

SPBA 101

**POSTGRADUATE COURSE
M.B.A.**

FIRST YEAR

FIRST SEMESTER

CORE PAPER - I

**MANAGEMENT PRINCIPLES
AND BUSINESS ETHICS**



**INSTITUTE OF DISTANCE EDUCATION
UNIVERSITY OF MADRAS**

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With best wishes from mind and heart,

DIRECTOR

**MBA
FIRST YEAR - FIRST SEMESTER**

**CORE PAPER - I
MANAGEMENT PRINCIPLES
AND BUSINESS ETHICS**

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MBA DEGREE COURSE

FIRST YEAR

FIRST SEMESTER

Core Paper - I

MANAGEMENT PRINCIPLES AND BUSINESS ETHICS

SYLLABUS

UNIT - I

Introduction: Nature of Management – Management Skills - The Evolution of Management Thought – Tasks of a Professional Manager – Manager – Organisational Culture - Environment – Systems Approach to Management – Levels in Management

UNIT - II

Planning & Decision Making: Steps in Planning Process – Scope and Limitations – Short Term and Long Term Planning – Flexibility in Planning – Characteristics of a Sound Plan – Management By Objectives (MBO). Strategic Management Process Decision Making Process and Techniques.

UNIT – III

Nature of Organizing : Organisation Structure and Design - Authority Relationships – Delegation of Authority and Decentralisation – Interdepartmental Coordinator – emerging Trends in corporate Structure, Strategy and Culture – Impact of Technology on Organisational design – Mechanistic vs. Adoptive Structures – Formal and Informal Organisation. Span of control – Pros and Cons of Narrow and Wide Spans of Control – Optimum Span - Managing Change and Innovation.

UNIT – IV

Control: Concept of Control – Application of the Process of Control at Different Levels of Management (top, middle and first line). Performance Standards – Measurements of Performance – Remedial Action - An Integrated Control system in an Organisation – Management by Exception (MBE) – Leadership – Approaches to Leadership and Communication.

UNIT – V

Business Ethics: Importance of Business Ethics – Ethical Issues and Dilemmas in Business - Ethical Decision Making and Ethical Leadership – Ethics Audit - Business Ethics and - CSR Models.

Reference Books

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MBA DEGREE COURSE

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Core Paper - I

**MANAGEMENT PRINCIPLES AND
BUSINESS ETHICS**

SCHEME OF LESSONS

| Sl.No. | Title | Page |
|--------|-------------------------------------|------|
| 1. | INTRODUCTION TO MANAGEMENT THOUGHT | 001 |
| 2. | PIONEERS OF MANAGEMENT THOUGHT | 029 |
| 3. | PLANNING | 055 |
| 4. | POLICY MAKING | 066 |
| 5. | ORGANIZATION | 077 |
| 6. | DEPARTMENTATION | 101 |
| 7. | DELEGATION OF AUTHORITY | 114 |
| 8. | CENTRALIZATION AND DECENTRALIZATION | 130 |
| 9. | SPAN OF CONTROL | 139 |
| 10. | COORDINATION | 150 |
| 11. | CONTROL PROCESS | 162 |
| 12. | LEADERSHIP | 169 |
| 13. | COMMUNICATION | 179 |
| 14. | BUSINESS ETHICS | 199 |
| 15. | CORPORATE SOCIAL RESPONSIBILITY | 212 |

LESSON - 1

INTRODUCTION TO MANAGEMENT THOUGHT

Learning Objectives

After reading this lesson, you must be able to:

- Define the term management
- Explain the functions of management
- Describe the evolution of management thought.

Structure

- 1.1 Introduction**
- 1.2 Definition of Management**
- 1.3 Management Principles**
- 1.4 Nature and Scope of Management**
- 1.5 Process and Functions of Management**
- 1.6 Roles of Manager**
- 1.7 Evolution of Management**
- 1.8 Management Thought today**
- 1.9 Case Study**
- 1.10 Summary**
- 1.11 Key Words**
- 1.12 Review Questions**
- 1.13 References**

1.1 Introduction

In the present context managing has become one of the most important areas of human activity because of increasing role of large and complex organizations in the society. Because of their increasing role, the organizations have attracted the attention of both practitioners and academicians to find out the answer of the question 'how these organizations can be made

more effective 'This has led to the development of a new field of study known as management .It has grown over the period of time and in today's context, it has emerged as one of the most important disciplines of study and research.

1.2 Definition of Management

A precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline, it has drawn concepts and principles from a number of disciplines such as economics, sociology, psychology, anthropology, statistics and so on. The result is that each group of contributors has treated management differently. For example economists have treated management as a factor of production, sociologists have treated it as a class or group or person; practitioners have treated as process comprising different activities. Naturally all these divergent groups view the nature and scope of management from their own point of view together it becomes difficult to define management in a comprehensive way .The problem of defining management, as a process is not over because of the existence of different approaches in this context too. Historically four such orientations have been adopted in defining management process.

1. Production or Efficiency-oriented Definitions

Those who have put forward the concept of management as a source of efficiency in organization have viewed that management is concerned with generating efficiency in organizational settings. For example in an early stage of development of management, Taylor has defined management as follows:

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

John Mee has defined management in terms of securing maximum results as "Management is the art of securing maximum results with minimum efforts so as to secure maximum prosperity and happiness for both employer and employee and give the public the best possible service" Both these definitions emphasize on relationship between efforts and results as the objectives of management but do not specify how these objectives can be achieved. These definitions do not give an exact explanation of nature of management.

2. Decision-oriented Definitions

Decisions-Oriented definitions of management have been provided by decision theorists who have seen management process in terms of decision making .For example Peter Drucker has viewed that the life of a manager is a perpetual decision making activity. Whatever a manager does he does only through decision-making. Decision-making power provides a dynamic force for managers to transform the resources of business organizations into a productive, cooperative concern. These decision theorists have emphasized the role of decision making in management to such an extent that one of them has viewed that management means decision making. A more formal decision-oriented definition management has been provided by Stanley Vance as follows:

“Management is simply the process of decision making and control over the action of human beings for the expressed purpose of attaining predetermined goals”.

The decision-oriented definition of management indicates that the basic activity of manager is to make decisions and enforce these decisions. This does not provide the processes in which context decision-making is applied.

3. People oriented Definitions

In this group of definitions management is defined as a process of coordinative efforts of people in organizations. Various authors have emphasized the role of people in the organization. They have viewed that management is the direction of people and not of things, management is personnel management and so on Lawrence Appley has called management as personnel management and has defined it as follows:

“Management is the accomplishment of results through the efforts of other people” Koontz has defined management in similar way when he says that: “Management is the art of getting things done through and with people in formally organized groups”

These definitions no doubt offer better explanations of the nature of management though these do not specify the functions or activities involved in the process of getting things done by or with the cooperation of other people.

4. Function oriented Definitions

These definitions put emphasize on the various functions performed by managers in organizations though there is no uniformity in these functions in different definitions .For example McFarland states that:

“Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operative purposive organization through systematic, coordinated, cooperative human efforts”

Henry Fayol an early management thinker has precisely defined management as “To manage is to forecast and to plan, to organize, to coordinate and to control”.

Function oriented definitions of management are more relevant for understanding the exact nature and scope of management in spite of the fact there is no unanimity over various functions. Therefore management is defined as follows “Management is a process involving planning, organizing, staffing, directing and controlling human efforts to achieve stated objectives in an organization”.

1.3 Management Principles

The principles of management have a tremendous impact upon the practice of management in increasing the efficiency of the organization. The need and importance of management principles can be visualized as follows:

1. To increase efficiency

The established principles of management provide managers guidelines as to how they should work in different situations. These principles increase managerial efficiency. Today a management graduate who has acquired the knowledge of management principles definitely puts better efficiency and effectiveness in the organization. Though there is a serious limitation of management principles that it has to be modified according to situations as these deal with human beings of diverse nature. These enable a manager to understand the different situations in a better way and save him from costly trail and error method.

2. To crystallize the nature of management

Lack of understanding of management principles makes it difficult to analyze the management job and to define the exact scope of managerial functions. Thus individuals cannot

be trained effectively for managerial positions. According to Henry Fayol management principles, rules, methods and procedures are necessary to train and educate future managers.

3. To carry on researches

In any subject certain fundamental principles are developed which become the basis for future researches. In the absence of these principles researches become difficult and future horizons of knowledge cannot be expanded. It is scarcely too much to say that the most important index of the state of maturity of science is state of its systematic theory. This includes the character of the general conceptual scheme in use in the field, the kinds and degrees of logical integration of the different elements, which make it up, and the ease in which it is actually used in empirical research. The recent emphasis on management researches has increased the quantum of knowledge in this field.

4. To attain social objectives

Management itself is part of the society and it takes the inputs from the society and gives the output to the society. Thus the standard of the society depends upon the quality of the management. If the management is efficient the resources of the society are better utilized thereby giving more satisfaction to the society and improving the quality of life of people.

Thus the understanding of management principles enables managers to take a more realistic view of organizational problems and their solution. Management deals with the people in the organization, and the structure and behaviour of the atom are far less complex than the structure and behaviour of groups of people. To direct the human behaviour for objective achievement some principles would definitely have an impact on the cultural level of society by increasing efficiency in the use of human as well as material resources. Managers while putting management principles into practice should check their validity and applicability before their use.

1.4 Nature and Scope of Management

The study and application of management techniques in managing the affairs of the organization have changed its nature over the period of time. Though management as a practice came long ago, in fact, with the existence of human groups themselves, its impact as a formal body of knowledge has been felt much later, particularly during the last five-six decades. Various contributions to the field of management have changed its nature, for example, from merely a

practice to science also. Similarly, other changes have also occurred. Thus, the nature of management can be described as follows.

1. Multidisciplinary

Management is basically multidisciplinary. This implies that, although management has been developed as a separate discipline, it draws knowledge and concepts from various disciplines. It draws freely ideas and concepts from such disciplines as psychology, sociology, anthropology, economics, ecology, statistics, operation research, history, etc. Management integrates the ideas and concepts taken from these disciplines and presents newer concepts, which can be put into practice for managing the organizations.

2. Dynamic nature of principles

Principle is a fundamental truth, which establishes cause and effect relationships of a function. Based on integration and supported by practical evidences, management has framed certain principles. However, these principles are flexible in nature and change with the changes in the environment in which an organization exists. Because of the continuous development in the field, many older principles are being changed by new principles. Continuous researches are being carried on to establish principles in changing society and no principle can be regarded as a final truth. In fact, there is nothing permanent in the landslide of management.

3. Relative, not absolute principles

Management principles are relative, not absolute, and they should be applied according to the need of the organization. Each organization may be different from others. The difference may exist because of time place, socio-cultural factors, etc. However, individuals working within the same organization may also differ. Thus, a particular management principle has different strengths in different conditions. Therefore, principles of management should be applied in the light of prevailing conditions. Allowance must be made for different changing environment.

4. Management: Science or Art

There is a controversy whether management is science or art. However, management is both a science and an art.

5. Management as profession

Management has been regarded as a profession by many while many has suggested that it has not achieved the status of a profession.

6. Universality of management

Management is a universal phenomenon. However, management principles are not universally applicable but are to be modified according to the needs of the situation.

The nature of management suggests that it is a multidisciplinary phenomenon; its principles are flexible, relative and not absolute. It is both science and art; it can be taken as a profession and finally it is universal. However the last three aspects need further elaboration because of differing views over these aspects of management.

Management practices are applied in the following major functional areas of business:

1. Production – Production Management
2. Human Resource - Human Resource Management
3. Marketing – Marketing Management
4. Finance – Financial Management

The relevance of the functions of management, namely, planning, organizing, direction, coordinating and controlling for the various functional areas, namely, production, personnel, marketing and finance are as follows:

Production Management

In the case of a business manufacturing goods, production is an important function. Production management is concerned with the proper planning, organizing, directing, coordinating and controlling the production activities. The production activities of a business may be stated as follows:

- i. Creation of the factory building
- ii. Acquisition of the necessary plant and machinery
- iii. Purchase and storage of raw materials
- iv. Attaining the targeted level of production
- v. Quality control

Personnel Management

This is also referred to as 'Human Resources Management'. Personnel Management is primarily concerned with the management of the human resources of a business organization. The following activities will come within the purview of Human Resource Management:

1. Manpower planning
2. Recruitment and Selection of employees
3. Employee training
4. Job analysis and evaluation
5. Determination of the correct remuneration for the workers
6. Performance appraisal or evaluation
7. Promotion, transfer, demotion and termination
8. Encouraging workers' participation in management and so on.

Marketing Management

Marketing is the total system of interacting business activities designed to plan, price, promote and distribute want-satisfying products and services to present and potential customers. Selling is only a part of the marketing function. Selling is concerned with the transfer of title from the seller to the buyer. Marketing on the other hand, is concerned with the performance of all those activities that enable the seller to transfer the title to the buyer. Marketing starts before production. The philosophy of marketing is 'consumer satisfaction'.

Marketing management is concerned with the performance of planning, organizing, directing, co-ordinating and controlling the various marketing activities. The various marketing activities may be stated as follows:

- a. **Product planning:** It is concerned with certain important decision in respect of the following:
 1. **Product mix:** whether to manufacture one product or a number of products
 2. **Product modification:** to alter outdated products
 3. **Product elimination:** to drop unsuccessful products

4. Product life cycle: the measures to be adopted to handle the various phases of its life cycle consisting of introduction, growth, maturity and decline stages

5. Branding: selection of the most appropriate name for the product

6. Packing: determining the type of container or wrapper for the product.

b. Pricing: Determining the right price for the product is yet another important task of the marketer. There are so many factors that influence the pricing policy of a business. Cost of production and distribution is an important determinant of price. The pricing objectives of the business also influence its pricing decisions. Some of the pricing objectives of a business may be mentioned as follows:

- i. Target return on investment
- ii. Maximising market share
- iii. Meeting competition
- iv. Preventing competition and so on.

The different types of pricing, which are followed by marketers, include, among others, the following:

- 1. Odd pricing
- 2. Psychological pricing
- 3. Prestige pricing
- 4. Monopoly pricing
- 5. Skimming pricing – setting a very high initial price
- 6. Penetration pricing – setting a very low initial price

The marketer must also have knowledge of the various types of discounts and allowances offered to the middlemen and the consumers.

c. Physical distribution: Most marketers distribute their products through a network of middlemen. Physical distribution is a wider term which includes not only the channels of distribution comprising the wholesalers, retailers and others but also storage and transportation which are vital in distribution.

d. *Promotion:* Finally, the marketer has to take certain important decisions on the promotional measures that he would adopt to create demand for his products. The various promotional tools are:

- i. Advertising
- ii. Publicity
- iii. Sales promotion
- iv. Personal selling and
- v. Public relations

Financial Management

Finance is the basic requirement of any business. A business requires fixed capital to acquire fixed asset like land and building, plant and machinery, furniture etc. It also needs working capital to buy raw materials, pay salaries and wages and to meet out all other routine expenses.

The following are the sources of fixed capital:

- i. The proprietor's own funds – in the case of one-man business, partnership or a private company.
- ii. Share capital – in the case of public and Government companies
- iii. Debenture capital
- iv. Long-term loan from financial institution like the IDBI, the ICICI, etc.

The sources of working capital are as follows:

- i. Overdraft
- ii. Cash credit
- iii. Discounting of eligible bills
- iv. Trade credit from creditors, etc.

Financial management is concerned with the following important activities

- 1. To find out the long-term and short-term financial needs of the business
- 2. To identify and choose the right source of raising funds

3. To ensure proper utilization of funds
4. To ensure safety of investments and also maximum returns on such investments.
5. To remain in the good books of the creditors, bankers and others by maintaining the creditworthiness of the business.
6. To ensure shareholders reasonable return on their investment.

1.5 Process and Functions of Management

The approaches to management vary in nature. Consequently, the pioneers of different schools of thought have defined the term management in their own way. Similarly, there is no unanimity among the various authors about the functions of management. Each author or pioneer thinker has given his own list of functions to describe the same body of activities – management. These contradictions relate to their number, the order of performance, their relative importance as well as some genuine differences regarding the scope and content of each function. The basic reasons for this difference of opinion are that the relative importance of the functions of management varies from one organisation to another.

E.F.L. Brech describes planning, motivation, co-ordinating and controlling as management functions.

George R. Terry includes planning, organising, actuating and controlling among management functions.

Louis A. Allen mentions planning, coordinating, motivation, communicating and organising.

Lyndall Urwick divides management into forecasting, planning, organising, command and co-ordination, investigation, research, communication and control.

Luther Gulick has given a catch word for the functions of management as **PODSCORB** where **P** stands for Planning, **O** for Organising, **D** for Directing, **S** for Staffing, **CO** for Co-ordinating, **R** for Reporting and **B** for Budgeting.

As pointed out by **H. Koontz**, “from the various classifications made by different authors, we can visualise the emergence of a general pattern of practice used by the managers in different fields. The general pattern is to group the functions of management around the activities of 1. Planning, 2. Organising, 3. Staffing, 4. Directing, and 5. Controlling”.

In this context, it must also be remembered that no single managerial function is more important than the others. They are equally important for the realisation of the organizational goals. They are all necessary and inter-related to each other as shown in the following figure.

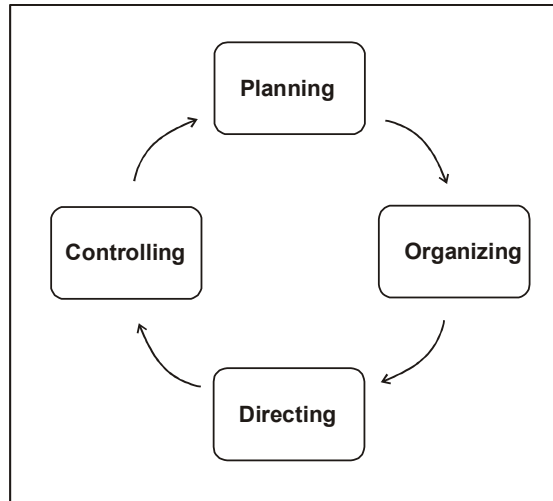


Figure 1.1 Management Process

Now we shall proceed to discuss the various functions of management briefly.

1. Planning

Of all the managerial functions, planning is considered as the most basic function. Planning refers to the rational and orderly thinking about the ways and means for the realization of the objective of the organisation. In the words of **Lundy**, planning means “the determination of what is to be done, how and where it is to be done, who is to do it, and how the results are to be evaluated”. Thus, planning means deciding in advance what to do. It involves thought and decision pertaining to a future course of action. Planning is a mental process requiring the use of intellectual faculties, to foresight imaginations and sound judgment. It includes determination of objectives, setting rules and procedures, determining projects, setting policies and strategies, budgeting, etc. All these determine what organisation wants to do and how it can be done.

Planning may be short-term or long-term. It is a pervasive function and managers at various levels have to prepare plans. It is also an on-going process. It enables us to do things in an orderly and efficient manner. It enables an organisation to face change and uncertainty.

2. Organising

Organising refers to the systematic arrangement of different aspects of the business operations to achieve the planned objectives. Since management refers to the task of getting things done through other people, the manager must pay attention on organising the people and their work. Organisation provides the means and avenues along which efforts are directed for making the joint efforts more productive and effective. Without proper organisation, other functions of management are of no use.

According to **Louis A. Allen**, *organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for purpose of enabling people to work most effectively together in accomplishing the objectives*".

Thus, organisation weaves a neat pattern of relationship among personnel, jobs, and activities for ensuring harmonious teamwork towards the fulfillment of common aims.

Organising is an important element of management because it is through organising that a manager brings together the material and human resources required for achievement of desired goals. A sound organisation helps to avoid duplication of work and overlapping of effort.

The important steps involved in the process of organisation can be briefly outlined as follows:

1. Determination and enumeration of activities,
2. Grouping and assignment of activities,
3. Allocation of fixed responsibility of definite persons, and
4. Delegation of Authority.

3. Staffing

We have already noted that management is basically concerned with the task of getting things done through the efforts of other people. Therefore, every business concern is vitally concerned about the quality of the people so that the enterprise can be successful. As such, the staffing function comes next to planning and organising.

In the words of **H. Koontz**, staffing involves “*man in the organisational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure*”. **E. Saksena** observes that “*staffing function is concerned with the placement of growth and the development of all those members of the organisation*”.

Thus the Staffing function relates to the recruitment, selection, training, promotions and transfers of personnel at all levels of management.

Special Features of Staffing

The other functions of management are objective and somewhat mechanistic. But the staffing function is entirely different from those functions, as it is almost concerned with people. This function has certain peculiar characteristics, which are not found in other managerial functions. They are as follows:

1. Intangible in nature,
2. Closer personal relationship between executives and subordinates, and
3. Forecasting a changing job-mix.

4. Directing

Like staffing, directing is also a managerial function, which deals exclusively with the human beings of the enterprise. The term directing refers to that managerial function which initiates organised action. Formulation of policies and plans is of no use unless they are converted into action. Effective implementation of a decision is made possible only by proper direction.

“Directing consists of the processes and techniques utilised in issuing instructions and making certain that operations are carried on as originally planned. Directing is the process around which as performance revolves.”. In the words of **H. Koontz**, “Directing is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives”. Thus, directing is the heart of management in action. It is the sum total of all managerial efforts that is applied for guiding and inspiring the working teams to make better accomplishments in the organisation. It is an ever present, continuing function, performed by all managers at all levels of the organisation. It is a link between preparatory management functions and controlling.

It embraces and includes the following sub-functions. 1. Motivation, 2. Leadership, 3. Supervision, 4. Communication, and 5. Co-ordination.

