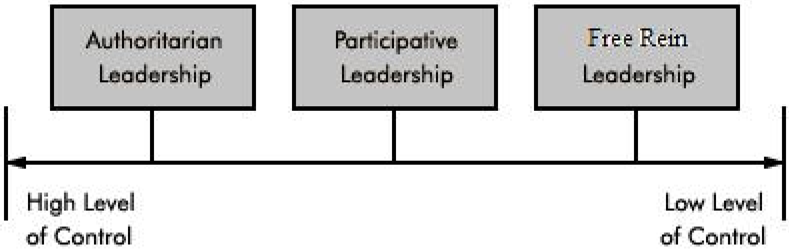
a) Trait theory is leader-centric, and only focuses on the leader not the follower or the situation.
b) Trait theory identifies those with the potential for leadership, but having any of the identified traits is not a guarantee of success.
c) Not all traits identified as leadership markers help in all situations. For example, height may be an indicator of leadership success in the military or other industry which depends on physical strength, but may not carry as much influence in business.

Leadership Behaviour and Styles

Leadership style is the manner and approach of providing direction, implementing plans, and motivating people. Kurt Lewin (1939) led a group of researchers to identify different styles of leadership. This early study has been very influential and established three major leadership styles.

1) Authoritarian or autocratic
2) Participative or democratic
3) Delegative or free-rein

These styles are characterized by the amount of control that the leader applies on the team. The three styles are best seen as points on a line ranging from total control to very little if any.



Leadership styles

Authoritarian or Autocratic Leadership

This style is used when leaders determine the actions of the group without any discussion. They tend to exercise total control of the team and the decision making process. The leader gives the directions and the team follows them. While, this style of leadership may save time in the short term, few new ideas are generated and generally morale is low. The authoritarian or autocratic style should normally only be used on rare occasions. If one have the time and want to gain more commitment and motivation from other employees, then one should use the participative style.

Participative or Democratic Leadership

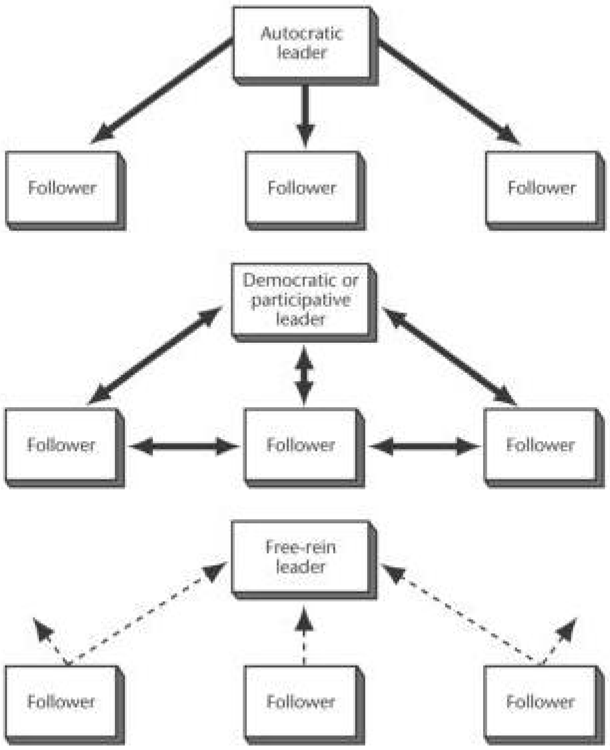
These leaders encourage their team to be actively involved in decision making. They delegate authority to suitably skilled team members and provide opportunities for others to develop their skills. Because there is an ongoing exchange of information, the team tends to be productive and efficient. This style of leader uses a variety of approaches to meet the specific skill levels and motivational needs of the team members.

Free - Rein Leadership

This type of leader tends to adopt a policy of not 'interfering' with the group by letting them run themselves. This method is generally only effective in highly specialised fields. Due to the lack of leadership, informal leaders tend to take control of the group and conflicts often result. The group tends to drift and productivity is low.

There are variations within this simple classification of leadership styles. Some autocratic leaders are seen as **"benevolent autocrats"**. Although they listen considerably to their followers' opinions before making a decision, the decision is their own. They may be willing to hear and consider subordinates' ideas and concerns, but when a decision is to be made, they may be more autocratic than benevolent.

A variation of the participative leader is the person who is **supportive**. Leaders in this category may look upon their task as not only consulting with followers and carefully considering their opinions but also doing all they can to support subordinates in accomplishing their duties.



The flow of influence with three leadership styles

Transactional and Transformational Leadership

A leadership style whereby the objectives and goals are predefined and the leader uses reward and punishment to motivate his followers is known as **Transactional Leadership**. It focuses on improving the current situation of the organisation by framing the steps and controlling the organisational activities. Prize and penalties are the two primary tools employed by the leader to inspire his subordinates i.e. if an employee achieves the target within the stipulated time he is given initiative for his work, whereas if the task is not completed within the required time, then he will be penalised for the same.

The style of leadership in which the leader uses his influencing power and enthusiasm to motivate his followers to work for the benefit of the organisation is known as **Transformational Leadership**. Here, the leader seeks the requirement for a change in the existing organisation culture, gives a vision to his subordinates, incorporates mission and implement the change with the dedication of his followers. In transformational leadership, the leader acts as a role model and as a motivator too who offers vision, excitement, encouragement, morale and satisfaction to the followers. The leader inspires his people to increase their abilities and capabilities, build up self-confidence and promotes innovation in the whole organisation.

Key Differences Between Transactional and Transformational Leadership

BASIS FOR COMPARISON	TRANSACTIONAL LEADERSHIP	TRANSFORMATIONAL LEADERSHIP
Meaning	A leadership style that employs rewards and punishments for motivating followers is Transactional Leadership.	A leadership style in which the leader employs charisma and enthusiasm to inspire his followers is Transformational Leadership.
Concept	Leader lays emphasis on his relation with followers.	Leader lays emphasis on the values, ideals, morals and needs of the followers.
Nature	Reactive	Proactive
Best suited for	Settled Environment	Turbulent Environment
Works for	Developing the existing organizational culture.	Changing the existing organizational culture.
Style	Bureaucratic	Charismatic
Number of leaders in a group	Only one	More than One
Focused on	Planning and Execution	Innovation
Motivational tool	Attracting followers by putting their own self interest in the first place.	Stimulating followers by setting group interest as a priority.