5. Controlling

The last but most important managerial function is controlling. Other management functions are undertaken to get things done through other people. While controlling function is performed to ensure that the work is properly implemented. The objectives of an enterprise cannot be attained by merely planning, organising, staffing and directing unless the actual results are measured and compared to the plans. Hence, a business enterprise can accomplish its desired goals only by establishing a proper control system.

In the layman's terminology, control seems to be much the same as commanding or supervising people. But in the context of management, the term control has a wider connotation.

In the words of **Koontz and O'Donnell**, "The Managerial function of control is the measurement and correction of the performance of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are accomplished".

Controlling involves identification of actual results, comparison of actual results with expected results as set by planning process, identification of deviation between the two, if any, and taking of corrective action so that actual results match with expected results. It brings to light all bottlenecks in work performance and operates as straight pointer to the needs of the situation.

1.6 Roles of Manager

Recently, it has been questioned whether planning, organizing, directing and controlling provide an adequate description of the management process. After an intensive observation of what five top executives actually did during the course of a few days at work, Henry Mintzberg concluded that these labels do not adequately capture the reality of what managers do. He suggested instead that the manager should be regarded as playing some ten different roles, in no particular order

Interpersonal Roles

Figurehead: In this role, every manager has to perform some duties of a ceremonial nature, such as greeting the touring dignitaries, attending the wedding of an employee, taking an important customer to lunch and so on.

Leader: As a leader, every manager must motivate and encourage his employees. He must also try to reconcile their individual needs with the goals of the organization.

Liaison: In his role of liaison, every manager must cultivate contacts outside his vertical chain of command to collect information useful for his organization.

Informational Roles

Monitor: As monitor, the manager has to perpetually scan his environment for information, interrogate his liaison contacts and his subordinates, and receive unsolicited information, much of it as a result of the network of personal contacts he has developed.

Disseminator: In the role of a disseminator, the manager passes some of his privileged information directly to his subordinates who would otherwise have no access to it.

Spokesman: In this role, the manager informs and satisfies various groups and people who influence his organization. Thus, he advises shareholders about financial performance, assures consumer groups that the organization is fulfilling its social responsibilities and satisfies government that the organization is abiding by the law.

Decisional Roles

Entrepreneur: In this role, the manager constantly looks out for new ideas and seeks to improve his UNITS by adapting it to changing conditions in the environment.

Disturbance Handler: In this role, the manager has to work like a fire fighter. He must seek solutions of various unanticipated problems-a strike may loom large, a major customer may go bankrupt, a supplier may renege on his contract, and so on.

Resource Allocator: In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.

Negotiator: The manager has to spend considerable time in negotiations. Thus, the president of a company may negotiate with the union leaders a new strike issue; the foreman may negotiate with the workers a grievance problem, and so on.

1.7 Evolution of Management

Management has been practiced in some form or the other since the dawn of civilization. Ever since human beings began to live and work together in groups, techniques of organization and management were evolved. The Summerian Civilization dating back to 300 B.C. had an efficient system of tax collection. The pyramids of Egypt, the Chinese Civil Service, the Roman Catholic Church, and military organization offer good examples of the application of management in ancient times.

The early contributions to management thought came from Roman Catholic Church. The principles of hierarchy of authority, territorial organization, functionally specialization, etc. developed in the Roman Catholic Church, Military organizations contributed division of work, secular principle and staff concept. The camera lists were a group of Austrian and German public administrators and intellectuals from sixteen to eighteen centuries. They stressed systematic administration of the state affairs. They formulated the principle of functional specialization, proper selection and training of administrators, work simplification, effective control, etc.

Thus, the art of management has ancient origins. However, the science of management developed largely after the Industrial Revolution, which established the factory system. Scientific management movement laid the foundation of management as a science.

Approaches to management

Modern management has developed through several stages or approaches. These approaches to the study of management may be classified as under:

1. Classical Approach
2. Behavioural Approach
3. Management Science Approach
4. Systems Approach
5. Contingency Approach

1. Classical Approach

The classical or empirical approach is based on the following tenets:

1. Management is a process consisting of interrelated functions performed to achieve the desired goals.
2. From the experience of managers in different organizations, principles or guidelines can be derived.
3. These principles are basic truths, which can be applied, in different organizations to improve managerial efficiency.
4. Managers can be developed through formal education and training.
5. People are motivated mainly by incentives and penalties. Therefore manager's use and control economic rewards.
6. Theoretical research into management helps to develop a body of knowledge, which is necessary to improve the art of management.

The classical approach offers a convenient framework for the education and training of future managers. It views management as distinct discipline based on certain principles. Another merit of this approach is that it focuses attentions on what managers actually do, i.e., functions of management. It highlights the universal nature of management. It provides a foundation for further research in management.

The classical approach, however, suffers from several limitations. First, it is a mechanical approach, which undermines the role of human factor in management. The focus is on technical and economic aspects, at the cost of socio-psychological issues in management. Secondly, the validity and universality of management principles is doubtful due to environmental changes. Thirdly, there is a danger in relying too much on past experience, as two managerial situations are never identical.

There are three main branches of classical theory –(a) scientific management, (b) Administrative theory, and (c) bureaucracy.

F.W Taylor, Henri Fayol, Max Weber, L.F.Urwick, J.D.Mooney A.C.Reiley and several other pioneers made significant contributions towards the development of the classical approach.

2. Behavioural Sciences Approach

The Hawthorne Experiments conducted by Elton Mayo and his team laid the foundations of behavioural sciences approach. Several pioneers such as A.H.Moslow,Douglas McGregor, Frederick Herzberg, and Rensis Likert expended the findings of Hawthorne Experiments and launched the Human Relation Movement. Later on Keith Davis, Chester Bernard, Kurt Levin and others developed the fields of Group Dynamics and organization Behaviours. Behavioural sciences approach involves the application of knowledge drawn from behavioural sciences (psychology, sociology, anthropology, etc.) to managerial problems. The main propositions of this approach are:

1. A business organization is not merely a techno-economic system. It is much more a social system of interpersonal and inter- groups relations.
2. The social group to which he belongs dominates the attitudes and performance of an employee. Members of organization behave not as individuals but as members of some group.
3. Social and psychological incentives exercise a greater influence on employee motivation than working conditions and economic rewards.
4. Management must understand and develop harmonious interpersonal relations among his subordinates. There should be harmony between human needs and organizational goals.
5. Employees are capable of self-direction and control. Therefore, participative leadership is more productive than task centered leadership.
6. Management requires social skills to make employees feel a part of the organization.

Criticism

- i. Human relations movement seeks to manipulate and exploit the emotions of employees for the benefit of the organization by providing a false sense of happiness or satisfaction.
- ii. It ignores the wider environmental issues inside and outside an organization. Social environment may fail to motivate employees if they find their jobs highly structured and monotonous.

- iii. Human relations movement is based on the assumption- that happy worker are more productive workers. There is in fact no direct correlation between job satisfaction and productivity.
- iv. The movement undermines the role of economic rewards. Despite cordial interpersonal relations, employee motivation may be low if they feel underpaid.

According to Drucker," The theory of human relations freed management from the domination of viciously wrong ideas, but it did not succeed in substituting new concepts, human relations put all the stress on interpersonal relations and the informal group. Its starting point was in individual psychology rather than in the analysis of worker and work. As a result there was a tendency for human relation to degenerate into mere slogans which become an alibi for having no management policy in respect to the human organization."

Behavioural approach is much disciplinary. It has made significant contributions to our understanding of people at work and groups in organizations. It recognizes an organization as a social organism subject to the attitudes, culture of people. Motivation, leadership, work designs, group dynamics and participation are the main concepts of behavioural sciences approach.

Behavioural approach has contributed new ideas for more effective management. It is, however, not free from limitations. First, it lacks the precision of classical theory because a human behaviour is unpredictable. Secondly, its conclusions lack scientific validity and suffer from a clinical bias. Its findings are tentative. Thirdly, management is much wider than organizational behaviour. Fourthly, its application in practice is very difficult because it requires fundamental changes in the thinking and attitudes.

3. Management Science Approach

The management science approach was evolved after the Second World War. It involves the application of sophisticated quantitative/mathematical techniques for solving managerial problems. Several mathematicians, engineers and economists like Herbert A.Simon, Von Newman, R.M.Cyert, James March, W.C.Churchman, Russel Ackoff made significant contributions to this approach. This approach is known by several names, e.g. decision theory approach, mathematical approach, quantitative approach, operations research approach, etc.

The management science approach differs from the classical and behavioural approaches in several ways. Its distinguishing features are given below:

- (1) **Rational decision-making** : An organization is considered a decision-making UNIT and the main job of a manager is to make decisions and solve problems. The quality of managerial decisions determines organizational efficiency. Therefore, a management decision determines organizational efficiency. Therefore, management information system and other techniques should be used for making rational decisions.
- (2) **Mathematical models** : A model is simplified representation of real life situation. It utilizes mathematical symbols and relationships. It reduces a managerial decision to a mathematical form so that decision-making process can be simulated and evaluated before the actual decision is made. Different variables are quantified and expressed as an equation. With the help of a mathematical model, a manager can test different values of each variable until an acceptable solution is found. It avoids the time and cost constraints of trial and error. But great care is required to ensure that all material relationship, constraints and variables are incorporated in the model.
- (3) **Computer applications** : The use of computers has been the driving force in the development of the management science approach. The computer can handle in minutes extremely complex problems with an immense volume of data and also calculate numerous variations in the solution.
- (4) **Evaluation criteria** : As the main focus of the management science approach is on scientific decision-making, models are evaluated for effectiveness against the set criteria, like cost reduction, return on investment, schedules and deadlines, etc.,

The management science approach has made a significant impact on the practice of management. The methods and techniques developed under it are being increasingly used for managerial decision-making. This approach has contributed a lot in developing orderly thinking in management leading to more exactness. The management science approach has given effective tools to solve problems of planning and control. However it has made little contribution in the areas of organizing, staffing, motivation and leadership. It overstresses decisional roles of manager at the cost of interpersonal and informational roles. Moreover, mathematical models and techniques are many times far from the realities of the management situations. The approach covers only a part of the manager's job, as it cannot effectively deal with interpersonal and group relationships. Decision-making is only a part of management.

4. Systems Approach

The systems approach to management was developed during the late 1950s. Many pioneers such as E.L. Trist, A.K. Rice, F.E. Kast, J.E. Rosenzweig, R.A. Johnson, R.L. Kahn, Daniel Katz, and Kenneth Boulding have made significant contributions to this approach. The fundamental features of the systems approach are as follows.

- (1) An organization is a system consisting of many interrelated and interdependent parts or sub-systems. These elements are arranged orderly according to some scheme such that the whole is more than the sum of the parts. This is called 'synergy'.
- (2) As a system, an organization draws inputs (energy, information, materials, etc.) from its environment. It transforms these inputs and returns the output into the environment in the form of super system (Environment).
- (3) Every system is part of super system (environment).
- (4) Organization is an open system and it interacts with its environment. It is also a dynamic system as the equilibrium in it is always changing. An organization operates in a dynamic environment, which cannot be predicted with certainty. Therefore, it is probabilistic.
- (5) Management is expected to regulate and adjust the system to secure better performance. Management involves taking into account many variables, which are interrelated and interdependent. This multivariate aspect of management suggests that there is no simple cause and effect relationship.
- (6) Management is multidisciplinary as it draws and integrates knowledge from various disciplines.

Systems are of two types: closed system and open system. A closed system has no interaction with the outside world while an open system continually interacts with its environment. All living system is open system. Organizations are open systems, because they consist of people.

Systems approach is an improvement over classical and neoclassical theories as it is closer to reality. The traditional theorists viewed organization as a closed system while modern theorists treat it as open system. The system approach highlights the multidimensional and multidisciplinary nature of management. It takes much wider and overall perspective of organizational functioning. It provides a better conceptual framework for analyzing and

understanding organizations and their management. It stresses that managers should avoid analyzing problems in isolation and should adopt an integrated approach. Systems approach suggests that the internal functioning of an organization must be consistent with the needs of its members and the demands of the changing environment. Systems approach focuses on dynamic interdependency between specialized functions. Thus, concept of wholism constitutes the core of systems theory. It is conducive to a better understanding of the complicated interlocking network of institutions that constitute the business system.

Systems approach, however, suffers from some drawbacks. First, systems concepts are said to be abstract and vague. Secondly, too many sub-systems and interdependence among them make the task of manager very difficult. It becomes complicated and it is not clear what to do to effect the desired change in the system.

5. Contingency Approach

The contingency approach to management emerge from the real life experience of managers who found that no single approach worked consistently in every situation. The basic idea of this approach is that no management technique or theory is appropriate in all situations. In other words, managerial practices and styles will differ according to the particular circumstances of the situation (contingency). John Woodward, P.R.Lawrence, J.W.Lorsch, T.Burns, G.M.Stalker, Charles Perrow, J.D.Thompson And Henry Mintzberg have made significant contributions to the contingency approach.

The main determinants of a contingency are related to the external and internal environments of an organization. External environment comprises economic, social technological and political factors influencing the organization. Internal environment or state of the organization refers to various constraints and resources that are available. These include.

- (1) **Technological constraints** : Nature and type of the process used to produce goods and services.
- (2) **Task constraints** : Nature of tasks performed by individual workers.
- (3) **People constraints** : Types of individuals employed and their levels of competences.

The main features of the contingency approach are as follows:

1. Management is entirely situational. There is no one best way of managing an organization. What managers do depends upon the circumstances of the particular

situation. For example, people-oriented style may succeed in given situation but task-orientation may be more effective in another situation.

2. No organizational design can be suitable for all situations. The suitable design should be determined keeping in view the size, technology, people and environment of the enterprise.
3. An organization interacts with its environment and must, therefore, adapt itself to environmental changes.
4. Management style and proactive should match the requirements of the situation.
5. Success in management depends upon the ability to cope with environmental demands. Therefore, managers should sharpen their diagnostic skills to anticipate and comprehend the environmental changes.

The contingency approach may be viewed as 'if then' approach to management. In figure 1.1 horizontal axis represents 'if' environmental variable while 'then' (management practices) are shown on vertical axis. Effective management requires a proper match between the two types of variables.

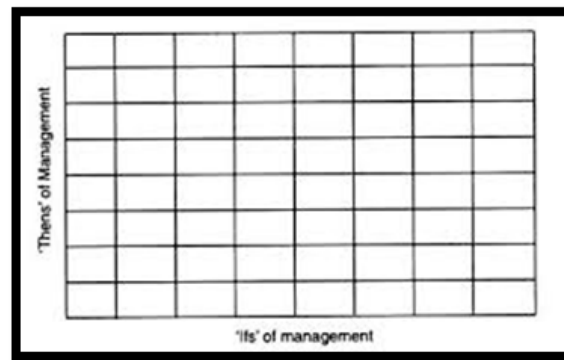


Figure 1.2 If - Then Approach

The contingency approach is an extended and improved version of the system approach. This theory emphasizes that the best way to lead, plan, organize and conduct managerial activities varies with situation. There are no universal principles to be applied in all situations. Managers must analyze different situations and use the best approach, which is most suitable in that particular situation. The main advantage of this theory is that it compels us to be aware of complexity in every situation and forces us to take an active and dynamic role in determining what best would work in each case.

Contingency theory is practical and realistic and offers an explanation of the realities of manager's job. It questions the universal validity of management principles and practices. It avoids value judgments and exhorts managers to be innovative and creative. The contingency approach advocates comparative analysis of organizations to bring about a fit between management system and environment. Contingency theory has, however, been **criticized** on several grounds. First, it lacks a sound theoretical base. Secondly, 'it all depends upon the situation' confuses management. A manager has to think through all possible alternatives as he has no cut of dried principles to act upon. In order to operationalize the contingency theory, management may adopt the following process: Analyze and understand the particular situation, examine the validity of alternative approaches to the situation at hand, make the right choice by matching the approach with the situation, and implement the choice and review program.

1.8 Management Thought today

Modern management thought refers to the application of system approach and the contingency approach to organization and management. It indicates a new stream of management thought. Since 1950 there has been a period of refinement, extension and synthesis of management thought and practices. The main characteristic of modern management thought is characterized by the systems approach.

1. Dynamic

Management is a dynamic process. The environment of an organization keeps on changing continuously. The survival and growth of an organization depends upon its ability to adapt and respond to the changing environmental demands and constraints. Therefore, the techniques and practices of management must be modified to suit the needs of the particular situation.

2. Multi-dimensional

Management is multilevel and multi-dimensional. There are several levels of management, top management, middle management, and operation management. Managers operate at macro and micro levels of activity. Micro level refers to a particular division or department of the organization.

3. Multi-motivated

The objectives of management are multiple rather than a single objective. Business executives are expected to serve the society and at the same time earn profits. They are required

to strike a judicious balance between the interest of shareholders, consumers, employees, government and the community. Thus, there are multiple sources of motivation for managers.

4. Multi-disciplinary

Modern management integrates and uses fruitfully ideas emerging from different schools of thought. Managers freely draw concepts and techniques from many fields of study such as economics, mathematics, sociology, psychology, ecology, operations research, system analysis, etc. Management is called multi-disciplinary because it is based on several disciplines of knowledge.

5. Multi-variable

Organizations do not operate in a vacuum. They exist and operate in a dynamic and complex world. There is no simple cause and effect relationship in management. An event may be the result of several controllable and uncontrollable factors. These factors or variables are themselves interrelated and inter-dependent. Intelligent planning and control are necessary to handle these variables effectively.

6. Adaptive

An organization is an open system adapting itself to its environment through the process of feedback. There is dynamic equilibrium between a viable organization and its environment. There are machine or human controllers to provide necessary corrective action, whenever this equilibrium is disturbed.

7. Probabilistic

Managerial decisions and actions are based on forecasts of future events. So many uncertain variables are involved that absolute prediction of events is rarely possible. Management principle only point out the probability and never the certainty of performance and consequent results. However, intelligent forecasting and planning can reduce the degree of uncertainty to a considerable extent.

1.9 Case Study

Mr. Naidu was young officer in a nationalized bank in Madras. He was approached by Mr. Datta, owner of a small textile plant, for a loan to renovate his plant. Naidu gave him a loan of Rs.50,000. The bank's branch manager, who saw no future in textiles, was shocked at the loan

transaction. He told Naidu to stay close to Datta until the money was paid back. Naidu stuck so close that he became Datta's Financial Adviser. The loan was repaid but Naidu became Datta's partner and resigned his bank job. Within six years, Naidu set up another textile plant and after two decades his textile UNITS became the second fastest growing textile company in the country. To his employees Naidu was a friendly and highly visible boss. He always worked around the plant and called vast number of workers by their first names. He preferred to lead by example rather than telling people how to do their jobs.

However, Naidu committed a big mistake of not grooming a successor. Therefore, there was a vacuum at the top when he had a severe heart attack and died.

1. What were the qualities of Naidu as a Manager?
2. Did he consider management to be an Art or Science or both?
3. Do you think Naidu was successful Manager?

1.10 Summary

Management has been defined under four approaches such as production oriented, decision oriented, people oriented and function oriented. Management principles is based on increasing efficiency, crystallizing the nature of management, to carry on research, to attain social objectives. Management approaches has made a distinct contribution to management theory. The stress in the scientific management approach is on the task aspect of group effort, in the administrative approach it is on laying down universal principles of management, and the human relations approach it is on the human aspect of group effort. The modern period consists of four approaches, viz. behavioural approach, management science approach, system approach and contingency approach.

1.11 Key Words

- Finance Management
- Marketing Management
- Human Resource Management
- Production Management

1.12 Review Questions

1. Define management.
2. Mention different school of management. Discuss the contributions of the human behaviour school.
3. Describe the system approach to management.

1.13 References

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LESSON - 2

PIONEERS OF MANAGEMENT THOUGHT

Learning Objectives

After reading this lesson, you must be able to

- Discuss the pre scientific management era
- Evaluate the scientific management era
- List out the contributions of leading management thinkers

Structure

- 2.1 Introduction**
- 2.2 Robet Owen (1771 - 1858)**
- 2.3 Charles Babbage (1792 - 1871)**
- 2.4 F.W. Taylor (1856 - 1915)**
- 2.5 Frank Gilbreth (1868 - 1924)**
- 2.6 Henry Fayol (1841 - 1925)**
- 2.7 George Elton Mayo (1880 - 1949)**
- 2.8 Douglas McGregor (1906 - 1964)**
- 2.9 Mary Pancer Follet (1868 - 1933)**
- 2.10 Chester I Barnard (1886 - 1961)**
- 2.11 Peter F Drucker**
- 2.12 Case Study**
- 2.13 Summary**
- 2.14 Key Words**
- 2.15 Review Questions**
- 2.16 References**

2.1 Introduction

Management, in one form or other, existed in the economic life of mankind throughout the ages. It has grown along with other social, political and economic institutions. In olden days it existed in the form of personal leadership. When trade developed, with the increasing output of artificians, management of some type developed. But some deviations from the traditional methods of management were witnessed in the eighteenth century. It was only at the end of the nineteenth century that problems of management began to receive more attention and scientific approaches to managerial problems were evolved.

Pre- scientific management era refers to the period immediately preceding the scientific management movement started by F.W.Taylor and his associates. During the pre-scientific management era, many pioneers made significant contributions to management thought. Prominent among them were Robert Owen, Charles Babbage, Henry Vernon Poor, Henry Robinson Towne, James Watt, Mathew Boulton and Captain Henry Metcalfe. In this UNITS we will discuss the contributions of management thinkers.