Likert's Management System

Rensis Likert along with his associates studied the patterns and behavior of managers to identify the leadership styles and defined four systems of management. These four systems are: Exploitative Authoritative, Benevolent Authoritative, consultative system and participative system.

The four systems of management system or the four leadership styles identified by Likert are as follows.

1) **Exploitative Authoritative System:** In this type of management system, the responsibility lies with the people in higher positions in the hierarchy. Here, the subordinates are not involved in the decision-making process. The superior has no trust and confidence in his subordinate and imposes decisions on him leaving no room for further discussions.In this system, the communication flows downwards, i.e. from the superior to the subordinate and hence there is a lack of communication and teamwork. The management is only concerned with the completion of work; it uses any means or threats to get the work completed through the subordinates.

2) **Benevolent Authoritative System**: Like exploitative authoritative system, here also the responsibility lies with the people at the upper echelons of the hierarchy and the only difference is that the motivation is based on the rewards, not on fear and threat. The superior has that much trust and confidence in his subordinates which is required in a master-servant relationship.In this system, the subordinates are given rewards for their participation and the communication may flow upwards i.e. from subordinate to superior, but restricted to what the superior wants to hear. Thus, in the benevolent authoritative system also, the subordinates do not feel free to discuss job-related issues with the superior. This results in the lack of communication and a little teamwork.

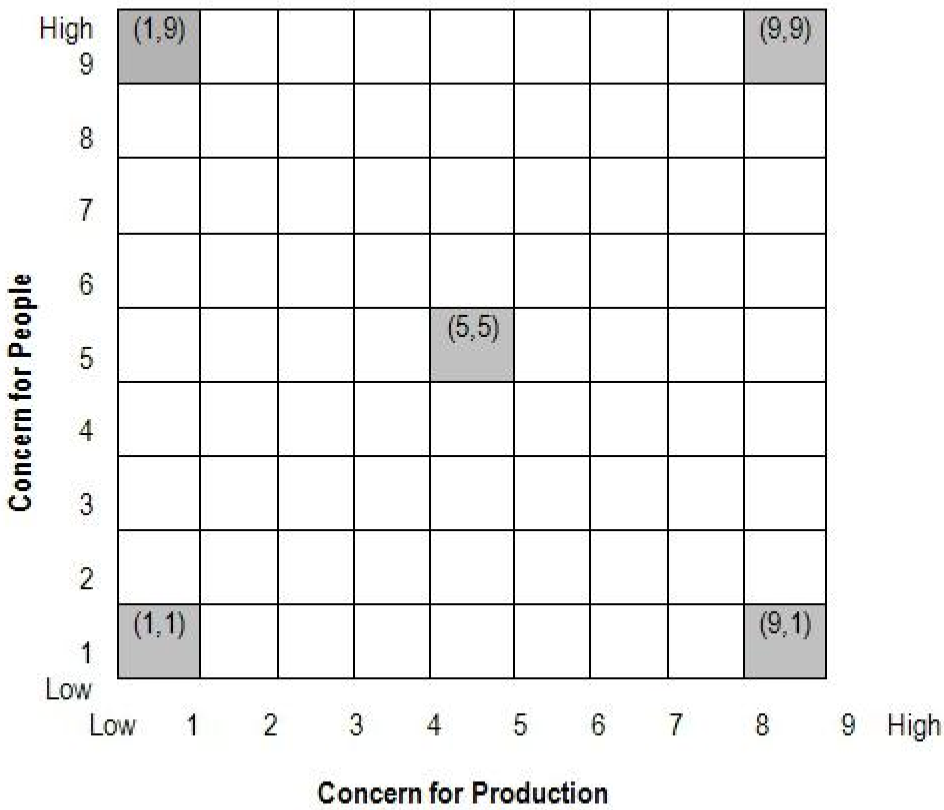
3) **Consultative System:** In this management system, the superior has substantial but not complete, trust and confidence in his subordinates and constructively uses the views and opinions given by them. Here, the motivation is based on rewards and the amount of the individual's involvement in the decision-making process.The consultative system is characterized by a great flow of information both horizontally and vertically. The subordinates feel free to discuss job-related issues with the superiors and hence, the upward flow of communication is more into the consultative system than a benevolent system. But still, the decisions are made by the senior people in the hierarchy.

4) **Participative System:** In the participative system, the management has full confidence in his subordinates and encourages them to participate actively in the decision-making process. Here, the subordinate feels absolutely free to discuss any issue related to a job with his superior. This system is characterized by a good teamwork and teams are linked with people, who are the members of more than one team and such people are called as "linking pins". The subordinates get motivated through rewards for their participation in the decision-making process.

Managerial Grid

Robert Blake and Jane Mouton have developed the Managerial Grid, also called as a leadership grid. According to them, the leadership styles can be identified on the basis of manager's concern for people and production.

The managerial grid identifies five leadership styles based on two behavioral dimensions as shown in the figure below:



Managerial grid

1) **Impoverished Management (1,1):** The managers with this leadership style exert minimum effort to get the work done by the subordinates. They have minimal concern for both the people and production, and they function merely to preserve their jobs and seniority. Therefore, the disharmony, dissatisfaction, disorganization arises within the organization.

2) **Task Management (9,1):** Here, the leader is more concerned with the production and lay less emphasis on the personal needs of his subordinates. This leadership style is also called as a dictatorial or perish style, where the subordinates are required to perform the task as directed by the superiors. In this leadership style, the output in the short run may increase drastically, but due to stringent rules and procedures, there could be a high labor turnover.

3) **Middle of the Road (5,5)**: The manager with this style tries to keep a balance between the organizational goals and the personal needs of his subordinates. Here, the leader focuses on an adequate performance through a balance between the work requirements and satisfactory morale. Both the people and production needs are not completely met, and thus the organization land up to an average performance.