2.2 Robert Owen (1771-1858)

Robert Owen managed a group of textile mills in Lanark (Scotland) during 1800-1828. He carried out experiments and introduced many social reforms. He believed that workers' performance was influenced by the total environment in which they worked. He said employees are vital machines. Their maintenance was as necessary as that of inanimate machines. He believed that workers should work because they want to work and not because they have to work. Throughout his life, Owen worked for the building up of a spirit of co-operation between the workers and the management. He believed and practiced the idea that workers should be treated as human beings. Owen suggested that investment in human resources was more profitable than investment in machinery and other physical resources. He introduced new ideas of human relations, e.g., shorter working hours in hygiene, etc. He suggested that proper treatment of workers pays dividends and is an essential part of every manager's job. Owen also began co – operative movement in 1828 in Rochdale, England.

Owens's approach was paternalistic but he is known as the father of personnel management. His ideas and philosophy may be considered as prelude to the development of the behavioural approach to management.

2.3 Charles Babbage (1792-1871)

Babbage was a professor of mathematics at Cambridge University from 1828 to 1839. He wrote nine books and over 70 papers and pamphlets on mathematics, science and philosophy. His best-known book is 'on the economy of machinery and manufacturers' published in 1832. He visited many factories in England and France. He found that manufacturers were totally unscientific and most of their work was guess work. Factories were run by traditional methods with little use of science of mathematics. They relied upon old opinions instead of investigation and accurate knowledge. Babbage perceived that the methods of science and mathematics could be applied to the operations of factories. His main contributions are as follows:

- (i) Use of science and mathematics in manufacturing operations.
- (ii) Division of work and intelligent organization of workers on the basis of their skills.
- (iii) Decisions should be based upon investigation and accurate knowledge rather than opinions and intuition.
- (iv) Applying the mechanism of time and motion study.
- (v) Emphasis on cost reduction through the discovery of improved methods and knowledge of the precise expense of energy process.
- (vi) The interests of management and workers be closely linked through profit sharing and participative decision – making.
- (vii) Invention of analytical machine. He called it 'differential machine' and it was forerunner of the modern computer.

Babbage was pioneer of operations research and industrial engineering techniques. He laid considerable emphasis on specialization, work measurement, optimum utilization of machine, cost reduction and waste incentives. His emphasis on the application of science and mathematics laid the foundation for the formulation of a science of management.

2.4 F.W.Taylor (1856-1915)

F.W.Taylor is known as the 'father of scientific management' He started his career as an apprentice in a small machine shop in Philadelphia (USA) in 1875. His ideas about management grew out of his wide-ranging experience in three companies, Midvale steel works, Simons rolling machines and Bethlehem steel co. He found that there was rampant wastage and

inefficiency. Workers were performing, much below their capacity. The main cause of widespread inefficiency and wastage was ignorance on the part of both workers and management. Trial and error or rule of thumb methods were used. Management had no clear idea of the best way of doing work and no scientific work standards were applied. There was no clear-cut division of responsibilities between management and worker. Taylor was convinced that there is a science for each job and 'one best way' of doing work. In order to develop scientific methods to replace the trial and error approach, he conducted several experiments, e.g., pig iron handling, shoveling and metal cutting experiments, etc.

Taylor defined management as, "the art of knowing exactly what you want men to do and seeing that they do it in the best and cheapest way." The objective of management should be to secure the maximum prosperity for both the employer and the employees. Taylor stated that best management was a true science based upon certain clearly defined principles. He exhorted both managers and workers to substitute scientific investigation and knowledge in place of individual involvement and experience in all matters relating to the work done in and organization. Taylor's theory came to be called 'scientific management'. His ideas are available in his book, 'Principles of scientific management' published in 1911.

Taylor's principles of scientific management are as follows;

- Development of a true science for each element of a man's job to replace the old rule of thumb method.
- Scientific selection, training and development of workers for every job
- An almost equal division of work and responsibility between management and workmen, management entrusted with the planning of work and workmen to look after execution of plans.
- Close co-operation between management and workers to ensure that work is done in accordance with the principles of the science, which has been developed.
- Maximum output in place of restricted output.

Mental Revolution

In its essence scientific management involves a complete mental revolution on the part of both workers and management. A complete mental revolution on the part of workmen as their duties towards their work, towards their fellowmen and towards their employers. An equally

complete mental revolution in the part of management as to their duties towards fellow managers, towards their workers and towards all of their daily problems. Without this complete mental revolution scientific management does not exist. The great mental revolution that takes place in the mental attitude of the two parties is both side take their eyes off the division of surplus and together turn their attention towards increasing the size of the surplus.

Techniques of Scientific Management

Taylor developed several techniques to provide the mechanism for implementing his principles. Some of these techniques are given below:

Time Study: Time Study or work measurement is designed to establish the standard time required to carry out a job under specified conditions. It involves analysis of a job into its constituent elements and recording the time taken in performing each element. Taylor suggested the use of time study to lay down “a fair day’s work” so as to avoid guesswork and certainty in the effort and productivity expected of each worker.

Motion Study: It is a systematic and critical study of the movements of both the worker and the machine so as to identify and eliminate unnecessary and wasteful movements. Motion study helps to develop the best way of doing a job.

Scientific Task Planning: It is the technique of forecasting and picturing ahead every step in a long series of separate operations, each step to be taken in the right place, of the right degree and at the right time, and each operation to be performed at the optimum efficiency. It provides answers to question like what work is to be done, how it is to be done, where it is to be done, and when it is to be done. More efficient routing systems and work scheduling were developed for effective planning of work.

Standardization and Simplification: Under scientific management, predetermined standards are laid down regarding the task, materials, methods, time, quality and cost and working conditions. Standardization helps to simplify work, to ensure interchangeability of parts, to ensure uniformity of operations and to facilitate comparisons of efficiency.

Differential Piece Rate System: Stressing the need for scientific determination of remuneration for workers, Taylor suggested that a direct link should be created between remuneration and productivity for motivating workers. For this purpose, he developed the differential piece rate system of wage payment. Under this system two pieces rates are laid

down; one, low rate for those failing to achieve the standard output and the second higher rate for those achieving or exceeding the standard output. Suppose, the two-piece rates are Re.1 and Re.150 respectively. Standard daily output laid down through time and motion studies is 10 Units. The daily wages of two workers A and B who produces 8 and 12 Units respectively will be calculated as under:

$$\text{A's Wages} = 8 \text{ Units} \times \text{Rs } 1 = \text{Rs. } 8$$

$$\text{B's Wages} = 12 \text{ Units} \times \text{Rs } 1.50 = \text{Rs } 18$$

Due to significant difference in wages, A and other inefficient workers will be under pressure to reach the standard output. B and other efficient workers will be encouraged to keep their output above standard. Differential piece rate system is thus better than the straight piece rate system under which the rate per pieces is the same for all workers.

Functional Foremanship: According to Taylor, one supervisor cannot be an expert in all aspects of work supervision. He suggested the system of functional foremanship in which eight supervisors supervise a workers job. Four of them are concerned with the planning of work in the factory office and the other four are involved in the execution of work at the shop floor. The eight foreman and the their respective duties are give below:

Route Clerk: The route clerk lays down the sequence or path that each operator is to follow for the completion of a particular job. He decides the exact route through which every piece of work should travel from machine to machine. Workers are expected to do their work strictly according to the route specified by the route clerk.

Instruction Card Clerk: The job of instruction card clerk is to prepare detailed instructions according to which workers have to perform their jobs. These instructions relate to matters like the speed of work, tools and fixtures to be used, technical specifications of work etc.

Time and Cost Clerk: The time and cost clerk frames the timetable for doing various jobs and maintains the records of the costs of work.

Shop Disciplinarian: The main function of the shop disciplinarian is to enforce rules and regulations and maintain discipline among workers. He deals with the cases of unauthorized absence from duty, insubordination, violation of established rules and regulations etc.

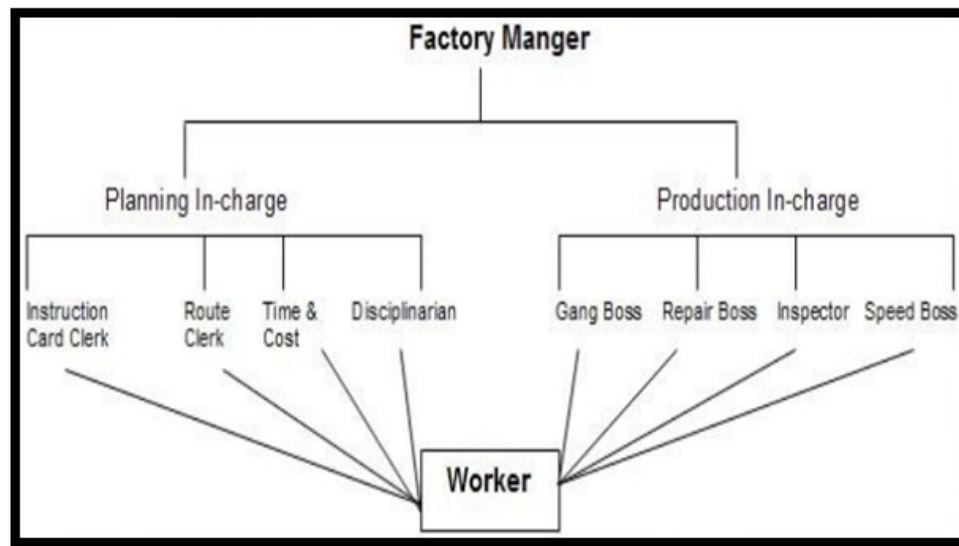


Figure 2.1 Functional foremanship

Gang Boss: The gang boss is concerned with all preliminary work before the actual operation. He has to assemble the necessary tools and equipment and also arrange the facilities in the plant. He is also expected to explain to workers how to set the work in the machine in the most accurate and quickest manner.

Speed Boss: The speed boss is responsible for ensuring that the work is done well in time. In order to get the work complete in the specified time he should see that the workers operate at the right speed and in accordance with the specifications laid down in advance.

Repair Boss: His job is to ensure that each worker keeps his machine clean and free from rust, and that he oils and treats the machine properly. In order to keep all machines and tools in perfect working order it is necessary that all standards established for maintenance of machines and their accessories are rigidly maintained.

Inspector: It is the responsibility of the inspector to see that the work is performed in accordance with the quality standards laid down by the office.

High Speed Steel: Taylor conducted systematic experiments to improve the operational efficiency of tools and equipment for pig iron handling, shoveling iron ore and coal and for metal cutting. He developed high speed steel for metal cutting and designed better shovels. These

improvements led to tremendous increase in labour productivity besides reducing physical strain and effort on the part of workers. Taylor developed slide rule and other work –saving implements.

Critical Evaluation : Taylor's ideas caught the imagination of several individuals and organizations in the USA and Europe. Scientific management led to tremendous increase in productivity and wages. However his scientific approach to every aspect of management created suspicion in the minds of workers and trade unions. They feared that working harder and faster might eventually lead to exhaustion of all available jobs and retrenchment. Scientific management has been criticized on the following grounds:

- i. **Mechanistic Approach:** The main criticism is that scientific management ignores the human element in production and is devoid of a human touch. It treats workers as factors of production and not as human beings. Too much emphasis is placed on technical aspects of work ignoring the human side.
- ii. **Unrealistic Assumptions:** Scientific Management is based on the assumption that people are rational and they are motivated by material gains. Taylor and his associates concentrated on physical and economic needs and overlooked the social and ego needs of people. Latter experience has revealed that financial gain is not the only things that matter. Workers also want job satisfaction, participation and recognition.
- iii. **Narrow View:** Scientific management is quite limited in scope. Taylor focused attention completely on efficiency at the shop floor. As a consequence management became the study of shop management while the more general aspects were overlooked. Scientific management has thus been described, as a theory of industrial engineering. It does not with management of the total organization.
- iv. **Impracticable:** Many ideas of Taylor are said to be infeasible in practice. For e.g. planning cannot fully be separated from doing because these are two sides of the same job and are not different jobs. Similarly functional foremanship is likely to create problems because it violates the principle of unity of command.
- v. **Exploitation of labour :** In the name of increasing efficiency workers were forced to speed up affecting their physical and mental health. Specialization and standardization make the job dull and monotonous.

In final analysis, Taylor made a lasting contribution to making jobs and their management more efficient and productive. Scientific management was developed by engineers and scientists

and their concern for efficiency led to better methods and tools. Many contributions of Taylor have stood the test of time. According to Peter Drucker Scientific management is one of the great liberating and pioneering insights. Without it a real study of human beings at work would be impossible. Taylor laid the foundations of management as science.

2.5 Frank Gilbreth (1868-1924)

Frank B Gilbreth and Lillian Gilbreth(1878-1972) were a husband and wife team. They made significant contributions to motion study, fatigue study and work simplification. They also developed a comprehensive body of planning and control techniques for construction industry. His famous books Field System (1908), Motion Study (1911), Primer of scientific management (1912), Fatigue Study (1916). Gilbreth's contributions were based on the principle that every motion that was eliminated would reduce fatigue. Like Taylor, Gilbreth emphasized training of personnel and discovering one best way of doing work. With the use of motion picture camera, he found the most efficient and economical motions for each tasks. This increased the worker's morale and productivity and reduced his fatigue.

The main contributions of Frank Gilbreth are as follows:

- **Motion Study:** Gilbreth's most significant contributions are in the field of motion and time study. He devised a system of dividing work into its 18 most elementary movements called "Therbligs". These elements are search, find, select, grasp, transport load, position, assembly, use, disassemble, inspect, preposition, release load, transport empty, rest, unavoidable delay, avoidable delay, plan and hold.
- **Time Study:** Gilbreth used micrometer and photographed workers movements. He used electric bulb in the hand of worker for clear picturisation of time taken, direction of movements. He recorded these movements made, time taken and direction of movements .He called this process as chronocyclograph
- **Three Positional Promotion Plan:** According to this plan a worker should be treated as working on three positions simultaneously:
 - The position he held before promotion to his present position
 - The present position and
 - The next higher position

In addition to performing his present job, an employee would be teaching his subordinates and learning from his superior. In this way he would qualify himself for promotion and help to develop a successor to his present position. This would raise workers moral and avoid dead-end jobs.

Gilbreth was the first to apply the motion picture camera to the recording and analyzing of operations and the first to classify the elements of human motions .He used flow process charts. The main theme of his work was that there is one best way to do a job and this should be searched for and applied .His unique contribution was his emphasis on human effort and the methods he devised to eliminate wasteful and unproductive movements.

2.6 Henri Fayol (1841-1925)

Fayol was a French mining engineer and chief executive. He published his famous book, Administration Industrielle et Generale in 1916 which was translated into English in 1929. It was published in 1949 as General and Industrial Management. This book is now considered to be one of the best classics of management. Fayol's contribution to management can be classified into four categories:

Classification of Business Activities

According to Fayol all activities of a business enterprise could be divided into six groups:

- Technical (Production or manufacturing)
- Commercial (Buying, selling and exchange)
- Financial (Search for and optimum use of capital)
- Security (Protection of property and persons)
- Accounting (Record keeping, costing, statistics)
- Managerial (Planning, organizing, commanding, coordinating and controlling)

Elements of Management

Fayol classified the elements or functions of management as follows:

- Planning (to foresee and provide means for the future)
- Organizing (to provide a business everything useful to its functioning raw materials, tools, capital and personnel)

- Commanding (maintaining activity among personnel)
- Coordinating (unifying and harmonizing all activity and efforts)
- Controlling (seeing that everything occurs in conformity with established rules)

Universal Principles of Management

Fayol gave fourteen basic principles of management. Fayol cautioned that these principles are flexible guidelines and should not be considered as rigid rules. He pointed out that these principles have by and large universal application.

Fayol also presented 14 principles of management as general guides to the management process and management practice. These are as under:

1. Division of Work: Division of work in the management process produces more and better work with the same effort. Various functions of management like planning, organizing, directing and controlling cannot be performed efficiently by a single proprietor or by a group of directors. They must be entrusted to specialists in related fields.

2. Authority and Responsibility: As the management consists of getting the work done through others, it implies that the manager should have the right to give orders and power to exact obedience. A manager may exercise formal authority and also personal power. Formal authority is derived from his official position, while personal power is the result of intelligence, experience, moral worth, ability to lead, past service, etc. Responsibility is closely related to authority and it arises wherever authority is exercised. An individual, who is willing to exercise authority, must also be prepared to bear responsibility to perform the work in the manner desired. However, responsibility is feared as much as authority is sought after.

3. Discipline: Discipline is absolutely essential for the smooth running of business. By discipline we mean, the obedience of authority, observance of the rules of service and norms of performance, respect for agreements, sincere efforts for completing the given job, respect for superiors, etc. The best means of maintaining discipline are good supervisor at all levels, clear and fair agreements between the employees and the employer, and judicious application of penalties. In fact, discipline is what leaders make it.

4. Unity of Command: This principle requires that each employee should receive instructions about a particular work from one superior only. Fayol believed that if an employee

was to report to more than one superior, he would be confused due to conflict in instructions and also it would be difficult to pinpoint responsibility to him.

5. UNITS of Direction: It means that there should be complete identity between individual and organizational goals on the one hand and between departmental goals on the other. They should not pull in different directions.

6. Subordination of Individual Interest to General Interest: In a business concern, an individual is always interested in maximizing his own satisfaction through more money, recognition, status, etc. This is very often against the general interest, which lies in maximizing productions. Hence there is a need to subordinate the individual interest to general interest.

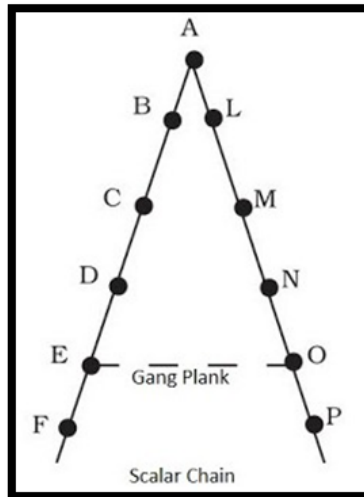
7. Remuneration: The remuneration paid to the personnel of the firm should be fair. It should be based on general business conditions, cost of living, and productivity of the concerned employees and the capacity of the firm to pay. Fair remuneration increases workers' efficiency and morale and fosters good relations between them and the management.

8. Centralisation: If subordinates are given more role and importance in the management and organization of the firm, it is decentralization but if they are given less role and importance, it is centralization. The management must decide the degree of centralization or decentralization of authority on the basis of the nature of the circumstances, size of the undertaking, and the type of activities and the nature of organisational structure. The objective to pursue should be the optimum utilization of all faculties of the personnel.

9. Scalar Chain: Scalar chain means the hierarchy of authority from the highest executive to the lowest one for the purpose of communication. It states superior-subordinate relationship and the authority of superiors in relation to subordinates at various levels. As per the principle, the orders or communications should pass through the proper channels of authority along the scalar chain. But in case there is need for swift action, the proper channels of authority may be short-circuited by making direct contact (called gang plank) with the concerned authority.

In the figure below, we find two ladders of authority – one from E to A and the other from P to A. In a strict observance of the scalar chain, any communication from D to O would go all the way up to A and down the other side of the triangle to O. This is a time consuming procedure. Fayol suggested that if there is need for swift action, D and O may be authorized by their respective superiors (C and N) to have direct contact with each other. A gangplank can be

thrown across between D and O. By this method, the scalar principle is safeguarded and at the same time the subordinate officers are enabled to take swift action.



10. Order: To put things in an order needs effort. Disorder does not need any effort. It evolves by itself. Management should obtain orderliness in work through suitable organization of men and materials. The principle of “right place for everything and for every man” should be observed by the management. To observe this principle, there is need for scientific selection of competent personnel, correct assignment of duties to personnel and good organization.

11. Equity: Equity means equality of fair treatment. Equity results from a combination of kindness and justice. Employees expect management to be equally just to everybody. It requires managers to be free from all prejudices, personal likes or dislikes. Equity ensures healthy industrial relations between management and labour, which is essential for the successful working of the enterprise.

12. Stability of Tenure of Personnel: In order to motivate workers to do more and better work, it is necessary that they should be assured security of job by the management. If they have fear of insecurity of job, their morale will be low and they cannot give more and better work. Further, they will not have any sense of attachment to the firm and they will always be on the lookout for job elsewhere.

13. Initiative: Initiative means freedom to think out and execute a plan. The zeal and energy of employees are augmented by initiative. Innovation, which is the hallmark of

technological process, is possible only where the employees are encouraged to take initiative. According to Fayol, initiative is one of the keenest satisfactions for an intelligent man to experience, and hence, he advises managers to give their employees sufficient scope to show their initiative. Employees should be encouraged to make all kinds of suggestions to conceive and carry out their plans, even when some mistakes result.

14. Esprit de Corps: This means team spirit. Since “union is strength”, the management should create team spirit among the employees. Only when all the personnel pull together as a team, there is scope for realizing the objectives of the concern. Harmony and UNITY among the staff are a great source of strength to the undertaking. To achieve this, Fayol suggested two things. One, the motto of divide and rule should be avoided, and two, verbal communication should be used for removing misunderstandings. Differences grow bitterer when cleared through written communication.

Managerial Qualities and Training

Fayol identified the following qualities of an effective manager:

- Physical (health and vigour)
- Mental (ability to understand and learn, judgment and adaptability)
- Moral (energy, firmness, willingness to accept responsibility, initiative, loyalty, tact and dignity)
- General education (general acquaintance with matters not, belonging exclusively to the function performed)
- Special knowledge (peculiar to the function being performed)
- Experience (knowledge arising from work proper)

Fayol advocated the need for principles of management. He stressed the need for management teaching and training in schools and universities.