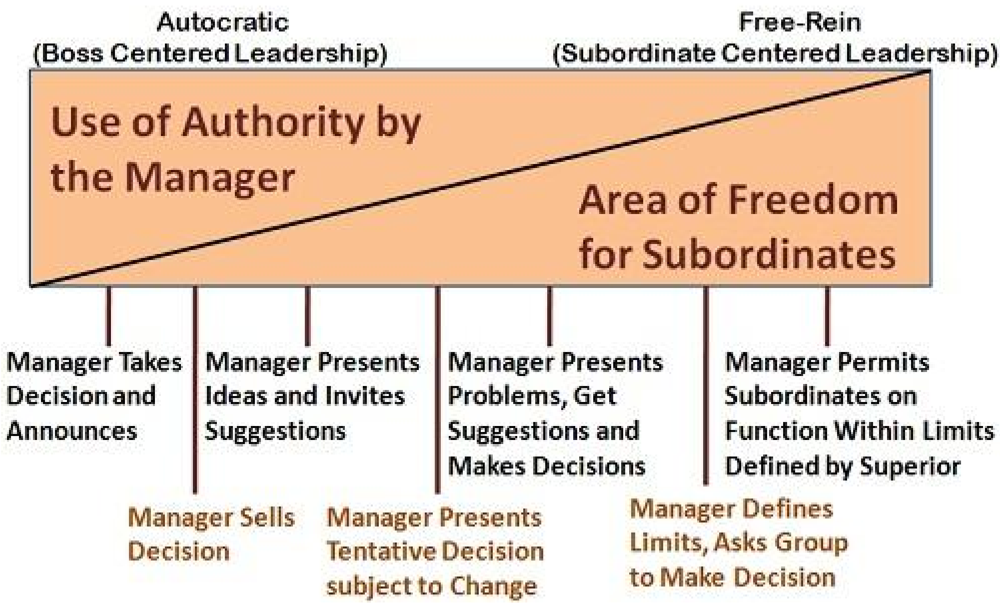
4) **Country Club (1,9):** Here, the leader lays more emphasis on the personal needs of the subordinates and give less attention to the output. The manager adopts this style of leadership with the intent to have a friendly and comfortable working environment for the subordinates, who gets self-motivated and work harder on

their own. But however, less attention to the production can adversely affect the work goals and may lead to the unsatisfactory results.

5) **Team Management (9,9):** According to Blake and Mouton, it is the most effective leadership style wherein the leader takes both people and production hand in hand. This style is based on McGregor's Theory Y, where the employees are believed to be committed towards the goal achievement and need not require manager's intervention at every step.The leader with this style feels that empowerment, trust, respect, commitment helps in nurturing the team relationships, which ultimately results in the increased employee satisfaction and overall production of the organization.

Leadership as a Continuum

This model is given by Tannenbaum and Schmidt, who believed that there are several leadership styles that range between two extremes of autocratic and free-rein, which are shown below:



Continuum of Manager - Nonmanager Be

Notice that going from left to right, it moves from manager-oriented decision making to team or subordinate oriented decision making, thus the team's freedom increases while the manager's authority decreases. Depending upon the present level of the team's experience and skills, a starting point can be selected and as the team grows and develops, you move from on to the next one.

1) Manager makes decision and announces it – The team has no role in the decision-making role. Coercion may or may not be used or implied.

2) Manager "Sells" decision – Rather than just tell, the manager needs to sell the decision, as there is a possibility of some resistance from team members.

3) Manager presents ideas and invites questions – This allows the team to get a fuller explanation so they can gain a better understanding of what the manager is trying to accomplish.

4) Manager presents a tentative decision that is subject to change – This action invites the team to have some influence regarding the decision; thus, it can be changed based on the team's input.

5) Manager presents the problem, gets suggestions, and then makes the decision – Up to this point the manager has always presented the decision, although the last style allows it to change based upon the team's input. Now the team is free to come up with options, however, the manager still has the final say on those options.

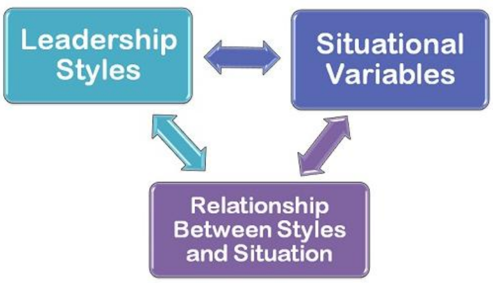
6) Manager defines limits, and requests the team to make a decision – The manager delegates the decision making to the team; but instills specific limits on the team's solution.

7) Manager allows team to function within limits – Now the team does the decision making, however, the manage may have placed certain limits on the options they can make. If the manager sits in on the decision making, he or she attempts to do so with no more authority than the other members do.

Basically, the first two styles or behaviors are similar to the authoritarian style, the next three are similar to the participative style, while the last two are similar to the delegative style. This approach gives the leader more options that can be refined to specific situations or environments.

Fiedler's Contingency Model

Fiedler's contingency model is comprised of three elements, Viz, Leadership styles, situational variables and the relationship between styles and situation.



Fiedler's Contingency Model

1) Leadership Style
This approach to situational leadership starts by understanding what style a leader has and in order to understand the attitude of a leader, Fiedler developed a **"Least Preferred Co-worker Scale (LPC)",** wherein the leaders are asked to rate a person on a scale ranging from lowest (1) to highest (8) on several parameters as shown below to identify the worker with whom they least like to work.

Uncooperative	1 2 3 4 5 6 7 8	Cooperative
Hostile	1 2 3 4 5 6 7 8	Supportive
Unpleasant	1 2 3 4 5 6 7 8	Pleasant
---	1 2 3 4 5 6 7 8	---
Guarded	1 2 3 4 5 6 7 8	Open

LPC Scale

Leaders who take the test (respondents) have the opportunity to describe a person who they would not want to work with (their least preferred co-worker). Leaders who take this test should should circle the number choice that best defines the person who is most difficult to be around in a work environment.

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The leaders with high LPC scores are said to be relationship-oriented whereas the ones with the low LPC scores are considered as task-oriented.

2) Situational Variables

Situational favorable-ness was described by Fiedler in terms of three empirically derived dimensions:

1. Leader-member relationship – high if the leader is generally accepted and respected by followers
2. Degree of task structure – high if the task is very structured
3. Leader's position power – high if a great deal of authority and power are formally attributed to the leader's position

Situations are favorable to the leader if all three of these dimensions are high.

3) Relation Between Styles and Situations

The goal is to match the leader’s style with a compatible situation.The relationship of leadership effectiveness and the degree of situational control is as follows:

1. High LPC leaders are most effective under moderate situational control.

2. Low LPC leaders are highly effective when situational control is either very low or very high.

Robert House's Path-Goal Theory

The Path-Goal theory is based on the idea that a follower's motivations are based on three assumptions:

1) If effort is given, the goal can be achieved (expectancy)
2) If the goal is achieved, there will be a reward (instrumentality)
3) The reward is considered valuable (valance)

Leaders must be able to provide their followers assurance for their expectations. Differences in the characteristics of followers, the type of situation, and the leader's style will all play in a role in the effectiveness of the group to achieve their goals.