Evaluation of Fayol's Work

Henri Fayol made outstanding contribution to management thought. He made a clear distinction between operative activities and managerial activities. He clearly specified the functions of management by a systematic analysis of management process. This isolation and analysis of management as a separate discipline was his original contribution to the body of management

theory. Fayol firmly advocated that management should be formally taught. He was father of management principles many of which have stood the test of time. He developed a framework for further study and research. One of the greatest contributions of Fayol is that his ideas paved the way for the development of the theory of management.

Fayol's work has been criticized on several kinds, his theory is said to be too formal, and he did not pay adequate attention to workers. There is a vagueness and superficiality about some of his terms and definitions, he also hinted but did not elaborate that management can and should be taught.

Taylor Vs Fayol

Taylor's work was primarily concerned with the operative level at the shop floor while Fayol's work was concerned with management at top level. Taylor worked at management from the bottom up while Fayol observed management from the top down. Fayol was top manager and was obviously in a better position than Taylor to observe the functions of a manager. Taylor concentrated on improving the management of jobs whereas Fayol's main concern was to improve the management of the total organization. Therefore Fayol's administrative theory has a wider application than Taylor's scientific management.

There is no contradiction between the work of Taylor and Fayol. They both applied scientific methods to the problems of management. Their work was essentially complementary. Difference in their approach was merely a reflection of their different careers. If we call Taylor as Father of scientific management it would be fair to describe Fayol as the father of principles of management.

2.7 George Elton Mayo (1880-1949)

Elton Mayo was professor of industrial psychology at the Harvard Business School. He published several books and papers like the Human Problem of an Industrial Civilization (1933), Management and Morale (1941), The Social Problems of an Industrial Organization (1945), Training for Human Relations (1949) and many more books.

Hawthorne Experiments

- **Illumination Experiments:** Workers were divided into two groups and were placed in room where lighting remained constant. The other group was placed in a different room where lighting was varied. Contrary to the hypothesis of scientific management,

production increased in both the rooms. These experiments revealed that there was something more than illumination, which affected productivity.

- **Relay Assembly Test Room Experiments:** Taking a clue from illumination experiments the researchers began these experiments to find out the relationship between working conditions and productivity .A small group of six female workers was asked to work in a separate room. During their course of experiments a series of changes were introduced such as piecework, rest pauses, shorter working hours. The girls were consulted before each change was introduced. They had the opportunity to express their viewpoints and concerns to the supervisors. Their ideas and suggestions were sought and in some cases, they were actually allowed to take decisions. The output of the group was to a record level.

The researchers concluded that productivity increased due to a change in the girl's attitudes towards work and their work groups. As there was freedom of work they developed a sense of belongingness and responsibility. They developed a common purpose and the work team became cohesive. Their relationship with the supervisor became close and friendly. Therefore they worked faster and better than they ever had in their lives.

- **Mass Interviewing Program:** The researchers concluded thousands of interviews to determine the attitudes of employees towards their job, working conditions, supervision and the company. Initially these interviews were conducted through direct questioning. Later on a non directive approach was adopted with interviewer assuming a passive role .The main findings of the program were as follows:
 - (i) Merely giving a person an opportunity to talk and air his grievances has a beneficial effect on his morale.
 - (ii) Worker's complaints are not necessarily objective statements of facts. They are often symptoms of more deep-rooted disturbances.
 - (iii) Workers are influenced in their demands by experience both inside and outside the factory.
 - (iv) A worker is satisfied or dissatisfied not in terms of any objective frame of reference but rather in terms of how he regards his social status in the firms and what he feels he is entitled to in the way of rewards.

- **Bank Wiring Observation Room Study:** This study was conducted to analyze the functioning of a small group and its impact on the behaviour of individual workers. Fourteen workers constituted the work group on piecework basis. The hypothesis was that each worker would produce more to earn more. The result was different. The group was restricting the output of individual workers through various forms of social pressures. The group had set production norm for workers. As a result no body attempted to attain official production targets .The study revealed the influence of the informal group on individual behaviour and performance.

Mayo and his associates derived the following conclusions from Hawthorne experiments:

- Physical factors do not materially influence workers behaviour and performance.
- A worker is not merely an economic man motivated solely by pay. He/she responds to the total work situation.
- Psychological and social factors like sense of security, recognition, belongingness exercise significant influences on productivity and performance.
- Social norms and informal group determines the behaviours and efficiency of workers. Workers do not react as individuals but as members of a group.
- An organization is a social system much more than a formal arrangement or structure of functions. Human factor is the most important element in organizations.
- Informal leaders exercise a greater influence than formal leaders on workers attitudes and performance.

The Hawthorne Experiment led to a new image of the worker and the work place. Human factor became the focus of management theory and practice. There was remarkable change in the teaching and practice of management. Emphasis began to be placed on interpersonal relations and group behaviour.

Criticism

- The research methodology employed in these studies has been questioned. Most of the studies were based upon a relatively few observations of small samples of human being at work. The studies suffered from clinical bias, which discounted theory and emphasized empirical observation.

- Mayo and his associates ignored the total social situation within an organization and the wider social background.
- The experiments minimized the affects of economic incentives for no justifiable reason and elevated interpersonal relations to a point of primary significance.
- The Hawthorne Effect, which implies that, increased productivity and morale were due to the special attention given to the employees.
- The experiments had a pro management bias. They imply that management is always completely logical whereas workers are largely driven by emotions and the need to feel a sense of belonging.

2.8 Douglas McGregor (1906-1964)

McGregor was professor of management at the MIT (USA). He was an individual psychologist and a leading expert on personnel relations. His famous books include, 'The Human Side of Enterprise (1960)', 'The Professional Manager and Leadership and Motivation-Essays of Douglas McGregor'.

McGregor is known for the development of motivation theory .He developed Theory X and Theory Y. Theory X represents the traditional and narrow view of human nature. He was of the opinion that Theory Y assumptions are more valid in practice .He advocated motivation by participation and job enrichment. He emphasized the significance of social and psychological factors of the organizational world.

McGregor applied behavioral sciences to explain and solve managerial problems. His theory X and theory Y have had tremendous influences on managerial thinking in modern organizations. These theories led to new insights into the problem of human motivation at work. They exploded the myth of the economic man. He developed a theory of motivation from the view point of the human relations

McGregor believed that the objective of an organization should be to create satisfied and happy employees. Such employees are more efficient and productive .He tried to implement his theories in real life situations when he was the president of a Antioch College

2.9 Mary Parker Follet (1868-1933)

Mary Parker Follet was a political and social philosopher. At the age of 32, she began a career of public service in the Boston area of USA. As a political scientist she examined the activities of several organizations in England and the United States. Her main interest was psychological foundations of all human activity. Later on she became adviser to businessmen on personnel problems. She developed and adopted a psychological approach to the problems of power, authority, conflict and control.

Follet's contributions to management thoughts are as follows:

- **Constructive Conflict** : According to Follet, conflict can be constructive; it can be harnessed for service of the group much as an engineer uses friction. The best way to resolve conflict is not domination or compromise but integration. Underintegration, individual differences are integrated to form a new opinion with which everyone is satisfied. The parties concerned examine together new ways of achieving their conflicting desires in a cooperative manner.
- **Laws of the Situations** : A person should not give orders to another but should agree to take the orders from the situations. If orders are simply part of the situations the questions of someone giving and some receiving orders does not arise. When both parties see the logic of a situation and try to gain full understanding of all factors bearing on that situation the conflict is dissolved.
- **Leadership** : Follet believed that leadership is not matter of dominating personality and therefore managers should not be autocratic. Leadership is the product of knowledge rather than of positions. The role of a leader is to understand the importance of group activity and to integrate the efforts of all for serving a common purpose.
- **Authority and Responsibility** : According to Follet authority in terms of subordination of one man to another offends human emotions and cannot be the foundation of good organization. Therefore the concept of final authority inherent in the chief executive should be replaced by an authority of functions in which each individual has final authority for his own allotted task. Authority and responsibility go with function.

- **Principles of Coordination** : Follet believed that coordination was the core of management which would produce a whole greater than the sum of its parts. She suggested four principles to achieve effective coordination.
 - a) Co ordination in the early stages
 - b) Co ordination by direct personal contact among the persons concerned
 - c) Coordination as reciprocal relation of all the factors in a situation and
 - d) Co ordination as a continuous process

Evaluation

Follet was one of the earliest writers to recognize the importance of mutuality of relations between employers and employees. She was perhaps the first to apply the principles of individual and group psychology to human behavior.

She analyzed the problems of power, authority, conflicts and control from a psychological viewpoint .She revealed the operation of social process and group dynamics in an industrial organization. According to her the basic problems of every organization is harmonizing and coordinating group efforts to ensure the most efficient completion of a task. Therefore every manager should try to develop power “with people” rather than power “over people”

Follet also made significant contributions in the areas of motivation, leadership, authority and co ordination .She recognized management as a profession. She gave lucid and illuminating ideas about human relations problems much before the Hawthorne Experiments. Therefore she may be called forerunner of the human relation movement.

2.10 Chester I Barnard (1886-1961)

As the president of the New Jersey Bell Telephone Company Barbard was a practitioner .He also served in several civic philanthropic and government organizations His publications are the functions of the executive (1938), Organization and management (1948). The contributions made by him are as follows:

- **Concept of Organization** : Barnard defined organization as a system of consciously coordinated activities of two or more persons. It is social system that requires human cooperation .He has highlighted three characteristics of the organization the persons

are able to communicate with each other they are willing to contribute to the action and there is a common purpose .

- **Formal and Informal Organization** : Formal organization has consciously coordinated interactions having a deliberate and common purpose. Informal organization refers to social interactions, which do not have common or consciously coordinated joint purpose.
- **Elements of Organization** : Every formal organization must have the following features. A system of functionalisation so that people can specialize. A efficient and effective incentive system for including people to contribute to group action. A system of authority that will lead group members to accept the decisions of executives a system of logical decision making.
- **Functions of the Executive** : Barnard has identified the following functions of an executive. They include the maintenance of organization communication, securing essential services from individuals in the organization and formulating and defining the purpose.
- **Authority**: Barnard developed a new concept of authority known as acceptance authority .He said “Authority is the character of communication in a formal organization by virtue of which it is accepted by a contributor to the organization as governing the action he contributes that is as governing or determine what he does or is not to do so as far as the organization is a concerned. “Barnard suggested that a person will accept the communication as authoritative only when four conditions are satisfied :
 - (a) He can understand the communication.
 - (b) He believes that it is consistent with organizational purpose.
 - (c) He believes it to be compatible with his own personal interest as a whole and
 - (d) He is mentally and physically able to comply with it.
- **Motivation** : Barnard pointed out that financial rewards beyond the subsistence level are ineffective except to a limited number of persons. He stressed upon pride of workmanship, pleasant organization, participation, opportunity for power, feeling of belongingness and mutually supporting personal activates to motivate people.

- **Interaction between Formal and Informal Organization:** Within every formal organization, there exists an informal organizational. Both depend upon each other and their continuous interaction between them. In fact he also suggested that executives should develop informal organization to serve as means of communication cohesiveness and of protection of individuals.
- **Organizational Equilibrium:** The organizational equilibrium is dynamic not static. It depends upon the individuals working in the organizational equilibrium can be perceived not only through logical appraisal but also through analysis and intuition because the decision-making people also depend upon intuition and beliefs.
- **Executive Effectiveness :** A high order of leadership is required in order to make an executive effective. Leadership is a creative and indispensable process. It requires an element of conviction, which means identification of personal codes and organizational codes for the future of the leader.

Evaluation

Barnard has a profound impact on management thought and practice. His main contributions have been his logical analysis of organization structure and application of sociological concepts of management goes to him. According to him management is a dual process, technical and social. He also considers leadership as the most important factor in an organization.

2.11 Peter F Drucker

The main contributions made by Peter F Drucker are as follows:

- **Nature and Role of Management :** According to Drucker, the manager is the dynamic, life giving element in every business. Management is important not only for the business enterprises but for all types of organizations. Drucker states that the developing countries are not underdeveloped they are under managed. In his opinion management is a discipline and a social function. He stresses practice and performance. In his words “ In the last analysis management is practice its essence is not in knowing but doing. Its test is not logic but results. Its only authority is performance.”
- **Manager’s Job :** Drucker has identified three tasks of management:

- a) **Economic Performance** : Management must put economic performance at the top .It can justify its existence and its authority only by the economic results it produces.
 - b) **Making work productive and worker achieving** : As an enterprise accomplishes its performance through work, it is essential to make work productive. In order to make worker achieving he needs to be considered as a human being.
 - c) **Managing social impacts and social responsibilities** : An enterprise is an organ of the society and exists for its stake. Concern for the quantities of life as well as quality of life are vital.
- **Business Objectives:** According to Drucker there is only one valid definition of business purpose, to create a customer. To manage a business is to balance a variety of needs and goals and a business enterprise by its very nature requires a variety of multiple objectives. Profit is essential for the survival and growth of business. .It is indeed the ultimate test of business performance. According to Drucker objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business. There are eight such areas in which objectives of performance and results have to be set. Market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility.
 - **Entrepreneurial Functions:** In Drucker's opinion marketing and innovation are the most important functions of an entrepreneur .He stresses entrepreneurial management in both existing business and new ventures. Drucker suggests entrepreneurial strategies, policies and practices for both .He also provides principles and sources of innovation .He suggest entrepreneurship in service institutions too.
 - **Management by Objectives: Drucker** introduced the concept of MBO .In his words Management is not just a creature of the economy, it is a creator as well. To manage a business means therefore to manage by objectives Management by objectives is necessary because there are powerful forces of misdirection in modern business. Specializations, hierarchy structure of transitions and differences in the vision of various levels of managements are such forces. Management by objectives helps to direct the vision and efforts of all managers towards a common goals .In order to

avoid management by crisis and drives the objectives of every manager should spell out his contribution to the attainment of company goals.

- **Federal Decentralization:** Drucker has criticized functional, organizational and suggested federal organization in its place. In federal organization activities are organized into autonomous product divisions, each with its own responsibility product and market. Where this is not possible there should be functional decentralization containing integrated Units with responsibility for major stages in the business process. Federal structure focuses the vision and efforts of managers directly on business, performance and business results. It also facilitates the development of tomorrows managers.
- **Organization Structure:** According to Drucker organization are the backbone of modern society. He suggests that an enterprise should be organized for business performance .It should contain the least number of authority levels. It should facilitate the testing and training of future managers. Drucker suggests three ways to find out the structure required to attain the objectives of specific business. They are activity analysis, decisions analysis and relations analysis.
- **Decision-making:** According to Drucker “ whatever a manager does he does through making decisions. Management is always a decision making process. There are two types of decisions, tactical and strategic decisions. Decision making has five phases, defining the problem, analyzing the problem, developing alternative solutions, deciding upon the best solution, converting the decision into effective action. There are four criteria for choosing the best solution i.e. risk, economy of effort, training and limitations of resources.
- **Management Development:** The prosperity of a business depends on its managers .The demand for executive is steadily increasing. Therefore Drucker stressed the need for developing managers. Management development is not a luxury but a necessity. Management development is not promotion planning .The first principle of management development is the development of the entire group. The second principle is that manager development must be dynamic. i.e. focus on the needs of the future.
- **Futurity:** Drucker has highlighted the challenges, which managers will have to face in future. He stresses the rapid pace of technological change and its impact on society.

2.12 Case Study

Mr. Arunachalam works as a worker in steel mill. On the hearth furnace room two groups of workers were employed to clean up work between furnaces. During clean up operations one furnace was normally in operation but the adjacent furnace remained shut down. The groups, were lead by a soft - spoken worker, Mr. Aiyangar, whom every worker seemed to like and respect.

The foreman ordered Mr. Aiyangar's group to work between two furnaces one hot June afternoon when both the furnaces were in operation. The temperature between the furnaces was extermely high and Mr. Aiyangar balked at the order. He exclaimed loudly that he would have to talk to god about the order. Standing in the middle of the fumaces room, he outstretched his arms, shut his eyes and plaintively wailed to God : "Oh lord, this old foreman wants us to go in between these two furnaces where it is as hot as hell! After a moment of silence his head nodded and his arms fell back to his sides. He opened his eyes and said to the foreman. "The lord told me to go in between these two furnace but to file a grievance against you with the trade union".

The whole labour force on the fumance room sinckered while the foreman walked away.

1. Which approach to management did the foreman adhere to?
2. Had he taken the same action on the basis of the human relations approach?
3. Which approach would you recommend him to adopt?

2.13 Summary

Several Management thinkers have made significant contributions to the evolution of management thought. Several early pioneers like Robert Owen, Charles Babbage, Henry R.Towne, Henry V.Poor, James Watt Jr., Mathew R. Boulton and Charles Dupin made significant contributions during the pre scientific management era. During Scientific period F.W.Taylor stressed on the task aspect of Group Effort, Frank Gilberth insisted motion, fatigue study, and work simplification. Henry Fayol administered universal principles of management. Douglas Mc Gregor insisted that organisation should create satisfied and happy employee, Mary Parker adopted psychological approach, Chester revealed that organisation is a social system that require human cooperation, Peter.F.Drucker identified the nature and role management.

2.13 Key Words

- Time Study
- Authority
- Centralisation
- Motion Study
- Responsibility

2.15 Review Questions

1. Discuss the contribution of F.W.Taylor to management.
2. Briefly describe the general principles of management as laid down by Henri Fayol.
3. Give brief account of the contribution to management thought made by Elton Mayo.
4. Discuss the Peter F Drucker's view on management.

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LESSON - 3

PLANNING

Learning Objectives

After reading this lesson, you must be able to

- Define planning
- Evaluate the factors of planning
- Explain the process of planning
- Discuss the limitations and key points of effective planning
- Enumerate the strategic aspects of planning

Structure

- 3.1 Introduction**
- 3.2 Meaning and Definition**
- 3.3 Factors involved in Planning**
- 3.4 Planning Process**
- 3.5 Obstacles or Hazards to Effective Planning**
- 3.6 Key Points for Making Planning Effective**
- 3.7 Strategic Consideration in Planning**
- 3.8 Case Study**
- 3.9 Summary**
- 3.10 Key Words**
- 3.11 Review Questions**
- 3.12 References**

3.1 Introduction

Planning is the most basic or primary function of management .It precedes other functions because a manager plans before he acts. Planning involves determining the objectives and selecting a course of action to achieve them. It implies looking ahead and deciding in advance

what is to be done, when and where it is to be done, how and by whom it is to be done. Planning is a mental process requiring the use of intellectual faculties, foresight, imagination and sound judgment. It consists of forecasting, decision making and problem solving. A plan consists of predetermined future course of action. It is today's design for tomorrow and an outline of steps to be taken in future.

The process of planning consists of determination of objectives, forecasting and choice of a course of action, formulation of policies programs, budgets, schedules etc to achieve the objectives, laying down of procedures and standards of performance. Planning may be long term or short term. Planning is a pervasive function and managers at all levels have to prepare plans. Planning is also a continuous or ongoing process Planning enables us to do things in an orderly and efficient manner. It is helpful in more effective achievement of goals. Planning enables an organization to face uncertainty and change.

3.2 Meaning and Definition

Planning is the management function of anticipating the future and the conscious determination of a future course of action to achieve the desired results. A plan is a blue print of the course of action to be followed in future. Planning involves forecasting because in order to plan the future course of action it is essential to anticipate the future. While planning a manager prepares a map of the future, sets the goals to be achieved or the desirable results and decides the activities required to accomplish those results. Planning consists of both problem solving and decision-making. . It involves determination of objectives and the means of achieving them.

“Planning is deciding in advance what is to be done .It involves the selection of objectives, policies, procedures and programmes from among alternatives”

Planning is the process of thinking through and making explicit the strategy actions and relationships necessary to accomplish an overall objective or purpose. Therefore these definitions indicate that planning involves the determination of objectives and results, the selection of the best possible course of action to achieve the desired results, the time sequence of activities and the resources required to perform the activities.

3.3 Factors involved in Planning

- **Contribution to objectives** : Every major and derivative plan should contribute positively towards the accomplishment of enterprise objectives. This principle is derived from the vision of the enterprise.

- **Efficiency of Planning :** The efficiency of a plan is measured by the amount it contributes to objectives minus the costs and other undesirable consequences involved in the formulation and operation of the plans. This factor stresses upon economical use of individual effort to achieve group goals.
- **Primacy of Planning:** A manager can hardly perform other managerial functions without a road map of plans to guide him. Planning is the primary requisite of other management functions because these functions are designed to support the accomplishment of enterprise objective.
- **Planning Premises:** The main deficiency of planning arises from poorly structured plans. A well-coordinated structure of plans can be developed only when managers throughout the organization understand and agree to utilize consistent planning premises.
- **Policy of framework:** A consistent and effective framework of enterprise plans can be developed if the basic policies that guide thinking in decisions are expressed clearly and are understood by managers who prepare the plans .The decisions which lead to plans cannot be accurately focused on enterprise objectives without framework of policies.
- **Timing of plan:** When the plans are structured to provide an appropriately timed, intermeshed network of derivative and supporting program, the plans can contribute effectively and efficiently towards the attainment of enterprise objectives, Both premises and policies are useless without proper timing.
- **Limiting factor:** While choosing from among alternatives the planner should focus on factors, which are critical to the attainment of the desired goal. This will help in selecting the most favourable alternative.
- **Commitment:** Logical planning should cover a time necessary to forecast the fulfillment of commitment involved in a decision. This is necessary to make reasonably sure of meeting commitments.
- **Flexibility:** This principle deals with the ability to change which is built into plans .The risk of loss due to unexpected events can be reduced by building flexibility into plans
- **Competitive Strategies:** While formulating plans , a manager should take into account the plans of rivals or competitors will do in the same situation.

3.4 Planning Process

There is no standard planning process, as each enterprise has to develop its own modus operandi for planning depending on its size, nature and environment. The steps under process are as follows:

Analyzing the Environment: The first step in planning is a thorough analysis of the external and internal environment of the enterprise. Analysis of external environment will help to identify the opportunities and constraints for the enterprise. To be effective, planning must enable the organization to adapt itself to the environmental changes (market conditions, government policies, technology etc) Therefore managers must be carefully analyze and interpret the complex environmental forces .It is necessary to collect and analyze relevant information as the quality of information determines the quality of planning. Analysis of the internal environment helps in identifying the strength and weakness of the organization.

Establishing Objectives: Plans are formulated to achieve certain objectives. Therefore establishment of organizational objectives is an important step in planning .The organizational objectives should be established in the light of perceived opportunities and resources of the organization. They should be clearly specified and measurable as far as possible. They should be spelled in key areas of operations and for different divisions and departments.

Determining Planning Premises: Planning is done for future, which is uncertain. Therefore certain assumptions are made in preparing plans. These assumptions or conditions underlying planning should be clearly defined through scientific forecasting of future events. Planning premises are the limitations that lay down the boundary for planning.

Developing Alternative Course of Action: There can be several ways of achieving the same objectives. The various available alternatives should be identified. For example order to achieve to increase sales an enterprise may intensify sales efforts, explore new markets or develop new products. In order to develop all possible alternatives a manager must have imagination, skill and experience.

Evaluation of Alternative: The various alternatives are compared and weighed in the light of objectives and premises. Each alternative has its merits and demerits but all alternatives cannot be equally appropriate or practicable. Each alternative should be closely examined to determine suitability. Several statistical and mathematical techniques are used to evaluate alternative courses of action.

Selecting the Best Course: After evaluating the various alternatives, the most appropriate alternative is selected. This is the point at which the plan is adopted. Sometimes the evaluation may suggest that more than one alternative is good. In such a case manager may choose several alternatives and combine them in action.

Formulating Derivative Plans: Once the basic plan i.e plans and strategy are decided various supporting or subsidiary plans are formulated. These include, procedures, programs, budgets schedules etc. Such plans are required to implement the basic plans. The sequence of various activities is determined to ensure continuity in operations. Different plans are properly integrated so that they support each other.

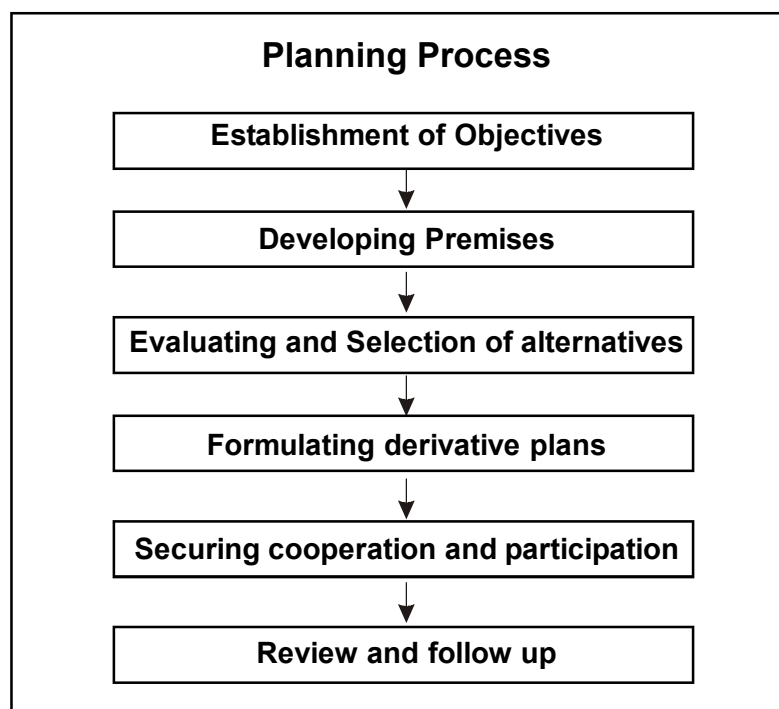


Figure 3.1 Process of planning

3.5 Obstacles or Hazards to Effective Planning

Despite the overwhelming role of planning in the effective management, more organization face obstacles in formulating effective plans. These obstacles are given below:

- **Inadequate inputs:** Effective planning requires adequate and up to- date information about the internal and external environment of the organization. It becomes very difficult to formulate good plans when reliable and timely information about past

events and likely future events is not available for lack of required data. Difficult in developing accurate premises is a limiting factor in planning

- **Lack of Ability:** Planning is an intellectual process requiring creative thinking and conceptual skills. When managers of an enterprise do not possess a high level of analytical ability, sound judgement, fertile imagination and fortitude to choose and become committed effective planning is not possible.
- **Sudden emergencies:** Planning is time consuming process and it may delay action. When prompt action is urgent to exploit an opportunity there is hardly any time for advance planning .In times of sudden and unexpected emergencies planning becomes difficult. During period of rapid changes advance planning is not possible.
- **Need for Creativity:** Planning stifles employee initiative and tends to make operations inflexible. Where a high degree of innovation and creativity are essential detailed and widespread planning may not be desirable.
- **Resistance to Change:** A serious obstacles to planning arises due to the passive attitude of executives who like to ignore changes, hoping they would not materialize. It is the major psychological barrier to planning. Executives is not only more certain than the future it is also more desirable. People develop patterns of thought that resist change

3.6 Key Points for Making Planning Effective

- A sound system should be created for forecasting accurately the future events .It must be remembered that mere extrapolating the present without keeping in view changes in present activities will be undesirable.
- Planning should not degenerate into a game of achieving numbers. The focus should not be simply on financial goals. Managers must not allow planning to be used as a means for achieving the pet ideas of a few persons.
- Planning should be kept flexible. Plan's execution should be oriented to events. Contingent plans may be prepared to adapt to changing events. Organization resources should be committed step by step.
- All plans must be realistic and practical. This requires proper synthesis of disparate items.

- Planning should be an interactive process .The cooperation and participation of all members of an organization is necessary for effective planning. Planning committee can be an effective means of ensuring wide participation in planning.
- Developing a plan should not be an end in itself. Managers must be given the leeway to make adjustments wherever necessary. Plans should enable managers to cope with change rather than restricting change.
- Resistance to change should be overcome through patient selling of ideas, careful dissemination of information, aggressive leadership. Every manager should be given access to relevant information. All plans should be communicated, explained and also timed properly.
- Planning process is accomplished of many major and derivative plans, which are interrelated. Therefore different plans should be coordinated so that one plan supports the others.

The following measures are helpful in overcoming obstacles to planning:

Set clear cut objectives

- Develop a sound management information system
- Create carefully planning premises
- Develop a dynamic outlook among managers
- Keep plans flexible
- Provide required resources
- Undertake a cost benefit analysis of all plans.

3.7 Strategic Consideration in Planning

The concept of strategic planning refers to the process of formulating a unified, comprehensive and integrated plan relating the strategic advantages of the firm to the challenges of the environment .It involves the appraising of external environment in relation to the enterprise, identifying the strategies to be adopted in future to achieve the objectives. Since there are many factors, which are considered in plan formulation these can be identified as external and internal which is more common and relevant. Other classifications are tangible and intangible, controllable and uncontrollable.

1. External and Internal Planning

External planning is the most important part of strategic planning. These exist in an organization's external environment. Various external factors are grouped into five broad categories. They are economic, political, legal, technological, socio-cultural and competitive. These factors either present opportunity or threat to an organization. An opportunity is favourable condition in the organization's environment which enables it to strengthen its position. A threat is an unfavourable condition in the organization's environment which causes a risk or damage to the organization's position. To understand the external factors the environmental analysis is done. This analysis helps in formulating plans particularly strategic, long-term plans. All the environmental factors do not affect a particular organization in the same way. Some factors are more important than others.

Internal planning refers to the internal factors of the organization taken for consideration of strategic formulation of plans. Various internal factors related to the events like organization structures, management systems etc. It also includes the various functional activities as production /operations, marketing, finance and personnel management. These factors may be either strength or weakness of the organization. A strength is an important capability of the organization which can be used to gain strategic advantages over its competitors. A weakness is a limitation or constraint of the organization which creates strategic disadvantages to it. These strength and weakness can be identified by corporate or organizational analysis, which is a process through which managers analyze various factors of the organization to evaluate their strengths and weakness so as to meet the opportunities and threats of the environment.

2. Tangible and Intangible Planning

Various planning premises may be classified as tangible and intangible. Tangible premises are those, which can be expressed, in quantitative terms like monetary units, units of product, labour, machine hour. Intangible are of qualitative nature and cannot be translated into quantity. For example image of the company in its environment can be expressed in qualitative terms and interpretation has to be drawn from these. There are many external and internal factors cannot be meaningfully quantified and managers have to make decisions on the basis of such intangible premises. This is the real art of managing. Managers are confronted with a variety of qualitative information.

3. Controllable and Uncontrollable Planning

Strategic Planning can be on the basis of controllability. Thus planning may be controllable or uncontrollable. Controllable planning are those that can be controlled by an organization's actions. Such planning is mostly internal for example, organizational policies, structure, systems, procedures etc. Uncontrollable planning are mostly of external which cannot be controlled by an organization's action, for example rate of economic growth, population growth, taxation policy of government etc. Wren and Voich have viewed this planning where a manager has to identify those factors that they must make the best use of those that they can capitalize on it.

3.8 Case Study

Sidney Greenburg was appointed the position of the director of marketing for a small electronics component manufacturer. The company had its revenues growing at the rate of 20% each year and in 1982, they were at 30 million level. The president felt that the growth of the company required serious planning efforts to determine strategies, product emphasis and new product development.

Mr. Greenburg realizing the need to develop the marketing plan developed a suggested format to obtain inputs from his regional sales managers. The format to obtain divided into two parts (a) territory brief for established status of sales activities and (b) territory plan asked for identification of key goals, strategy & resources required to accomplish stated goals. Sales forecast by products was requested for 3 plan Yrs.

Tom Rosenfield was the marketing manager for Europe. He was previously in the engineering department & was assigned to Europe because of his technical & foreign language capabilities. He replied to Mr. Greenburg as follows:

"While I will complete the forms on the country brief & country plan promptly I have some conceptual problems with them. Time & time again we have been requested for projected figures. I remember putting together a presentation for the Executive Vice-President (VP) & Treasurer last year. Great we educated those guys but what are the results of such formality? The projections have not yielded specific results, resources are used at a minimal level & we are not generating needed sales.

So it is my contention that while goals, projections & forecasts provide immeasurable guidance for a company with stable sales & developed product lines, for us a fledgeling (young)

industry, they distract from the job at hand. My plan has always been to hit the market as hard I am able & I believe this should hold true for all other regional managers. We have large amounts of resources held up in ineffective' marketing planning efforts such as these need to redirect these efforts to self rather than compile data.

We need more people beating the pavement (action) rather than sitting on their desks developing plans & strategies (contemplation) Sell, sell, sell. Get the backing as big as possible. Planning is wasteful. Let us concentrate on aggressive sales & optimize sales volume at any cost.

1. What has Mr. Greenburg not done to accomplish his planning tasker?
2. Is Mr. Rosenfield right in making his comments in response to Mr. Greenburg's request?
3. Is Mr. Rosenfield performing his management function.
4. What would do if you were Mr. Rosenfield's boss?

3.9 Summary

Planning involves determining the objectives and selecting a course of action to achieve them. The process of planning consists of determination of objectives, forecasting and choice of a course of action, formulation of policies, programs, budgets, schedules etc to achieve the objectives, laying down of procedures and standards of performance. Planning is the management function of anticipating the future and the conscious determination of a future course of action to achieve the desired results. Obstacles or hazards to effective planning are inadequate inputs, lack of ability, sudden emergencies and need for Creativity. The measures that helps in overcoming obstacles to planning are set clear cut objectives, develop a sound management information system, create carefully planning premises, develop a dynamic outlook among managers, keep plans flexible, provide required resources, undertake a cost benefit analysis of all plans. Strategic consideration in plan formulation can be identified as external and internal which is a more common and relevant. Other classifications are tangible and intangible, controllable and uncontrollable

3.10 Key Words

- Alternatives
- Objectives
- Obstacles
- Planning
- Tangible Planning
- Intangible Planning

3.11 Review Questions

1. “Planning is the essence of management, it is a management function”. Elucidate.
2. Explain the process of planning.
3. What are the obstacles of planning and how to overcome them?
4. Describe the strategic consideration in planning.

3.12 References

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LESSON - 4

POLICY MAKING

Learning Objectives

After reading this lesson, you should be able to

- List out features and purpose of policy
- Enumerate the phases of policy making
- Distinguish general and specific policies
- Explain the basic areas of policy making
- Describe the effective policy

Structure

- 4.1 Introduction**
- 4.2 Meaning and Definition**
- 4.3 Features of policies**
- 4.4 Purpose of Policies**
- 4.5 Phases of Policy Making**
- 4.6 General and Specific Policies**
- 4.7 Basic areas of Policy Making**
- 4.8 Difficulties in Policy Making and Implementation**
- 4.9 Developing Effective Policies**
- 4.10 Case Study**
- 4.11 Summary**
- 4.12 Keywords**
- 4.13 Review Questions**
- 4.14 References**

4.1 Introduction

Every organisation is involved in taking varied decision. Some decisions have long term orientation while others concern day to day operations. Long term decisions provide guidelines for further action. Policy is a part of planning which provide guidelines for future decision. Normally policies are used as a basic statement serving as a guide for administrative action.

4.2 Meaning and Definition

A Policy is a general statement which is formulated by an organisation for the guidance of its personnel. The objectives are first formulated and then policies are planned to achieve them. Policies are a mode of thought and the principles underlying the activities of an organisation space or an institution.

“Policies were identified as guides to thinking in decision making. They assume that when decisions are made, these will fall within certain boundaries.” - **Koontz and O'Donnel**.

Policy might be defined as a basic statement serving as a guide for administrative action.

“ Policy is a verbal, written or implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.” - **George Terry**.

“ A policy is a predetermined and accepted course of thought and action that is defined and established as a guide towards accepted goals and objectives.” - **Dale Yoder**.

“ Policies are statements of the organisation's overall purpose and its objectives in the various areas with which its operations are concerned- personnel, finance, marketing, production and so on.” - **James B Bom**.

Above definitions clearly shows, policies are guidelines to decision-making. They direct the way in which activities are to be achieved. They are concerned with 'how' of administrative action. Objectives indicate the destination and policies provide the route.

4.3 Features of Policies

- Policies are behavioural constraints. They channel behaviour toward organizational objectives by limiting what managers can do and cannot do.

- Policies define the boundaries within which decisions ought to be made.
- Policies are permissive in the sense that subordinates are allowed reasonable freedom. A policy may be specific in its instruction. For example, a company's advertisement for recruiting executive trainees may state 'preference will be given to those having 'MBA'.
- Policies provide standing answers to recurring questions and specify the steps to be taken in making a decision. Policies reduce chances of misinterpretation, misrepresentation and friction.
- Policies are important management tools that facilitate some transfer for decision-making to lower levels of the organization.

4.4 Purpose of Policies

1. When policies are stated clearly, supported by suitable explanatory information, they offer great advantages to management.
2. They allow a more refined and flexible approach to recurring problems
3. They convert objectives into a workable form.
4. They allow more decisions to be taken at lower levels of the hierarchy.
5. Policies can speed decision-making by providing a blanket framework within which the decisions can be made. They summarize past experience.
6. They tend to serve as precedents and thus reduce the repetitive thinking of all the factors in individual decisions; they save time.
7. They help managers as well as subordinates to dispose of repetitive problems in a consistent manner without getting into trouble".
8. They ensure a steady course of action and prevent unwarranted deviations from planned operations.
9. Policies help in achieving coordination. If organizational members are guided by the same policies, 'they can predict more accurately the actions and decisions of others'.

4.5 Phases of Policy Making

The phases of policy making is given below.

1. Policy Formulation

Policies provide a continuous framework for the conduct of individuals in a business. They are expressions of a company's official attitude towards types of behaviour within which it will permit, or desire, employees to act. They are the means to convert company's objectives into a workable form. Policies indicate management thinking on important matters and inform those interested in the activities of the company about the company's intentions regarding them. To persons outside the company – its suppliers, its customers and the public in general – an organization becomes known mainly as a result of its general and operating policies.. A well formulated policy not only helps a manager in carrying out his work but also helps him in creating a better image of the company in the market.

“Policies should be formulated by those in the organization who have the responsibility for accomplishing the particular objectives to which the policies relate.” At this stage it might be useful to prepare tentative drafts of a policy (of recruitment in the above case) and circulate among members of a department or division for comment. The individual proposals from departmental/divisional heads must be subjected to careful investigation and analysis. Before finalizing the policy due consideration must be given to external factors also like changing public opinion, community customs, governmental regulations etc. The individual proposals must also be evaluated against such factors as: contribution to overall goals, degree of difficulty in implementation, employee attitudes etc.

2. Policy Communication

Once a policy is formulated, it must be communicated to those who are ultimately responsible for its application. Formal announcements from “headquarters” may not produce the desired effect and bring all employees to one line of action. Policy manuals, company handbooks, written memorandums, board letters and announcements etc. are generally pressed into service in order to disseminate the policy. The basic idea should be to educate the members regarding the need for adopting the policy, how to put the same to use, how much discretion is allowed etc.

3. Policy Application

Policy decisions rest basically on human judgment and intuition. For example, the official policy may specify that sales should be made on cash basis only. But a peculiar situation may arise where an influential and powerful customer has placed an order with the departmental store for a substantial amount and is making the payment through the cheque. The sales manager should decide whether the policy should be strictly applied or should be modified in the light of a novel situation. However, this does not mean that policies should be interpreted in a subjective way. Consistency in applying the policy is very essential, and at the same time, some flexibility is necessary in day-to-day affairs. "Flexibility and consistency may appear irreconcilable, but careful administration can recognize the unique elements in each situation without eroding the basic policy position".

4. Policy Review and Appraisal

In a fast changing environment characterized by rapid changes in technology, products, strategy of competitors, labour contracts public expectations etc. policies easily become obsolete. In order to cope with these changes, periodic review of policies is necessary. The usefulness or obsolescence of existing policies may be appraised in the light of information collected on company reputation, customer acceptance, competitive strength of the products etc., It is true that evaluation process is difficult and calls for a considerable degree of subjective judgment but an alert management should be willing to establish standards and measure performance in such intangible areas.

4.6 General and Specific Policies

Policies are formulated generally by top management. Such policies arise out of broad, basic needs perceived and defined by top management. Within the framework of a broad policy, several supporting policies are also developed. A policy of growth through increased sales, for instance, causes marketing managers to devise necessary policies covering advertising, sales promotion efforts, production processes etc. Sometimes policies may also originate at or near the lower levels of an organization. Policies adopted at lower levels are generally narrower, and generally deal with operational aspects.

Before a specific policy is formulated, it is necessary to undertake a background study to consider the 'wisdom of the policy and to determine its exact nature'. Facts must be gathered

and analyzed. Members in the organization should be consulted. Now it may be easy to identify an area which poses repetitive problems of similar nature. Individuals, out of personal experience and involvement, identify the problem areas quite easily. For example, a policy of filling up departmental vacancies might be drafted by the departmental managers / heads who have the requisite experience (instead of by a top management member) in the line. In general, as rightly pointed out by Mervin Kohn, "Policies should be formulated by those in the organization who have the responsibility for accomplishing the particular objectives to which the policies relate."

4.7 Basic Areas of Policy Making

Policies provide a framework within which decisions must be made. The basic functional areas of policymaking are:

Production and Purchasing Policies

The major issues in production policy may include the following:

1. Involvement of the firm in production process
2. Choice of the production processes
3. Estimate of the production capacity
4. Maintenance / replacement of the existing production facilities

Marketing Policies

1. Product line and product mix;
2. Customer to be served and channels of distribution;
3. Pricing of products/services;
4. Marketing mix

Financial Policies

The major issues in financial policies may said to include the following:

1. Sources of finance and capital structure decisions;
2. Investment decisions; and
3. Financing decisions and dividend policy

Human Resource

The major issues in Human Resource policies may said to include the following:

1. Recruitment, promotion and transfer;
2. Compensation and supplementary benefits;
3. Relation with employee unions; and
4. Collective bargaining

4.8 Difficulties in Policy Making and Implementation

All organizations are not equally skillful in their use of policies. To establish successful policies in a fast changing environment is a tough exercise. “Executives need to acquire skill in sensing the obsolescence of a policy and recognizing when a policy is out of date. The question of adopting a right policy is largely a matter of subjective opinion and differences of opinion are bound to arise within the firm and with the industry. It is small wonder that company policy is viewed as one of the battlefields in the competitive struggle for survival and success. Some of the factors contributing to the confusion may be catalogued thus:

Policies are not easy to express: For policies to work, they have to be understood by all. The choice of terminology and style of writing must be understandable to the members.