The Path-Goal Theory identifies four styles of leadership:

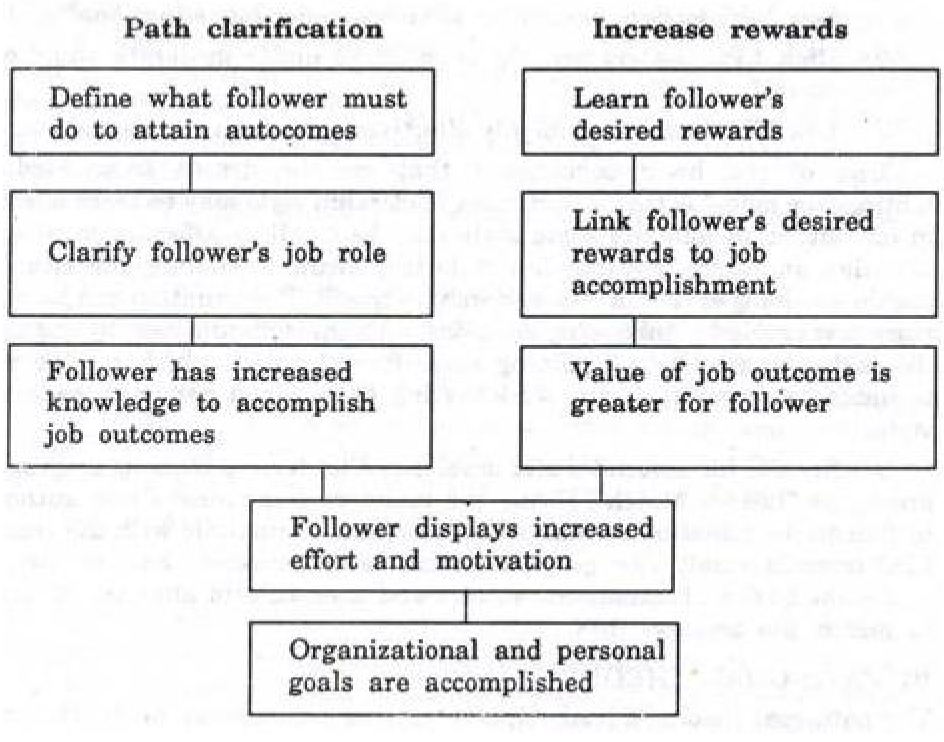
1) Directive - This leader provides direct and authoritative communication to his/her followers. This is ideal for followers who may have less knowledge or experience.

2) Achievement-Oriented - This leader sets high expectations for followers. He/she will challenge their subordinates and show confidence in their ability to achieve good results.

3) Participative - This leader works with his/her followers, considering their ideas and listening to them.

4) Supportive - This leader come alongside his/her followers showing care and concern for the their needs and well being.

The leader's role in the Path-Goal model is shown below.



Path Goal Model

The Situational Leadership Theory

The situational theory (or Life-cycle-theory) places followers into four different groups based on their maturity and assigns a particular leadership style to each group. The two different variables for determining followers' maturity are:

1) Task skills
2) Motivation

Task skills represent the work ability and knowledge of followers. Motivation, on the other hand, measures the desire of followers to accomplish a task and looks at their psychological maturity.

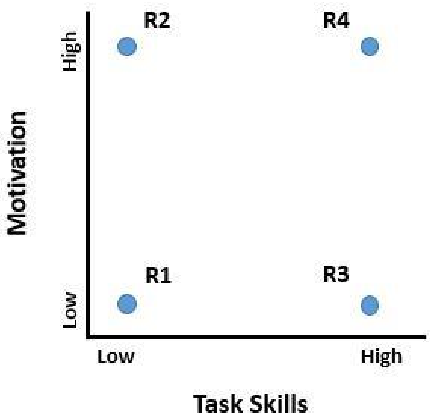
The maturity levels (or readiness levels) range from an incompetence or unwillingness to perform the task, to a willingness and ability to perform. The idea is that a successful leader will adapt leadership techniques to fit the maturity level of the group in question on a situational basis.

The table below shows the breakdown of readiness levels and the corresponding leadership responses.

Readiness Levels and Effective Leadership Styles

Readiness Level (of followers)	Leadership Style
R1 - Readiness Level 1: Low Motivation and Low Task Skills	S1 - Telling
R2 - Readiness Level 2: High Motivation and Low Task Skils	S2 - Selling
R3 - Readiness Level 3: Low Motivation and High Task Skills	S3 - Participating
R4 - Readiness Level 4: High Motivation and High Task Skills	S4 - Delegating

The following figure shows grid visual of Readiness Levels



Readiness Level

Descriptions of leadership styles are given below.

Telling (S1) - Leaders give commands and specific instructions to followers.

Selling (S2) - Leaders provide direction and guidance, but there is more interaction between leaders and followers.

Participating (S3) - Leaders complete tasks by working with followers as a team and place high value on relationships.

Delegating (S4) - Leaders have confidence in the abilities of their followers. They empower followers by delegating tasks and giving them more responsibility.

Control

Control (or controlling) is a regulatory process of establishing standards to achieve organizational goals, comparing actual performance against the standards, and taking corrective action when necessary so as to restore performance to those standards.

There are three basic steps in a control process:

1. Establishing standards
2. Measuring and comparing actual results against standards
3. Taking corrective action.

Establishing Standards
The first step in the control process is to establish standards against which results can be measured. Since entire operations cannot be observed, each organization must first develop its own list of key result areas for the purpose of control. Some key areas in all business organizations are - profitability, market position, productivity, personnel development, employee attitudes and public responsibility. The standards the managers desire to obtain in each key area should be defined as far as possible in quantitative terms. Even standards in areas such as public relations, while hard to express in quantitative terms, can be defined more accurately by adding more specific details, about the number and type of customer complaints. Standards need to be flexible in order to adapt to changing conditions. For example, a new salesman who proves to be an above average performer should have his sales standard adjusted accordingly. Every objective, every goal of the many planning programmes, every policy, every procedure and every budget becomes a standard against which actual performance might be measured.

Measuring and Comparing Actual Results against Standards
The second step in the control process is to measure the performance and compare it with the predetermined standards. Measurement of performance can be done by personal observation, as in the case of the subordinates being observed while they are engaged in work and by a study of various summaries of figures, reports, charts and statements. If the control system is well organized, quick comparison of these figures with the standard figures is quite possible. This will reveal variations. Some variations are desirable, such as the output above the standard or expenses below the standard. But some other variations are undesirable, such as a variation in the delivery schedule agreed upon with the customer or a variation in the speed limit fixed for all drivers.

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

Management by exception or control by exception is an important principle of management control. According to this principle, an attempt to control everything results in controlling nothing. Thus only the important deviations which exceed the prescribed limit should be brought to the notice of management. Thus, if plans provide for 3% increase in labour cost, deviations beyond 3% alone should be brought to the notice of the management.

The *principle of critical point control***,** states that a manager must choose points for special attention and watch them to be sure that the whole operation is proceeding as planned. It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas which are critical to the success of an organisation. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges. Following are the some of the critical standards generally used in practice:

Physical Standards - These are non-monetary measurements and are common at the operating level, where materials are used, labour is employed, services are rendered, and goods are produced. They may reflect quantities, such as labor-hours per unit of output, units of production per machine-hour etc.

Cost standards- These are monetary measurements and monetary values are attached to specific aspects of operations. Costs standards are common at the operating level

Capital standards - These are related with the capital invested in the firm rather than with operating costs. Perhaps the most widely used standard for new investment, as well as for overall control, is return on investment.

Revenue standards - These are related with the monetary value of sales.

Programme standards - A manager may be assigned to install a variable budget program, a program for formally following the developement of new products, or a program for improving the quality of a sales force. Although some subjective judgment may have to be applied in appraising program performance, timing and other factors can be used as objective standards.

Intangible standards - These are standards not expressed in either physical or monetary measurement and are more difficult to set. For example, performance of a manager.

Goals as standards - The present tendency for better-managed enterprise is to establish an entire network of verifiable qualitative or quantitative goals at every level of management. In complex program operations, as well as in the performance of mangers themselves, modern managers are finding that through research and thinking it is possible to define goals that can be used as performance standards.

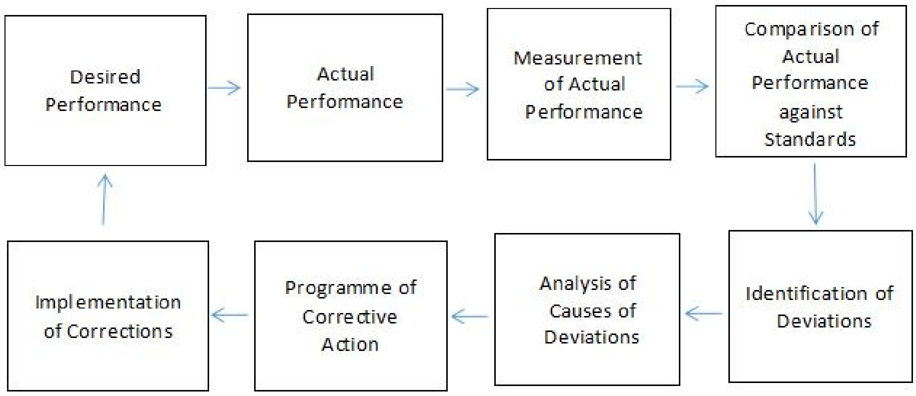
Taking Corrective Action

After comparing the actual performance with the prescribed standards and finding the deviations, the next step that should be taken by the manger is to correct these deviations. Corrective action should be taken without wasting of time so that the normal position can be restored quickly. The manager should also determine the correct causes for deviation. The causes for deviation may be of different types, such as inadequate and poor equipment and machinery, inadequate communication system, lack of motivation of subordinates, defective system of training and selection of personnel, defective system of remuneration, etc. The remedial action that should be taken depends on the nature of causes for variation.

Feedback, Concurrent (or real time), and Feedforward Control

There are three basic control methods: feedback control, concurrent control, and feedforward control.

Feedback Control
Feedback control is a mechanism for gathering information about performance deficiencies after they occur. This information is then used to correct or prevent performance deficiencies. Study after study has clearly shown that feedback improves both individual and organizational performance. In most instances, any feedback is better than no feedback. The following figure depicts the feedback process involved in a management control.



Feedback loop of management control

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

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

Concurrent control
Concurrent control is a mechanism for gathering information about performance deficiencies as they occur. Thus, it is an improvement over feedback because it attempts to eliminate or shorten the delay between performance and feedback about the performance. Supermarkets and department stores have electronic cash registers in operation that immediately transmit data on every sale to a central data storage facility, where inventory, sales, profit, and other data can be obtained as they occur. Similarly, a factory manager can have a system that reports at any time the status of production programs in terms of such things as production volume, labour-hours accumulated and even whether the production is as per schedule or not.

Often real-time information is seen as a means of getting real-time control in areas of importance to managers. But reference to the management control feedback loop as shown in the above figure, real-time information does not make real-time control possible (except in very simple and most unusual cases). It is possible in many areas to measure real-time data that measure the performance. It may also be possible in many of these cases to compare these data with standards and even to identify deviations. But the analysis of causes of deviations, the development of programmes of correction, and the implementation of these programmes are likely to be time consuming.

Feedforward Control
Feedforward control is a mechanism for gathering information about performance deficiencies before they occur. In contrast to feedback and concurrent control, which provide feedback on the basis of outcomes and results, feedforward control provides information about performance deficiencies by monitoring inputs, not outputs. Inputs, or perhaps the process, are changed if necessary, in order to obtain the desired results. Employment of the Preventive Maintenance Programme to prevent a breakdown of machinery

Feedforward control requires designing a model of a process or system and monitoring inputs with a view to detecting future deviations of results from standards and plans, thereby giving managers time to take corrective action

.
The requirements for a workable feedforward control system may be summarized as follows:

(i) Make a thorough and careful analysis of the planning as well as the control system and identify the more important input variables by applying careful discrimination

(ii) Develop a model of the system

(iii) Keep the model up-to-date by reviewing it regularly to see whether the identified input variables and their inter- relationships still represent realities