Conflicts between implied and expressed policy statements : Sometimes expressed policies may be in conflict with implied policies. For example, a company’s expressed policy might emphasize fair treatment to customers but the implied policy may try to overemphasize product features through misleading and highly aggressive advertising programs aimed at winning the customers at any cost

Inconsistency : Policies should reflect the philosophy of the organization as a whole. They should also be consistent run-long run objectives, supported by explanatory information in the form of procedures, directives etc. Policies should also take into account the external constraints and be consistent with the laws and regulations of the state, with the standards set by professional associations like Chambers of Commerce etc. This demands constant revision, modification and restructuring. However, company policies are characterized by considerable inertia. Once established, they persist and become unalterable. They are rarely evaluated. In the absence of review and appraisal it would be difficult to break the cake of custom and effect

desirable policy changes. Inconsistencies among them and even within them encourage friction and promote conflicts at various organizational levels.

Communication bottlenecks : Policies are difficult to communicate. From the time policies are initiated to the time they are used, there is always the danger of falling into 'generalities and pleasantries'.

Costly : Policies grant freedom to managers as to what is to be done in a particular situation. As a result, there is always the danger that the manager may be more liberal than was originally intended. In general, 'the extra margin of liberality may or may not prove to be an investment in the long run'.

Failure to interpret correctly using sound judgment : In policy administration, judgment is needed for applying policies in a flexible manner; it is also required in sensing the obsolescence of a policy and recognizing when a policy is out of date. Some policies may be desirable for a division or department but may be undesirable from the company's point of view.

4.9 Developing Effective Policies

It is a top management responsibility. While developing such policies management should observe the following factors :

Related to objectives : The use of a policy should help in achieving the enterprise objectives. It must be capable of relating objectives to functions, physical factors and company personnel.

Easy to understand : Policies should be stated in definite, positive, clear and understandable language. It should not defy easy interpretation and translation into practice.

Precise : It should be sufficiently comprehensive and prescribe limits and yardsticks for future action.

Stable as well as flexible : It should be stable and amenable to change. 'It should be stable enough to assure people that there will not be drastic overnight changes. It should be flexible enough to keep the organization in tune with the times'

Based on facts : Policies should be constructed on the basis of facts and sound judgment and not on personal feelings or opportunistic decisions.

Number : There should be as many policies as necessary to cover conditions that can be anticipated, but not so many policies as to become confusing or meaningless.

Thorough knowledge of internal as well as external factors : Policies should support each other and must be supplementary to superior policies. Every policy must be the result of a thorough knowledge of operations and practices covered, and the effects of the policy on employees in all departments. They should also recognize economic principles, be in line with laws of the state and be compatible with the public interest.

Just, fair and equitable : Policies should be just, fair and equitable to internal as well as external groups. For example; a policy of recruitment from within may limit opportunities to bright candidates from outside; and a policy of 'recruitment from outside only' would limit promotional avenues to internal candidates. To ensure justice it is necessary to pursue both the policies and apply them carefully. Equitability implies equal treatment to all without discrimination. Policies should not discriminate among employees and customers on the basis of religion, race, sex etc.,

Reasonable : Policies must be reasonable and capable of being accomplished. To gain acceptance and commitment, the policy should be 'conditioned by the suggestions and reactions of those who will be affected by the policy'. Policies should also permit interpretation so that they can be applied with success depending on the situations.

Review : Policy making is not a one shot deal. Once policies are formulated, it is the duty of managers to scrutinize them at regular intervals to find out their relevance in the face of continuous changes. Periodic review of policies is essential to avoid organizational complacency or managerial stagnation.

4.10 Case Study

Milk Products Ltd., is engaged in collecting, processing, and distributing milk and milk products in a large city in south India. Most of the products of the company are such that these have to be distributed on daily basis. The company has a crew of distributors who approach the fixed customers, both bulk buyers and individuals. Mr. K. Ramesh joined the crew of distributors after graduating in commerce. The distribution Manager was quite impressed by Mr. Ramesh but initially could not offer him a better job than that of a distributor. However, he promised to give him better opportunity whenever available. Mr. Ramesh joined gladly.

The distributors are employed on monthly salary basis. In order to ensure distribution of the products, the company has a provision of overtime pay. Normally crew members work slowly in the beginning just to accumulate overtime pay. The pace becomes hectic towards the end of the day with some over time to meet the distribution schedule. There is not group leader but there are several old timers who influence new comers regarding the work rules. Mr. Ramesh did not like this method of working but had to follow the group to be a good teammates. He gathered that over the years, the company had paid around sixty percent overtime unnecessarily.

After a year impressed by the work of Mr. Ramesh and his overall suitability, the distribution manager offered him the position of distribution supervisor. The basic duty of the supervisor was to look after the distribution system and to develop new customers in a given area. Beside Ramesh, there were four other supervisors also. Ramesh was sure of making distribution system effective as he was aware above the delaying tactics of the crew. He was quite sure about cutting the over time cost and impressing upon the distribution manager about his capability. He talked to the distribution manager about fixing the quota of work per day in two parts before lunch and after lunch. The distribution Manger felt convinced and introduced the systems. However the efficiency dropped down considerably and no crew member was near the target.

1. What were the reasons for the decreased efficiency in the new system?
2. Advice Mr. Ramesh and distribution manager about the future course of action.

4.11 Summary

Policy is a part of planning which provide guidelines for future decision. A Policy is a general statement which is formulated by an organisation for the guidance of its personnel. Policies are important management tools that facilitate some transfer for decision-making to lower levels of the organization. When policies are stated clearly, supported by suitable explanatory information, they offer great advantages to management. Phases of policy making are Policy Formulation, Policy Communication, Policy Application, Policy Review and Appraisal. Basic areas of policy making are Production and purchasing policies,marketing policy, financial policy, personnel policy.

4.12 Key Words

- Human Resource Policies
- Marketing Policies

- Financial Policies
- Production Policies
- Purchasing Policies

4.13 Review Questions

1. Define policy and enumerate its features.
2. Explain the different phases of policy making.
3. Discuss the basic areas of policy making.
4. "Policies are guides for managerial action." Discuss.

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LESSON - 5

ORGANIZATION

Learning Objectives

After reading this lesson, you should be able to

- Discuss the meaning of organization
- Describe the nature of organization
- Explain the features of organization
- Delineate the organization structure

Structure

- 5.1 Introduction**
- 5.2 Nature of Organization**
- 5.3 Features of an Organization**
- 5.4 Advantages of Organization**
- 5.5 Types of Organizations**
- 5.6 Establishment of an Organization**
- 5.7 Case Study**
- 5.8 Summary**
- 5.9 Keywords**
- 5.10 Review Questions**
- 5.11 References**

5.1 Introduction

The word organization originated from the word organism which implies a structure of interrelated parts .It is systematic integration of interdependent parts to form a united whole. It is a structure of relationship among various positions or jobs. This structure or entity comprises horizontal and vertical authority relationships. It is a system of cooperative activities of two or more persons for the attainment of a common purpose. It consists of those aspects of behaviour

that are relatively stable and change slowly. It is a framework through which people work together for the accomplishment of desired results. The components of organization structure include men, materials, machines, money, methods functions, authority and responsibility. Each organization structure is characterized by a distinct purpose to accomplish, composed of people and formal relationships among its members. Organization structure is designed to clarify who is to do what and who is responsible for what results. It is work-centered concept designed to employ people to suit the roles meant for them. Authority and responsibility of each position rather than the person holding that position is defined.

5.2 Nature of Organization

The important elements of an organization are given below:

1. **Common Purpose:** Every organization exists to accomplish some common goals. The structure must reflect these objectives as enterprise activities are derived from them. It is bound by common purpose.
2. **Division of Labour:** The total work of an organization is divided into functions and sub functions. This is necessary to avoid the waste of time, energy and sources which arise when people have to constantly change from one work to another. It provides benefits of specialization.
3. **Authority Structure:** There is an arrangement of positions into a graded series. The authority of every position is defined. It is subordinate to the position above it and superior to the one below it. This chain of superior-subordinate relationships is known as chain of command.
4. **People:** An organization is basically a group of persons. Therefore activity groupings and authority provisions must take into account the limitations and customs of people. People constitute the dynamic human element of an organization.
5. **Communication:** Every organization has its own channels of communication. Such channels are necessary for mutual understanding and co-operation among the members of an organization.
6. **Coordination:** There is a mechanism for coordinating different activities and parts of an organization so that it functions as an integrated whole. Cooperative effort is a basic feature of organization.

7. **Environment:** An organization functions in an environment comprising economic, social, political and legal factors. Therefore the structure must be designed to work efficiently in changing environment. It cannot be static or mechanistic.
8. **Rules and Regulations:** Every organization has some rules and regulations for orderly functioning of people. These rules and regulations may be in writing or implied from customary behaviour.

5.3 Features of an Organization

The following principle features, which are helpful in developing a sound and efficient organization structure:

- **Unity of Objectives:** The type of organization structure depends upon the objectives of the enterprise. Therefore the objectives must be stated in clear and concise terms. Every part of the organization should be designed to facilitate the accomplishment of common objectives.
- **Division of Work:** The total work should be divided in such a way that as far as possible every individual performs a single function. This is also called the principle of specialization.
- **Span of Control:** No executive in the organization should be required to supervise more subordinates than he can effectively manage. At the same time number of levels of authority should be as few as possible so as to speed up decision making and communication.
- **Scalar Principle:** The line of authority (chain of command) from the top executive to the lower level executive should be clear and unbroken. Every individual should know whom he reports and who reports to him.
- **Principle of Exception:** Every manager should take routine decisions himself. Only exceptional matters beyond the scope of authority should be referred to higher authorities. This is also known as authority level principle.
- **Unity of Command:** Each individual should receive orders from and be accountable to only one boss. Dual subordination should be avoided as it undermines authority creates disorder and confusion which leads to indiscipline.

- **Functional Definition:** The authority and responsibility of every individual should be clearly defined. The relationships between different jobs should be clearly specified. Clear differentiation should be made between line to ensure completion of tasks and coordination of activities.
- **Unity of Direction:** There must be one head and one plan for a group of activities directed towards the same objective. This is necessary to ensure completion of tasks and coordination of activities.
- **Delegation:** Authority delegated to an individual should be adequate to enable him to accomplish the results expected of him. Authority should be delegated to lowest possible level consistent with necessary control so that decision is made as near the scene of action as possible.
- **Correspondence:** Authority and responsibility must be conterminous and coextensive. Authority delegated to a position should be commensurate with the responsibility of that position and vice versa. This is called parity of authority and responsibility.
- **Absoluteness of Responsibility:** No superior should be allowed to avoid his responsibility by delegating authority to his subordinate. He must be held accountable for the acts of his subordinates.
- **Simplicity:** The organization structure should be kept simple with minimum number of levels. This is necessary for effective communication and coordination.
- **Flexibility:** The organization structure should be adaptable to changing circumstances. There should be scope for expansion without disrupting the basic design.
- **Efficiency:** The structure formulated should enable the enterprise to function efficiently and to achieve its objectives with minimum cost and effort.
- **Continuity:** The organization structure should be serviceable for a long period of time. This is necessary to enable people to gain experience in positions of responsibility.

The knowledge of these principles will not necessarily make an efficient organizer. These principles can also be considered as the essential elements of sound organization.

5.4 Advantages of Organization

Sound organization is essential for the continuity and success of every enterprise. It is indeed the backbone or foundation of effective management. The advantages of sound organization are as follows:

1. Aid to Management

Organization is the mechanism through which management coordinates and controls the business. It serves as an effective instrument for realizing the objectives of the enterprise. It is through the framework of organization that plans are put into practice and other managerial functions are carried out. It helps to focus the attention and action of management on the accomplishment of enterprise objectives. If the organization is ill designed management is rendered difficult and ineffective. If it is illogical, then the first requisite of sound management has been achieved.

2. Facilitates Growth

A well-designed and balanced organization provides for systematic division of work and permits necessary change. It is the framework within which an organization grows. Therefore it enables the enterprise to enter new lines of business.

3. Ensures Optimum Use of Resources

A good organizational set up permits adaptation of new technology. It helps to avoid duplication of work, overlapping efforts and other types of waste. As a result it facilitates the best possible utilization of human and physical resources.

4. Stimulates Creativity

Sound organization encourages creative thinking and initiative on the part of employees. Delegation of authority provides sufficient freedom to lower level executives for exercising discretion and judgement. Clear lines of authority simplify communication.

5. Facilitates Continuity

A well-designed organization provides for training and development of employees at all levels. It provides opportunities for leadership and helps in ensuring the stability of the enterprise through executive development.

6. Helps in Coordination

Organization is a means of integrating individuals' efforts. It helps in putting balanced emphasis on different departments and divisions of the enterprise. It makes for co-operation and harmony of actions.

5.5 Types of Organization

The hierarchical system of an organization represents the network of vertical and horizontal authority relationships between various positions. The exact form of internal organization depends upon the nature, size and objectives of the particular enterprise. The various forms or patterns of hierarchy are as follows:

Line Organization

Line organization is the oldest type of organization. It is also known as scalar or military organization. In this type of organization there is a vertical line of authority running from the top to the bottom of the organization. The man at the top has the highest authority and it is reduced at each successive level down the hierarchy. Every person is in direct chain of command. He gets orders from the man immediately above him and is directly accountable to only one superior. The line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement.

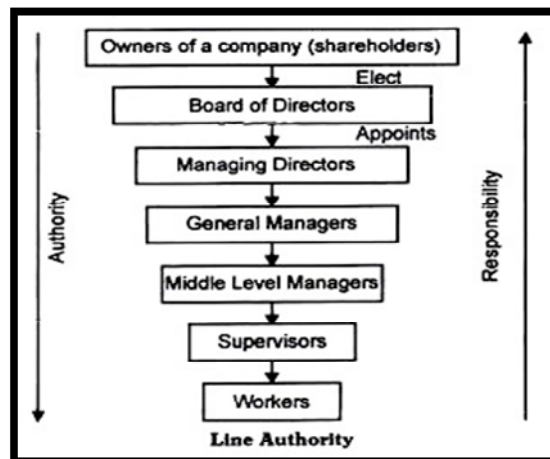


Figure 5.1 Line Organization

Line organization can be of 2 types. In pure line organization all individuals at a given level perform the same type of work and they are grouped into divisions only to facilitate effective supervision and control. In a departmental line organization work performed in each department is of a different type.

Advantages

1. It is very simple to establish and can be easily understood by the employees
2. The authority and responsibility of each position is clearly defined. Each individual knows to whom he is responsible.
3. It facilitates prompt decisions because a manager has not to consult staff specialists. Speedy action is possible.
4. It ensures better discipline because each manager has direct and close contact with his subordinates.
5. There is unity of command as each executive has full control over his subordinates. This facilitates unity of control and effective supervision.
6. It provides opportunity for the development of skills to the executives, as every manager has to perform a variety of functions.

Disadvantages

1. There is lack of specialization. Each executive is responsible for both planning and execution of work.
2. Key executives are overburdened with administrative work. They cannot use conceptual thinking when the organization grows.
3. It may result in autocratic control. Each manager has monopoly of decision-making and he may not listen to the suggestions of his subordinates.
4. Subordinates are not supposed to express their opinions and they have to conform to the decisions. They may lose initiative and capacity for independent thinking. There is very little upward communication.
5. Line organization may result in instability as the success of the organizations depends upon a few competent managers.

Functional Organization

This organization structure is based on the concept of “Functional foremanship” developed by F.W Taylor. Here the organization is divided into a number of functional areas. An expert in that area manages each function. Every functional area serves all other areas in the organization. For example the purchase department handles purchases for all departments. The executive in charge of a particular function issues orders throughout the organization with respect to his function only. For example the personnel manager will decide the questions relating to salary, promotions, transfer, etc for every employee in the organization whether he is in production, sales or any other departments. Thus an individual in the organization receives instructions from several functional heads. Every functional heads enjoys the functional authority over their subordinates in other departments.

Advantages

- **Specialization:** Functional organization promotes logical division of work. Every functional head is an expert in his area and all workers get the benefit of his expertise.
- **Reduction of workload:** Every functional head looks after one function only and therefore burden on top executives is reduced
- **Better control:** One-man control is done away with and there is joint supervision of work .As a result control becomes more effective.
- **Easier staffing:** Recruitment, selection and training of managers is simplified because each individual is required to have knowledge of one functional area only.
- **Higher efficiency:** Every individual in the organization concentrates on one function only and receives the expert guidance from specialists. There is scope for functional improvements through a application of expert knowledge.
- **Scope for expansion:** The success and growth of the organization is not limited to the capabilities of a few line managers. Standardization and specialization facilitate mass production.

Disadvantages

- **Double command:** A person is accountable to several superiors. As a result his responsibility and loyalty get divided .In the absence of UNITY of command, responsibility for results cannot easily be fixed.

- **Complexity:** There are many cross relationship which create confusion .A worker may receive conflicting orders .He cannot easily understand his place in the organization.
- **Delay in decision-making:** A decision-making problem requires the involvement of several specialists. Therefore decision-making process in functional organization is slow.
- **Problem of succession:** Executives at the lower level do not get opportunity of all round experience. This may create problem succession to top executive positions.
- **Lack of co-ordination:** A functional manager tends to have a limited perspective. He thinks only in terms of his own department rather than of the whole enterprise. He may be jealous of his prerogative and fight to promote his own speciality.

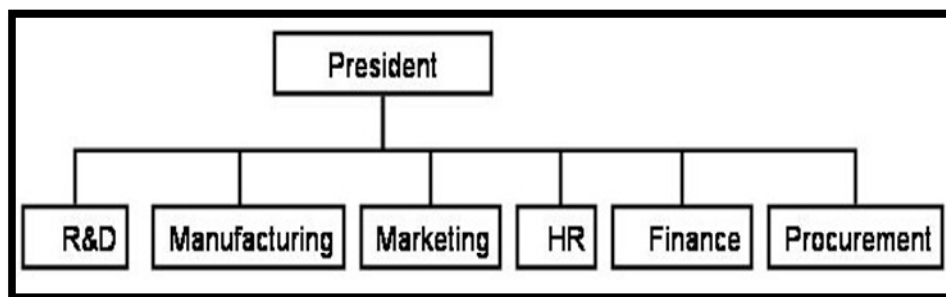


Figure 5.2 Functional Organization

5.5.3 Line and Staff Organization

Line and staff organization is a combination of line and functional structures. Here line authority flows in a vertical line the same manner as in the line organization .The staff specialists are attached to line positions to advise them on important matters. These specialists do not have power of command over subordinates in other departments. They are purely of advisory nature. When the work of line executives increases they need advice information and helps of staff specialists. Therefore staff positions are created to support the line managers. Every staff specialists have line authority over the subordinates in his own departments. For example the chief accountant has command, authority over accountants and clerks in the accounts departments. But he has only advisory relationship with other departments like productions, sales etc.

Advantages

1. **Expert advice:** Line managers receive specialized advice and assistance from staff experts. They are enabled to discharge their responsibilities more efficiently.
2. **Relief to top executives:** Staff carries out detailed investigation and supply information to top line executives. Therefore the burden of line executives is reduced they got ample chance for creative thinking to generate new ideas.
3. **Quality decisions:** Staff specialists provide adequate information and expert advice. As result line executives can take better decision.
4. **Training personnel:** As every executive concentrates in one field, he acquires expertise in their respective fields activity.

Disadvantages

1. **Line and staff conflicts:** The main problem of line and staff organization is that conflicts often arise between line managers and staff specialists.
2. **Confusion:** Different managers may not be clear of what is expected of them .In absence of clear allocation of duties, co ordination may be hampered.
3. **Ineffective staff:** Staff personnel are not accountable for the results. Therefore they may not take their tasks seriously. They may also be ineffective due to lack of command authority

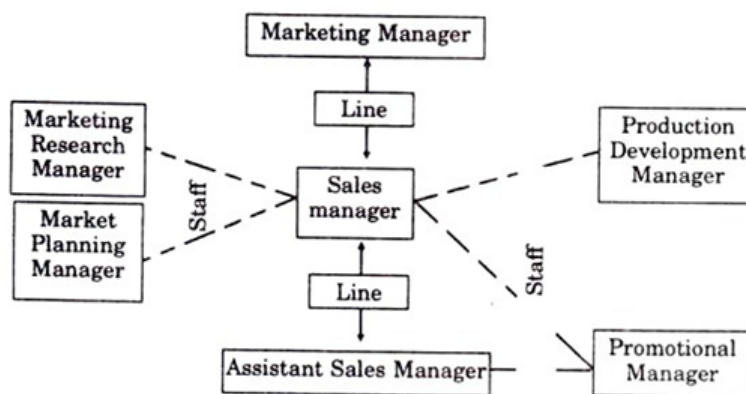


Figure 5.3 Line and Staff Organization

This structure is suitable for large organizations .It provides ample scope for specialization without violating the unity of command its success depends upon the degree of harmony that is maintained among line and staff.

Types of Staff

- **Personal Staff:** Personal staff consists of those assistants' positions, which provide advice and service to one manager in carrying out his responsibilities. Such staff positions are known by different names. Personal assistant, private secretary, executive assistant etc such positions are generally created at higher levels of the organizations.
- **Specialized Staff:** Such staff renders advice and service to all departments in the organizations .It consists of specialists or experts in different areas like accounting personnel etc. These specialized staff becomes reservoirs of special knowledge and experience.
- **General Staff:** It consists of a group of experts in different fields who are attached to the head office of the organization. This is generally employed to provide advice and assistance to the top management

Line-Staff Conflicts

The causes of such conflict may be divided into three different kinds. They are as follows:

I. General reasons for conflicts between line and staff

1. Staff officers try to interfere in the work of line managers and attempt to tell them how to do their work.
2. Staff personnel fail to give fully considered well-balanced and sound advice. Like academicians they give new ideas that have little practical application.
3. These personnel are not directly accountable for results and are generally over jealous. They tend to take the credit for success but blame for failures.
4. Staff officers tend to impose their superiority on line managers. Staff personnel are generally more educated and specialists in their areas. Therefore they consider themselves superior to line executives.