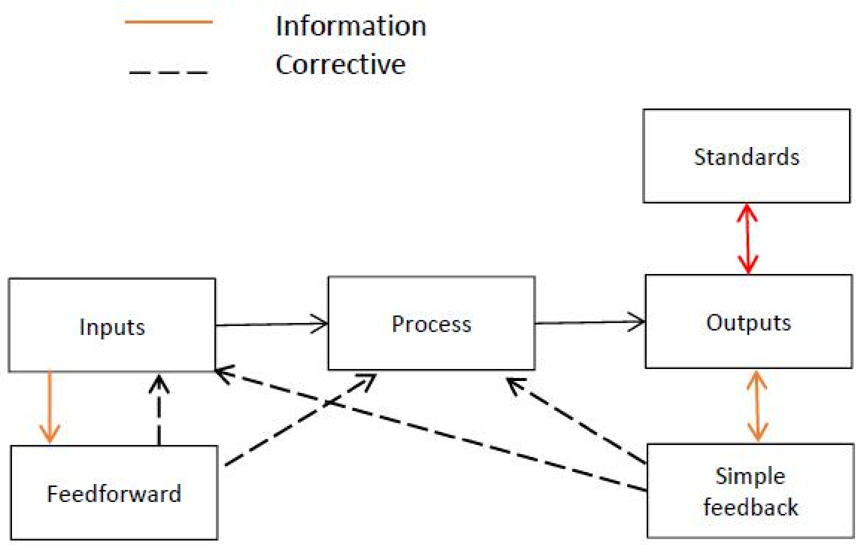
(iv) Collect regularly the data on input variables and assess it properly before putting it into the system

(v) Keep the feed forward system dynamic by regularly assessing the variations of actual input data from the planned - for inputs and evaluating their impact on expected end-results

(vi) Take prompt corrective action to solve the problems that are detected by the feedforward control system.

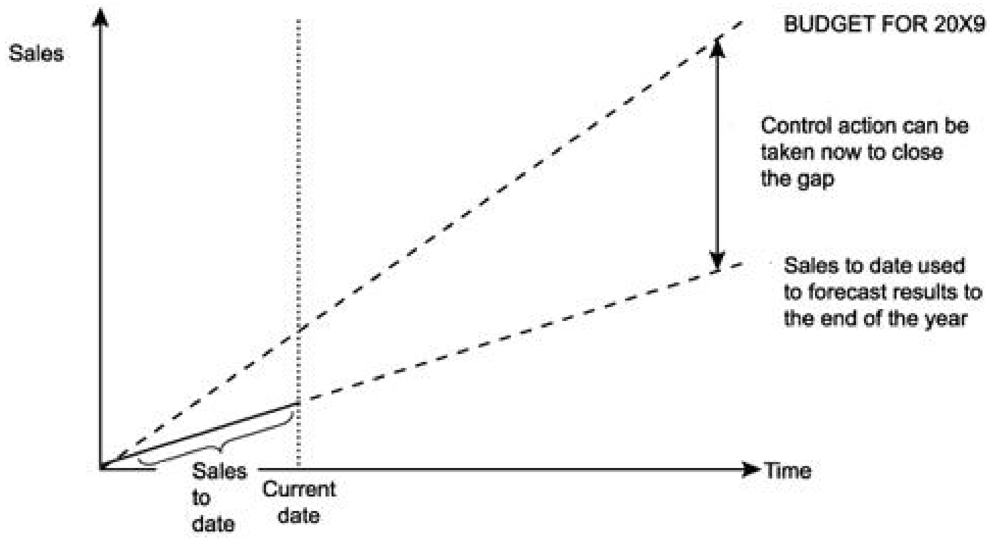
Comparison between Feedback and Feedforward Control Systems

A comparison of feedback and feedforward systems is depicted in the following figure. In a sense, feedforward control system is really a kind of feedback system. However, the information feedback is at the *input* side of the system so that corrections can be made before the system output is affected. Also, even with a feedforward system, a manager still wanted to measure the final system output, since nothing can be expected to work perfectly enough to ensure that the final output will always be as desired



Comparison of Simple Feedback and Feedforward Systems

The following graph shows the feedback and feed-forward system for sale. A feed-forward control system operates by comparing budgeted results against a forecast. Control action is triggered by differences between budgeted and forecasted results. In contrast, a feedback system would simply compare the actual historical results with the budgeted results.



Feedback and feed-forward system for sale

Features of an effective control system

An effective control system has the following features:

1) **Future oriented:** The control system ensures that mistakes made in the past are not repeated in future. It is a future-oriented process that focuses plans.

2) **Multiple control system:** No control system can be effective if it aims to control only one activity. The effective control system simultaneously controls production, inventory, sales, cost and quality.

3) **Economical:** It is costly to institute a control system. It should be ensured that costs to the control system are less than its benefits. This is possible by applying corrective measures only on significant deviations (management by exception).

4) **Timeliness:** Deviations must be reported as frequently as possible to the management so that timely remedial action can be taken. Late actions may be as good as no actions.

5) **Flexible:** Business operates in the turbulent and dynamic environment; Control system should be flexible to adjust business operations to environmental changes. Impact of changes on planned performance (or standards) must be incorporated from time to time. There should be alternative plans to meet unexpected situations.

6) **Control of critical points:** Rather than controlling every activity, control system should focus on critical points only where deviations affect the organizational goals. Poor performance in these areas indicates deviations from the standards and requires corrective action. Critical points determine areas where actions should be monitored. "Effective control requires attention to those factors critical to evaluating performance again

7) **Operational:** The control system should not only find deviations but also correct the deviations. Managers can artificially create a deviation and see how effectively the control system works in such conditions.

8) **Organizational climate:** In organizations where freedom is not given to workers (autocratic style of management), a tight control system will be successful and organizations where participative or democratic style of management prevails, a lenient control system should be adopted.

9) **Objective standards:** A control system will be effective if standards of performance are framed objectively. Standards should be specific, quantified and attainable. Poor or non-measurable standards will violate the purpose of control system. It may result in short-term gains at the cost of long-term profits.

10) **Control by exception:** Managers should control only exceptional deviations as they have serious impact on organizational efficiency.

11) **Positive environment:** Control system should not be viewed as a negative force that restricts workers' innovative and creativity. It should create positive organizational climate. It should allow freedom of actions rather than punishing undesirable action. The focus should be on work (ends) and not workers (means).

Importance or Advantages of Controlling

1) **Accomplishing organisational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

2) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.

3) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

4) **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.

5) **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities.

6) **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organisational goals. Each department and employee is governed by predetermined standards which are well coordinated with one another. This ensures that overall organisational objectives are accomplished.

7) In addition to the above, there are many other advantages that includes **improvement of goodwill, facilitation of delegation, fixing of responsibility, and improved efficiency**.

Limitations of Controlling

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

1) **Difficulty in Setting Quantitative Standards:** It becomes very difficult to compare the actual performance with the predetermined standards, if the

standards are not expressed in quantitative terms. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise..

2) **No Control on External Factors:** An organization fails to have control on external factors like technological changes, competition, government policies, changes in taste of consumers etc.

3) **Resistance from Employees:** Often employees resist the control systems since they consider them as curbs on their freedom. For example, surveillance through closed circuit television (CCTV).

4) **Costly Affair:** Controlling involves a lot of expenditure, time and effort, thus it is a costly affair. Managers are required to ensure that the cost involved in installing and operating a control system should not be more than the benefits expected from it.

Direct Control and Preventive Control

The analysis of controls stresses the variety of approaches that managers follow to make results conform to plans. Causes of negative deviations could be uncertainty, lack of knowledge, experience, or judgment. At the basis of control is the fact that the outcome of plans is dependent on the people who carry them out.

There are two ways of seeing to it that the responsible people modify future action, namely (1) Direct Control, and (2) Preventive Control.

The normal procedure is to trace the cause of an unsatisfactory result back to the persons responsible for it and get them to correct their practices. This may be called direct control. Questionable assumptions underlying direct control are as follows:

1) All performance can be measured
2) Personal responsibility exists
3) Time expenditure is warranted
4) Mistakes can be discovered in time
5) Person responsible will take corrective steps

The alternative in the area of management is to develop better managers who will skill fully apply concepts, techniques, and principles and who will look at managing and managerial problems from a systems point of view, thus eliminating undesirable results caused by poor management. This will be referred to as preventive control. The principle of preventive control is that "The higher the quality of managers and their subordinates, the less will be the need for direct controls". The preventive control is based on the following assumptions:

1) Qualified managers make a minimum of errors
2) The management fundamentals can be used to measure performance
3) Application of management fundamentals can be evaluated

Advantages of preventive control

1) Greater accuracy is achieved in assigning personal responsibility.
2) Preventive control encourages self-control and make corrective action more effective.
3) Preventive control may lighten the managerial burden caused by direct controls.
4) Employees may be motivated to improve themselves continuously.

Techniques of Managerial Control

Control techniques provide managers with the type and amount of information they need to measure and monitor performance. Companies follow different techniques or methods for controlling their business operations efficiently.Some of the control techniques employed by organizations are discussed below.

Personal Observation

This is the most traditional and most popular method of control. Under this manager observes the subordinates while they are performing jobs. They generally note down their observations. With the help of these observations they can easily analyze the performance of employees. By comparing the performance chart of current year with the previous year the managers can know the progress of their performance.

Financial Statements

All business organisations prepare Profit and Loss Account. It gives a summary of the income and expenses for a specified period. They also prepare Balance Sheet, which shows the financial position of the organisation in terms of assets, liabilities, and net-worth at the end of the specified period. Financial statements are used to control the organisation. The figures of the current year can be compared with the previous year's figures. They can also be compared with the figures of other similar organisations.

Ratio analysis can be used to find out and analyse the financial statements. Ratio basically is a comparison of two numbers with respect to each other. Similarly, in finance, ratios are a correlation between two numbers, or rather two accounts. So two numbers derived from the financial statement are compared to give us a more clear understanding of them.

For example, inventory turnover is the ratio between cost of goods sold and average inventory. Inventory turnover tells managers and investors not only how much inventory the company maintained, it also tells them how efficient the company was with its inventory. A high inventory turnover ratio means that the company is lean and is able to move its inventory quickly. This could indicate proper management and thoughtful inventory purchasing.

The opposite is true about a low inventory turnover. A low inventory turnover usually means either that companies buy too much inventory or they have problems selling it. Neither of these facts indicate a healthy business.

Budget and Budgetary Control

Budgets are formal quantitative statements of the resources set aside for carrying out planned activities over given periods of time. As such, they are widely used means for planning and controlling activities at every level of the organization. There are a number of reasons for their wide range.

First, budgets are stated in monetary terms, which are easily used as a common denominator for a wide variety of organizational activities – hiring and training personnel, purchasing equipment, manufacturing, advertising and selling. Second, the monetary aspects of budgets means that they can directly convey information on a key organizational resource – capital – and on a key organizational goal – profit. They are, therefore, heavily favored by profit-oriented companies.

Third, budgets establish clear and unambiguous standards of performance for a set time period – usually a year. At stated intervals during that time period, actual performance will be compared directly with the budget. Deviations can be detected quickly and acted upon.

In addition to being a major control device, budgets are one of the major means of co-coordinating the activities of the organization. The interaction between managers and subordinates that takes place during the budget development process will help define and integrate the activities of the organization members.

A brief description of the above classification is provided below.

- ***Financial Budget*** - *Budget for balance sheet elements. In other words, financial budget deals with the expected assets, liabilities, and stockholders' equity.*

- ***Operating Budget*** - *Budget indicating the goods and services the organization expects to consume in a budget period*

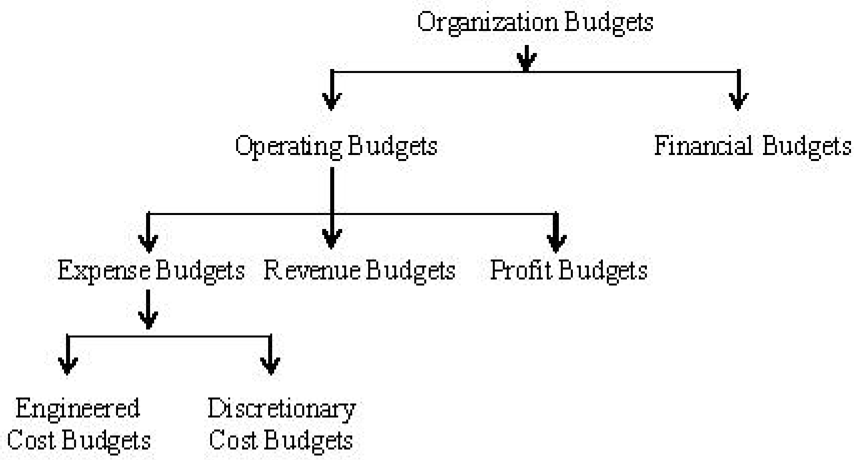
- ***Expense Budget*** - *Budget explaining where money was applied*

- ***Revenue Budget*** - *Budget for projected sales revenue, used to measure marketing and sales effectiveness*