II. Staff personnel usually make the following complaints against line managers

1. Line managers often resist new ideas and are not prepared to listen to the arguments of staff experts.
2. Staff specialists lack authority to get their useful ideas implemented .As a result they get frustrated.
3. Line managers do not make a proper use of the services of staff specialists. Line managers consult them only as a last resort. They consider that asking for advice is admitting defeat.

III. The following weaknesses in the organization structure also lead to line - staff conflict

1. The authority and relationships between line and staff are not clearly defined. This results in overlapping and gaps in authority leading to conflicts.
2. There are fundamental differences in the orientation, viewpoints and perceptions of line and staff. Staff people are relatively young, better educated and more sophisticated in their outlook. Staff needs changes and experimentation whereas line often desire status quo and caution.

Steps for improving relationship between Line and Staff

1. The limits of line authority and staff authority should be defined clearly and precisely. It should be made clear to all that line has the ultimate responsibility for results while staff is responsible for providing sound advice and service to the line executives.
2. Line should give due consideration to the staff advice and should follow the recommendation if they are in the best interests of the organization.
3. Line executives should consult and seek staff advice as a matter of habit. They may be forced to consult staff on regular basis. This is known as the principle of compulsory staff advice.
4. Line managers should not take action directly affecting staff without informing the staff. They should keep the staff fully informed of their problems and requirements.
5. Staff specialists should appreciate and understand the problems of line. They should not make it a prestige issue when their advice is not followed.

6. Staff should try to recognize and overcome resistance to change on the part of line. They should be convinced and consulted before introducing change and the results of change should be made known to them.
7. Staff should encourage and educate line managers by letting them know what they can do for line.
8. Staff experts should fully consider their suggestion before putting these before line executives. They should be a problem solver not a problem creator. They should make complete recommendation so that line can respond in terms of yes or no. This is called completed staff work.
9. Line and staff should understand the orientation of each other. Line should recognize the importance of staff and should consider staff as a helper. In this way line and staff can become an organizational way of life.

Project Organization

This organization structure is of recent origin developed after World War II. Under project organization each project is organized as a semi autonomous project division. A project team consists of specialists in different fields. The activities of project team members are coordinated by a project manager who is ultimately responsible for the successful completion of the project. Once a project is complete the regular project division undertakes a new project. A simple project organization as shown in the next page.

Project organization can be effectively applied under the following situations.

- The project offers a unique or unfamiliar challenge.
- The project has definite goals and well defined specifications.
- Successful completion of the project is critical to the organization.
- The project is complex with interdependent tasks.
- The assignment is to be completed within the given time limit.

Advantages

- Project organization facilitates concentrated attention that a complex project requires. It can be tailored to meet the specific requirements of the particular project.

- It allows maximum use of specialized knowledge and skills.
- It provides greater flexibility in handling specialized projects. It also provides better coordination of organizational resources.
- Project organization provides greater check over the project work and facilitates fixation of individual responsibility of results.

Disadvantages

- It has great uncertainty, because the project manager has to deal with specialists from a number of diverse fields. These specialists often have different approaches and interests.
- The job of the project manager becomes very difficult due to lack of clearly defined responsibility, lack of clear communication lines and lack of performance standards for various professionals.
- The project manager cannot apply the traditional approach for motivating and controlling the professionals. Lack of awareness of project problems, personal prejudice and different orientations of professionals create serious problems.

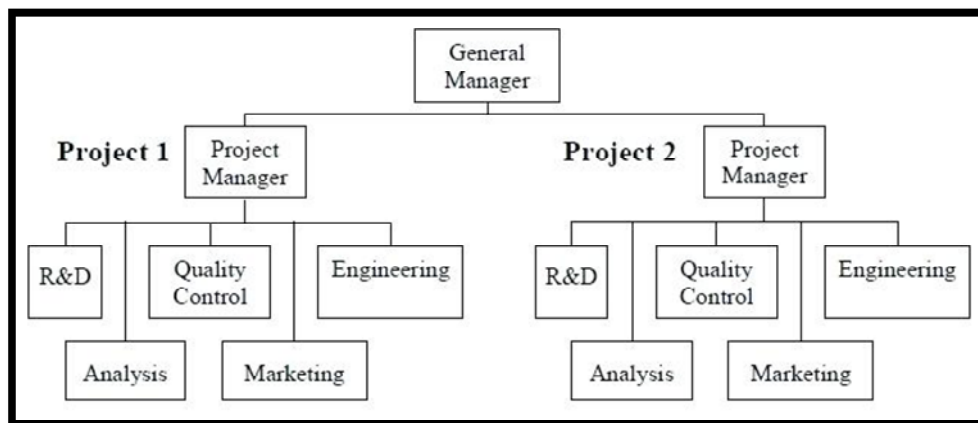


Figure 5.4 Project Organization

Matrix Organization

Matrix organization is a hybrid grid structure where in pure project organization is superimposed on a functional structure. It is a two dimensional pattern developed to meet the

problems of growing size and complexity of undertakings. It is defined as any organization that employs a multiple command system but also related support mechanism and an associated organizational culture and behaviours pattern. Thus a matrix organization is characterized by an over lapping of command, control and behaviour patterns.

In matrix organization a permanent functional set up and also a temporary project groups are created to handle infrequent short-term projects. Personnel are drawn from functional departments. Their activities on the part of the project are coordinated and controlled by the project manager. When the project is completed the team is disbanded and the personnel return to their original departments. During this assignment the employee has two bosses his permanent head in the functional department and the project manager.

Advantages

- It helps the organizations the optimum development and utilization of specialized functional services.
- Since functional services are commonly available to all their units this leads to economy in efforts.
- The functional services may also be originated in such a way as to apply them effectively to different organizational outputs.
- It permits organizations to have high degree of flexibility and adaptability in the organizational structure
- Since the membership of functional specialists in project or product teams is overlapping and sometimes temporary they tend to develop a high degree of mobility and elasticity in their attitudes towards their jobs.
- The multiple reporting relationships and dual authority settings are also likely to encourage open communicational and international patterns among the personnel of the organization.

Disadvantages

- It violates the principle of command. Functional groups receive orders from both functional bosses and project manager. This may give rise to power struggle and jurisdictional conflicts in the organizations.

- The organizations relationships become very complex and there is great confusion among personnel. They fail to identify their respective superiors, as there are both formal and informal relationships.
- Co-ordination of people drawn temporarily from different functional departments becomes very difficult .It is not a homogeneous group and in the absence of line authority the project manager cannot control its functioning. Morale of such a heterogeneous group is likely to be low.
- Joint decision making and sharing of resources are required. In the absence of spirit of understanding and accommodation vital decisions get delayed. Each executive may emphasis his own area at the cost of the success of the organization, this will result into conflict and projects might not be completed in time.

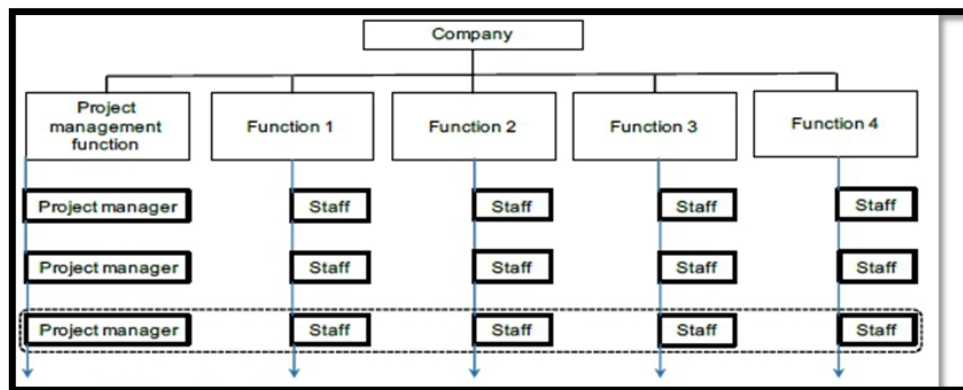


Figure: 5.5 Matrix Organization

Matrix structure can be successful only when there is an agreement amongst the executives regarding the sharing of authority and resources. There should be common willingness among both functional managers and project managers to resolve the conflicts that may arise due to the sharing of resources.

Committee Organization

A committee is a group of persons formed to discuss and deliberate on problems and to recommend or decide solutions. Its area of operation is determined by its constitution. It is determined to deal with all activities but the scope of the activities is limited and it cannot handle problems not assigned to it. Members of the committee have authority to go into details of the problems. The authority is expressed in terms of one member one vote.

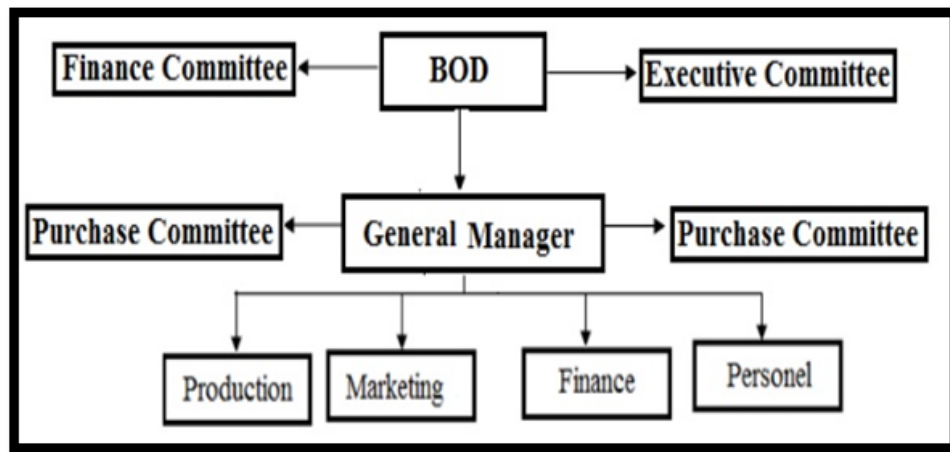


Figure: 5.6 Committee Organization

Objectives

- To secure viewpoints and consultation of various persons in the organization.
- To give participation and representation to different groups or interests.
- To co-ordinate the activities of different departments.
- To facilitate communication and co-operation among diverse groups.

Types of Committees

- **Standing or Ad-hoc Committee:** A standing or permanent committee exists continuously for an indefinite period of time. An ad-hoc committee is temporary committee and constituted for a specific purpose. It is dissolved when the purpose is served.
- **Executive or Advisory Committee:** An executive committee has the authority to make and execute decisions. But advisory committee can only make recommendations.
- **Line and Staff Committee:** A line committee is purely executive as it coordinates and controls the activities of subordinates. But a staff committee simply disseminates information, advice and assistance to line managers.
- **Formal or Informal Committee:** Management as per organizational policies and rules duly constitutes formal committees. They are a part of the organization structure and they are depicted on the organization chart. Informal committees are not

constituted and no specific responsibilities are assigned to them. These arise when some employees informally meet and discuss common problems due to the desire for the group thinking and they also cut across the formal lines of authority.

Advantages

- **Group Judgement:** In committee decision making combined judgement and experience of a group of persons are brought together for the solution of intricate problems. There is also exchange of ideas and opinions. Therefore committee decisions are likely to be more balanced, logical and objective than those taken by a single person.
- **Effective Coordination:** Committees serve as an important technique of unifying and integrating various points of views by bringing together managers from different departments.
- **Motivation through participation:** By allowing the people to participate in the decision making process, committees help to improve the loyalty and commitment of employees.
- **Representation of diverse interest groups:** Committees are useful means for giving representation to various interests groups. Such representation helps to avoid conflict among groups and improves group's cohesiveness.
- **Management Development:** By serving on various committees managers acquire valuable experience. Their outlook and knowledge are widened and they are exposed to the art and science of decision-making.
- **Check against misuse of powers:** Sometimes committees are constituted to avoid the concentration of too much authority in a single individual .The committee is vested with line authority to provide checks and balances against the abuse of power.

Disadvantages

- **Expensive:** Committee meetings are costly affair both in terms of money and time. In addition to the salary of the committee members there are heavy incidental expenses like printing and stationary, refreshments, conveyance, daily allowances etc.

- **Slow Decisions:** The functioning of committees is very slow and it cannot take quick decisions. A lot of time is involved in calling meetings, debate and discussion of the issue etc. Very often the real issue might be clouded and extraneous matters may creep into the decision, Committees tend to be indecisive.
- **Compromise Decision:** While reaching a decision committees tend to adopt the path of least resistance. A compromise or unanimity is sought to accommodate opposite viewpoints.
- **Divided Responsibility:** The responsibility for wrong decisions by a committee cannot be fixed on any one individual. In such group responsibility every ground for evasion of responsibility and efficiency is possible.
- **Misuse of Committees:** Committees are sometimes misused to avoid action to take unpleasant decision or to delay decisions.

Tools for Effective Committee

1. **Right Size:** The proper size of the committee will depend upon its purpose and requirements .In many cases five to six members is considered the right size of a committee.
2. **Selection of members:** The members of a committee should be effective and carefully chosen with due regard to ability, commitment, temperament and status.
3. **Well defined the scope:** The purpose and authority of a committee should be well-defined .The functions, responsibility and organizational relationship of a committee should be specified in clear terms.
4. **Adequate preparation:** The meetings of the committee should be well planned. Every member should be provided the agenda and other notes well in advance so that he can think over the problem and get prepared for the meetings.
5. **Follow up:** The committee members should be informed of the action taken on the recommendations of the committee. If no action is taken or the recommendations are rejected they should be given the reasons. A periodic review of the effectiveness of various committees should be made to avoid committees becoming self perpetuating.

5.6 Establishment of an Organization

The establishment of an organisation depends on a number of factors, as described below. In other words, what is called for is the contingency view of organization.

1. **Environment:** Researches have shown that different type of environments requires different types of organizational structures for effectiveness. Burns and Stalker have found that in stable environments when people do fixed and specialized jobs and feel little need to change their skills, classical structures with strong controls and tightly specified duties are appropriate. But in fast-changing environments when the creative problem-solving and decision-making processes requires free and open communication among members behavioural structures are appropriate. Another study made by Lawrence and Lorsch also strongly indicates that decentralized informal structures are best able to cope with uncertain environmental conditions. Conversely, centralized formal structures are more effective in stable environments.
2. **Culture :** Another factor shaping the underlying structure of an organization is culture. Culture sets the bonds on what may or may not be done, on what is desirable and what not. Firms in North America tend to be more decentralized than firms in, say, Germany; American culture sanctions, in fact supports, decentralization of authority, whereas German culture does not, at least not to the same degree.
3. **Task :** The task of an organization is another major determinant of its structure. It is determined by the organization's original charter and the role which the organization decides to play in the society at large. Using criterion of *cui bono* – who benefits – organizations can be classified into 4 basic types:

Mutual benefit organizations : Benefiting their members only, e.g., labour unions, trade associations, etc

Business concerns : Benefiting the owners e.g., manufacturing companies, marketing organizations, banks, etc.

Service organizations : Benefiting the clients, e.g., insurance companies, private hospitals universities, etc

Commonweal organizations : Benefiting the public at large, e.g., post offices, government hospitals etc. There are differences in the structure of these four types of

organizations. The degree of authority exercised and the nature of control employed in mutual benefit organization cannot be the same as that in a business concern. The voluntary character of the former organization will need a liberal structure.

4. **Technology** : The structure of an organization is influenced greatly by its technology. Three broad types of technology are: unit, mass and process. Of these 'unit' is the simplest technology and 'process' is the most complex. Joan Woodward's study has shown that:
 - a. The more complex the technology, the more the need for supervision and coordination and the greater the number of managers and management levels, In other word complex technologies lead to tall organization structures.
 - b. The more complex the technology, the more the need for better personnel administration and plant maintenance to keep the equipment in operation for higher proportion of the time and the greater the number of clerical and supporting staff.
 - c. In mass technology, workers usually perform similar types of unskilled jobs. Hence large numbers of workers can be supervised by one first-line manager. But in unit or process technology, this is not possible. Here workers perform highly skilled jobs, for which small work groups are inevitable.
5. **Strategy** : By strategy we mean the basic long-term goals of an enterprise and the allocation of resources necessary for carrying out these goals, Alfred Chandler's study of a number of American companies has shown that with the change in strategy, change in structure becomes essential. The strategy of diversification into new products or new geographical areas inevitably makes a highly centralized structure inefficient and impractical. The different units are required to have a greater measure of independence in order to be able to respond quickly to the changing demands of their special markets. This makes essential for a company to shift to a decentralized structure with near – autonomous divisions, in order to remain successful.
6. **Size** : By size we mean the number of employees working for the organization in a single location. Pugh-Hickson's study has found that as the number of employees increases, the amount of formality also increases to cope with the complexity of employee interrelationships and communication problems. Ten to fifteen people can relate to each other rather informally, five hundred cannot. Moreover, as size

increases, specialization becomes further pronounced and with it the formality of structures.

7. **Span of Control :** We have seen above that there is a very close relationship between the span of control and the shape of organization structure. Small spans give rise to tall structures and big spans to flat structures.
8. **Form :** By 'form' we mean whether the enterprise is a cooperative, a private company or a government agency. A cooperative is founded on democratic principles and therefore, unlike a private company, cannot be organized and run like a dictatorship at the discretion of its management. A government agency in a democratic country is generally vulnerable to attracts in the legislature and often must adopt many rules and regulations to be able to defend the propriety of its actions, a necessity that forces it to be bureaucratic.
9. **Managerial Characteristics :** The structure of an organization is also influenced by the personality and the value system of its top managers. If top managers believe that people are, by nature lazy and uncooperative, they would prefer to create an organization, which emphasizes direction and control. On the other hand, if they believe that people are good and committed to organizational goals they would create an organization which emphasis freedom of action.
10. **Employee characteristics :** Last, though not the least important factor affecting organization structure is employee characteristics. By 'characteristics' we mean their abilities, skill and experience as well as their needs and personality characteristics. If an organization is generally composed of employees who are highly skilled and motivated, have strong needs for independence and self-realization, a behavioural structure would be more appropriate than a classical one. On the other hand, if the organization is generally composed of unskilled and poorly motivated employees, a classical structure may be more appropriate than a behavioural one.

5.7 Case Study

Kumar 52, was the senior most, conscientious, hard working employee in a major transport company. His Manager, Muthu recognized his services and gave him the choice of work assignments. A problem developed when Muthu employed Hari 23, a personable, intelligent

and diligent employee. He was hard work routine rapidly. Tension developed between the two employees. One day Kumar practically pulled Hari to the front of Muthu's desk and demanded, "Will you please tell him once and for which projects are mine and which are His?" the office became quiet as everyone awaited Muthu's reply. The abrupt confrontation made further procrastination impossible.

1. Could have been avoided through better organisation? How?
2. How should Muthu respond to the demand of Kumar?

5.8 Summary

Organisation is systematic integration of interdependent parts to form a united whole. It is a structure of relationship among various positions or jobs. The important elements of an organization are common purpose, division of labour, authority, structure, people, communication, coordination environment, rules and regulations. Developing a sound and efficient organization structure depends upon unity of objectives, division of work, span of control, scalar principle, principle of exception, unity of command, functional definition, unity of direction, delegation, correspondence, absoluteness of responsibility, simplicity, flexibility, efficiency, continuity. Organization depends upon the nature, size and objectives of the particular enterprise. The various forms or patterns of hierarchy are line organization, functional organization, line and staff organization, project organization, matrix organization, committee organization. The establishment of organisation depends on a number of factors such as environment, culture, task, technology, strategy, size, span of control, form managerial characteristics, employee characteristics.

5.9 Key Words

- Functional Organisation
- Line Organisation
- Line and Staff Organisation
- Project Organisation

5.10 Review Questions

1. Define the term organisation and explain the important principles of organizing
2. “Sound organisation structure is an essential prerequisite of efficient management.”
- Discuss.
3. Describe the various forms of organisation and explain matrix organisation

5.11 References

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LESSON - 6

DEPARTMENTATION

Learning Objectives

After reading this lesson, you must be able to

- Describe the need for departmentation
- List out the types of departmentation
- Explain the factors considered for departmentation

Structure

- 6.1 Introduction**
- 6.2 Need for Departmentation**
- 6.3 Types of Departmentation**
- 6.4 Factors considered for Departmentation**
- 6.5 Organisation Chart**
- 6.6 Organisational Manual**
- 6.7 Case Study**
- 6.8 Summary**
- 6.9 Key Words**
- 6.10 Review Questions**
- 6.11 References**

6.1 Introduction

Basic division of functional activities is also known as departmentation. It can be defined as the process of grouping individual jobs into departments. It involves grouping of activities and employees into departments so as to facilitate the accomplishment of organization objectives. Once the total work of an enterprise is divided into individual functions and sub-functions these functions are grouped together into as work units on a particular basis:

6.2 Need for Departmentation

1. **Specialization:** Departmentation enables an enterprise to take advantage of specialization. When every department looks after one major function of business, division of work becomes possible.
2. **Expansion:** One manager can manage only a limited number of subordinates .In the absence of departmentation the size of the enterprise remains limited. Grouping of activities and personnel into departments makes it possible to expand as organization to an indefinite degree.
3. **Autonomy:** Departmentation results in the division of the enterprise into semi autonomous Units. In these units every manager is given adequate freedom. The feeling of autonomy provides job satisfaction and motivation, which in turn leads to higher efficiency of operations.
4. **Fixation of responsibility:** Departmentation enables each person to know the specific part he is to play in the total organization. It provides a basis for building up loyalty and commitment.
5. **Appraisal:** Appraisal of managerial performance becomes easier when specific tasks are assigned to departments personnel.
6. **Management development:** Departmentation facilitates communication coordination and control .It simplifies the training and development of executives by providing them opportunity to take independent decisions and to exercise initiative.
7. **Administrative control:** Grouping of activities and personnel into manageable units facilitates administrative control. Standards of performance for each and every department can be precisely determined.