- ***Profit Budget or Master Budget*** - *Budget combining expense and revenue budgets in one unit*

- ***Engineered Cost Budget*** - *Type of expense budget that describes material and labour cost of each item produced, including estimated overhead costs*

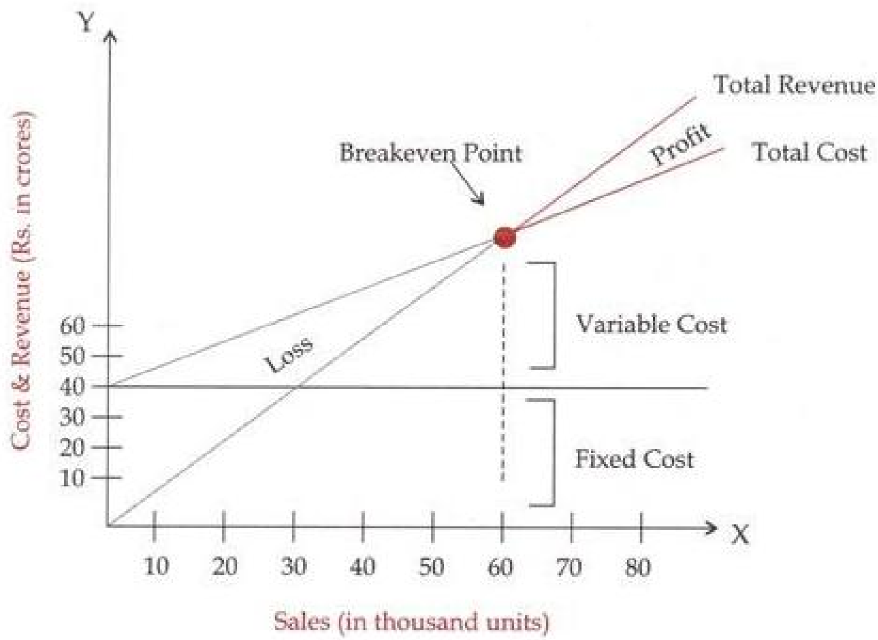
- ***Discretionary Cost Budget*** - *Type of expense budget that is used for departments in which output cannot be accurately measured*



Types of Budgets

Break Even Analysis

Break even analysis is a useful technique to study relationship between costs and profit; break even point is a point of no profit no loss.When sales reaches break even point, it refers to sale amount at which company is neither earning profit nor incurring loss. With the help of break even analysis technique manager can estimate profits at levels of cost and revenue



Break Even Chart

. The formula for calculating break even point is:

$$\text{Break Even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per unit} - \text{Variable Cost per unit}}$$

For example, when an organisation sells 6000 units it will break even. It means that, any sale below this point will cause losses and any sale above this point will earn profits. The Break-even analysis acts as a control device. It helps to find out the company's performance. So the company can take collective action to improve its performance in the future. Break-even analysis is a simple control tool.

Return on Investment (ROI)

Investment consists of fixed assets and working capital used in business. Profit on the investment is a reward for risk taking. If the ROI is high then the financial performance of a business is good and vice-versa.

The term refers to how much money is gained or lost after an investment. If you invest $1,000 and get back $1,080, you have an $80 (8 percent) return on the investment.

ROI is a tool to improve financial performance. It helps the business to compare its present performance with that of previous years' performance. It helps to conduct inter-firm comparisons. It also shows the areas where corrective actions are needed.

PERT and CPM Techniques

Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) techniques were developed in USA in the late 50's. Any programme consists of various activities and sub-activities. Successful completion of any activity depends upon doing the work in a given sequence and in a given time.

CPM / PERT can be used to minimise the total time or the total cost required to perform the total operations.

Importance is given to identifying the critical activities. Critical activities are those which have to be completed on time otherwise the full project will be delayed.

So, in these techniques, the job is divided into various activities / sub-activities. From these activities, a network is drawn and the critical activities are identified. More importance is given to completion of these critical activities. So, by controlling the time of the critical activities, the total time and cost of the job are minimised.

Relationship between Planning and Controlling

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

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

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

Thus, planning and controlling are interrelated and reinforce each other in the sense that (1) Planning based on facts makes controlling easier and effective, and (2) Controlling improves future planning by providing information derived from past experience.

Work Force Diversity and Global Controlling

The work place in the present day context is increasingly multi cultural and diverse. Many products and services are produced for export. In addition, organisations are outsourcing their work to countries having low labour costs to stay competitive. As opportunities for global expansion increase, the workplace will have more diversity. Employees are required to work together with colleagues from different parts of the world with varied backgrounds, cultures, styles, motivation, customs and practices. It is therefore necessary for organisations to expand the capacity for people to handle the challenges of working with other cultures if they are to participate successfully.

Companies that embrace workforce diversity are growing and can become more competitive, but with that workforce diversity also brings its own issues and challenges.

Increasing workforce diversity has a number of benefits including creativity, innovation, positive reputation and more. Having different perspectives at the business can increase creativity and allow people to positively collaborate with one another. This collaboration could bring additional innovation and the ability for business to stay ahead in these changing times.

With the many positives come some disadvantages including communication barriers, resistance to change and negative attitudes. It may be difficult to bring together employees of different cultures and communication styles. Meetings and discussions could be sidelined while dealing with what should be a simple issue- communication. Business may come across employees that are resistant to change or harbor negative feelings towards diversity.

Leaders must be adaptive and flexible to manage this diverse work force. This requires an understanding of the historical, political and economic references of people who work in the organisations. Leaders must understand differences in world views, communication styles, ethics and etiquette of the people they deal with both internally and externally.

According to Richard D Lewis, the different nations and cultures can be put into three groups:

1) Linear-active: In these cultures, people focus on a scheduled time line and like to do one thing at a time. The people in these cultures are task-oriented planners.

2) Multi-active: People belonging to these cultures are more focused on interactions and dialogues. Meetings are given priorities and discussions and dialogues help to build relationship and it is this relationship that determines what comes out of work.

3) Reactive: People belonging to this type of culture are more introverted. They are respect-oriented listeners and concentrate on what people have to say without interruption and even if they interrupt it is rarely done. People in these culture usually express their ideas in a passive voice.

Leaders must understand different cultures when they work in an organisation which has employees belonging to different cultures. The grouping done by Lewis is a simple perspective that can help one to begin to understand basic differences in ways of doing business in foreign countries. However, we must be cautious and avoid working with unverified assumptions.