6.3 Types of Departmentation

1. Functional Departmentation

Under functional departmentation each major or basic function is organized as a separate department. Basic or organic functions are the functions the performance of which is vital and essential to the survival of the organization .For e.g. production, sales, finance and personnel are basic functions in the manufacturing enterprise. Major function may be divided into sub-functions. Activities in production department may be classified into quality control, processing

of material, repairs & maintenance Thus the process of functional differentiation may take place through successive levels in the hierarchy.

Advantages

1. It is the most logical, time proven and natural form of departmentation.
2. It provides specialization, which makes optimum utilization of manpower.
3. It ensures the performance of all activities necessary for achieving organizational objectives.
4. It facilitates delegation of authority and also permits effective control over performance
5. It makes management easier because managers have to be experts only in a narrow range of skills.

Disadvantages

1. There is too much emphasis on specialization. When each employee specializes only in a small part of the job he cannot develop a balanced attitude towards the job as a whole.
2. Functional departments may grow in size to justify their costs. Managers may try to build their functional empires.
3. There may be conflicts between departments as the responsibilities are interdependent and cannot always be clearly delineated.
4. There may be difficulties in coordinating the activities of different departments.



Figure 6.1 Functional Departmentation

2. Product Departmentation

In product departmentation, every major product is organized as a separate department. Each department looks after the production, sales and finance of one product. Product departmentation is useful when product expansion and diversification, manufacturing and marketing characteristics of the product are of primary significance. It is generally employed when the product is relatively complex and a great deal of capital is required for plant and equipment such as in automobile and electronic industries. E.g. A big company with diversified product line may have three product divisions each for plastics, chemicals and metals each having separate sub departments of marketing, production and finance.

Advantages

1. Product departmentation can be reducing the problem of coordination between departments. All activities concerning a particular product line are integrated together.
2. It focuses individual attention on each product line, which facilitates product expansion and diversification.
3. It leads to specialization of physical facilities.
4. The performance of each product division and its contribution to overall results can easily evaluate.
5. It is more flexible and adaptable to change

Disadvantages

1. There is duplication of physical facilities and functions. Each product division maintains its own facilities and personnel due to which operating costs may be high
2. There may be under utilization of plant capacity when the demand for a particular product is not available.
3. The firm may find it difficult to adapt itself to changes in demand and technology.

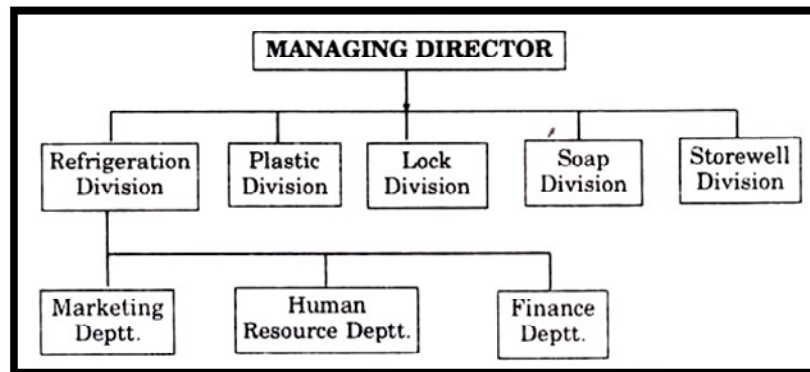


Figure 6.2 Product Departmentation

3. Territorial Departmentation

Territorial departmentation is very useful to a large-scale enterprise whose activities are geographically spread. Banks, insurance companies, transport companies and distribution agencies are examples of such enterprises. Here departmentation activities are divided into zones, divisions and branches.

Advantages

1. It helps in achieving the benefits of local operations. The local managers are more conversant with local customs, preferences, fashions, styles etc. They can adapt and respond to the local demand situation with speed and accuracy.
2. It results in savings in freight rents and labour costs.
3. It facilitates the expansion of business to various regions.
4. It provides an opportunity to train managers as they look after the complete operations of a unit.

Disadvantages

1. Due to geographical distance, there is problem of communication.
2. Coordination and control of different branches from the head office becomes less effective.
3. There is duplication of physical facilities due to which costs of operations can be high.

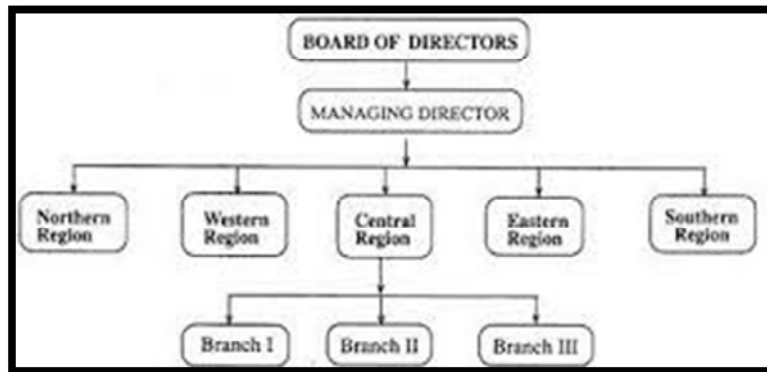


Figure 6.3 Departmentation by Territories

4. Customer Departmentation

Under this basis of departmentation activities are grouped according to the type of customers. A large cloth store may be divided into wholesale, retail and export divisions. This type of departmentation is useful for banks, departmental stores etc.

Advantages

1. Special attention can be given to the particular tastes and preferences to each class of customer. Customer's satisfaction enhances the goodwill and sales of the enterprise.
2. The benefits of specialization can be derived.
3. The enterprise gains intimate knowledge of the needs of each category of customers.

Disadvantages

1. As such departmentation is applied only to sales function. There may be difficulties in coordinating the activities of different functions.
2. There may be under utilization of facilities and manpower, particularly during periods of low demand.
3. Managers of customers departments may put pressures for special facilities and benefits.

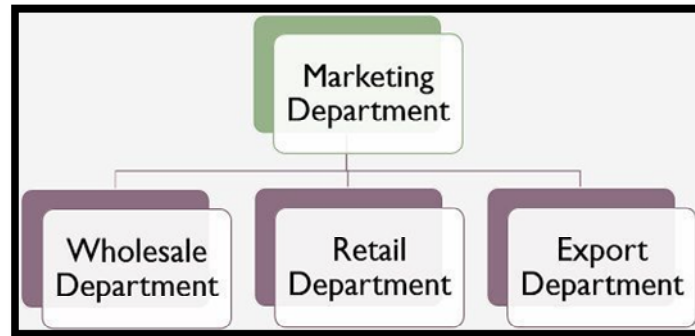


Figure 6.4 Departmentation by Customer

5. Process or Equipment Departmentation

Under this basis, activities are grouped on the basis of production process or equipment involved. This is generally used in a manufacturing enterprise and at lower levels of organization. A textile mill may be organized into ginning, spinning, weaving and dyeing departments. Similarly a printing press may consist of composing, proof reading, printing and binding departments. Such departmentation may also be used in engineering and oil industries.

Advantages

The advantages are specialization, maintenance of equipment and effective utilization of manpower. The machines are arranged in such a way that a series of operations on materials is feasible making operations economical.

Disadvantages

There may be difficulty in coordinating different process departments. Conflicts among managers of different process may arise. Volume of production must be large enough to justify a separate department.

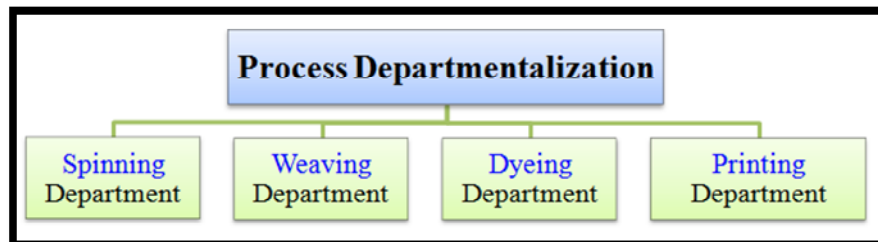


Figure 6.5 Departmentation by Process

6. Time Departmentation

Under this departmentation activities are grouped on the basis of the time of their performance. A factory operating twenty four hours may have three departments, one each for morning, day and night shifts. The idea is to obtain the advantages of people specialized to work in a particular shift.

7. Combined Departmentation

Departmentation is not an end itself but a means for achieving organizational objectives. Each basis of departmentation has its own merits and demerits. Therefore the relative advantages and limitations of various types of departmentation should be analyzed in the light of the needs and circumstances of the particular enterprise. That basis of departmentation is the best which facilitates the achievement of organizational objectives most economically and efficiently.

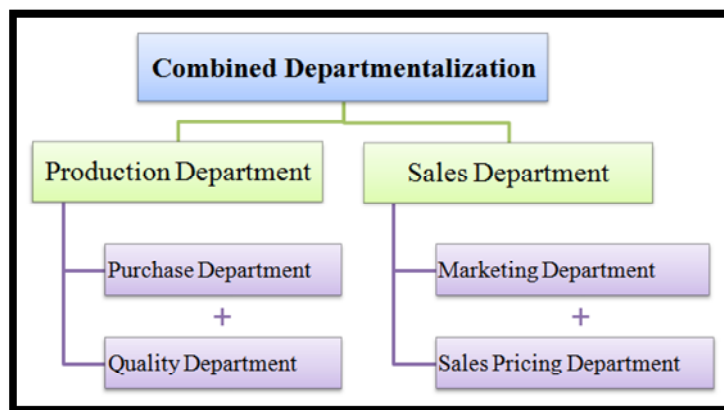


Figure 6.6 Combined Departmentation

6.4 Factors considered for Departmentation

Management must be very careful in choosing the basis of departmentation because once a pattern is chosen it is very difficult and costly to change over to another pattern. The following factors should be kept in view while selecting a suitable basis of departmentation

- Specialization
- Coordination
- Control

- Economy
- Attention
- Local Consideration
- Human Consideration

6.5 Organisation Chart

An organization chart is a graphic portrayal of the various positions in the enterprise and the formal relationships among them. It provides a bird's eye view of the relationships between different departments or divisions of an enterprise as well as the relationships between people at various levels. It is a blue print of the company's organization structure. According to George Terry "An organizational chart is a diagrammatical form, which shows important aspects of an organization including the major functions and their respective relationships, the channels of supervisions and the relative authority of each employee who is in charge of each respective function"

The following are the characteristics of organization chart:

1. It is a diagrammatical presentation.
2. It represents the formal organization structure.
3. It shows the main lines of authority in the organization.
4. It indicates inter-play of various functions and relationships.
5. It reveals who supervises whom and how the various units are related to each other.
6. It indicates the channels of communication.

Advantages

An organization chart serves as a useful tool of management in the following ways:

1. An organization chart shows clearly the various positions in the organization and how they relate to one another. It provides a clear understanding of how a job contributes to organizational objectives.
2. It shows at a glance the lines of authority and responsibility. From it individuals can identify the limits of their authority. It serves as a blueprint of the organization and helps to clarify assignment of duties.

3. It provides a basis of planning organizational change.
4. It provides guidance to outsiders as to whom they should contact.
5. An organization chart serves as a valuable guide to the new personnel in understanding how their positions fit into the total organization.
6. It helps to point out inconsistencies, overlapping of authority and deficiencies in organizational relationships.

Limitations

1. Organizational chart shows only the formal relationships and fails to reveal the informal relation existing in the organization .In practice informal relationships are significant influencers on the functioning of the organization.
2. An organization chart depicts the formal structure only at a given time. It shows a static state of affairs and does not represent flexibility, which exists, in a dynamic organization.
3. It introduces bureaucratic rigidity in the formal relationships and shows relationship, which are supposed to exist rather than what actually exist in the organization.
4. Organization charts often fails to show how much authority an individual can exercise and how far he is responsible.
5. Poorly designed charts may cause confusion and misunderstanding among the organization members. They may also create feelings of superiority and inferiority, which leads to conflicts in the organization.

6.6 Organisational Manual

An organizational manual is wider in scope and contents than the organization chart. It describes the elements of the structure outlined in the chart. An organizational chart shows who has authority over whom. But it does not show the extent of authority. An organization manual is a small handbook or booklet containing detailed information about the objectives, policies, procedures, rules, etc of the enterprise .It often includes job descriptions which are factual statements of job contents in terms of duties and responsibilities. It consists of records of top management decisions standard practices and descriptions of various jobs .It may be maintained in a loose-leaf book form for the guidance of employees. An organization manual is a useful

supplement to organizational chart. It serves as an instrument for guiding and controlling their activities.

Contents of Organizational Manual

Organization manuals differ in form and contents, the following information is generally included in an organization manual:

I. Introductory

- Name of the Organization
- Nature of the Organization
- Objectives of the Organization
- Location of the Organization
- Purpose of the Manual.

II. Administrative

- Organization structure-Major divisions and departments, the chain of command
- Job descriptions
- Organization charts
- Policies of the management
- Rules and regulations

III. Procedural

- Office procedures and practices
- Specimen form to be used
- Standard instructions regarding the performance of different jobs
- Methods relating to accounting, budgeting
- Glossary of important terms

Merits of organisation manual

Organization manuals serve several purposes and they help management in the following ways:

1. An organization manual contains in writing all-important decisions regarding the internal structure of the enterprise.
2. It contains rules and regulations as well as instructions and standard procedures in a written form.
3. It is useful in the orientation and training of new employees. Such employees can learn the procedures and practices in the shortest possible time.
4. It permits quick decisions at lower levels. Instructions and policies are stated in precise terms and supervisors can take decisions promptly by references to the manual.
5. An organization manual helps to avoid jurisdictional conflicts by identifying clearly the sources of authority.

Limitations

1. Preparation of manual is an expensive and time-consuming process. Therefore small enterprise cannot afford to have manuals.
2. Manuals may create rigidity in the organization.
3. Manuals may put on record those relationships, which should not be exposed.

6.7 Case Study

The Cure well Corporation produces and sells drugs all over the country. It has five departments - production, sales, finances, personnel and research & development. The company exports 20% of its total output. The Managing Director of the Company has appointed you as a management consultant for suggesting improvements in its organizational set - up.

1. Would you suggest customer departmentation or territorial departmentation?
2. Should the present functional departments be abolished?
3. Is combined departmentation the ideal choice?

6.8 Summary

Departmentation can be defined as the process of grouping individual jobs into departments. Departmentation is needed for specialization, expansion, autonomy fixation of responsibility, appraisal, management development and administrative control. Types of

departmentation are functional departmentation, product departmentation, territorial departmentation, customer departmentation, process or equipment departmentation, time departmentation and combined departmentation. Organization chart is a graphic portrayal of the various positions in the enterprise and the formal relationships among them. An organization manual is a small handbook or booklet containing detailed information about the objectives, policies, procedures, rules, etc of the enterprise.

6.9 Key Words

- Customer Departmentation
- Equipment Departmentation
- Functional Departmentation
- Product Departmentation

6.10 Review Questions

1. Define departmentation and explain the need of departmentation.
2. Discuss the various types of departmentation.
3. What do you mean by Organisation Chart and Why it is needed?
4. What do you mean by Organisation?

6.11 References

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LESSON - 7

DELEGATION OF AUTHORITY

Learning Objectives

After reading this lesson, you must be able to

- Define delegation of authority
- Discuss the characteristics of authority
- Describe the various authority relationship
- List out the basic principles of delegation
- Compare the merits and demerits of delegation

Structure

- 7.1 Introduction**
- 7.2 Characteristics of Authority**
- 7.3 Authority Relationship**
- 7.4 Delegation of Authority**
- 7.5 Merits and Demerits of Delegation**
- 7.6 Types of Delegation**
- 7.7 Process of Delegation**
- 7.8 Obstacles to Delegation**
- 7.9 Effective Delegation**
- 7.10 Principles of Delegation**
- 7.11 Case Study**
- 7.12 Summary**
- 7.13 Key Words**
- 7.14 Review Questions**
- 7.15 References**

7.1 Introduction

Authority may be defined as the legitimate right to orders and to get orders obeyed. It denotes certain rights granted to a position in an organization. It includes the right to take decisions and get them executed by the subordinates. It also consists of the right to command and allocate resources. It is the right to make decisions, which guides the actions of others.

No individual can perform all the activities himself. Therefore the total work of an organization is divided among different persons. Every individual is given some authority so that he can accomplish his task. Every manager shares his authority with his subordinates because he alone cannot exercise all the authority himself. After assigning duty and granting authority to subordinates a manager holds them accountable for proper discharge of duty. This part of the organizing process is known as delegation of authority.

7.2 Characteristics of Authority

1. The authority given to a position is legal and legitimate. It is supported by tradition, law or standards of authority.
2. The authority enjoyed by a position is not unlimited. The extent and limits of authority of a position are defined in advance. The position holder is expected to use his authority as per rules, regulations, policies and norms of the organization.
3. Authority is a relationship between two individuals –one superior and the other subordinate. The superior frames and transmit decisions with the expectations that the subordinate will accept them. The subordinate executes such decisions and they determine his conduct.
4. The basic purpose behind the use of authority is to influence the behaviour of the subordinates in terms of doing right time so that organizational objectives are achieved. A person with authority influences the behaviour of others that might otherwise take place.
5. Authority is the key to the managerial job. Without it a manager cannot condition the actions and behaviours of his subordinates. It provides the basis for getting things done. Authority is also the means of coordination in an organization. Line of authority serves to link and integrate the various parts of the organization to achieve common goals.

6. Authority gives right of decision-making because a manager can give orders only when he decides what his subordinates should or should not do. In the words of Terry, "Authority is exercised by making decisions and seeing that they are carried out"
7. Authority in itself is an objective thing but its existence is always subjective. Authority exercise depends upon the personality factors of the manager who can use it and on the subordinates with whom it is to be exercised.

7.3 Authority Relationship

Authority relationship is the cohesive force, which integrates various parts of organization for its effective functioning. Different managers perform different types of functions and therefore, need different types of authority. Some may involved in performing those functions which contribute directly to the achievement of the organizational objectives for example manufacturing and marketing of products in an industrial organization. Some managers are involved in those functions, which provide support to the performance of the above functions such as accounting, personnel, legal etc. Therefore the questions arise is what should be the authority relationship between personnel at different levels within same department and those in other departments? In both these questions, organizations prescribe different types of authority, which are in the form of line and staff.

1. Line Authority

Line authority is the direct authority, which a superior exercises over his subordinates to carry out orders and instructions. Such authority is delegated to those positions or elements of the organization, which have direct responsibility for accomplishing the primary objectives. The flow of line authority is always downwards, that is from a superior to a subordinate. Line authority creates a direct relationship between a superior to his subordinates. Such superior and his subordinate relationship is known as line relationship. Such relationship exists in all departments.

According to Dalton E McFarland "Line authority in an organization is the basic authority in an organization which is the ultimate authority to command, act, decide, approve or disapprove directly or indirectly all the activities of the organization. It is the authority to direct the work of others and to require them conform to decisions, plans, policies, systems, procedures, and goals relationship between superiors and subordinates"

Line relationship performs the following roles:

- i) **As a chain of command:** Line officials are in the chain of command from the highest position to the lowest position in the organization. Command relationship exists between every superior and subordinate. Each successive manager exercises command over his subordinates.
- ii) **As a carrier of accountability:** Each individual in the line is accountable for the proper performance of the activities assigned to him. Each subordinate is answerable to his superior.
- iii) **As a channel of communication:** Communication up and down the organization flows through line relationship. Every subordinate reports to his superior and his subordinates report to him.

Line relationship helps the organization to work properly by

- a) Providing the basic decision required for operations
- b) Furnishing reference points for the approval of proposals
- c) Serving as a means of control by setting limits to authority and
- d) Establishing authentic communication channels to make the leadership process effective

2. Staff Authority

Staff means a stick carried in the hand for support. In management staff refers to those elements of the organization that help the line to work most effectively in accomplishing the primary objectives of the enterprise. The nature of staff relationship is purely advisory. Staff personnel provide advice, assistance and information to line managers. Staff authority involves giving advice and service to line managers on the basis of their specialized knowledge and skills. Staff specialists reduce the burden of line executives. Staff personnel have right to direct or command subordinates within their own departments. But with respect to the line personnel they play an advisory or auxiliary role of recommending and assisting.

The basic criterion for differentiating between line and staff functions is the degree of closeness of the function to the primary objectives of the organization. Example in a manufacturing concern production and manufacturing are directly related with primary objective

but finance and personnel are not so related and are therefore considered staff functions. With change in objective, line staff functions change.

In practice it is often difficult to distinguish between line and staff. Operating personnel as orders may accept staff advice. When line managers fail to act or decide, staff personnel may enjoy command. Staff being professional experts their advice is often accepted by managers.

3. Functional Authority

Functional authority is the authority granted to a staff specialist to issue instructions to line executives directly in a specific and limited area of operations. For example a quality control expert may be authorized to accept or reject a particular batch of output.

According to Koontz O Donnell, "Functional authority is the right which an individual or department has delegated to it over specialized processes, practices, policies or other matters relating to activities undertaken by personnel in departments other than its own" Functional authority generally relates to laying down systems and procedures. Example the personnel manager may lay down the grievance procedure to be followed in all departments.

Functional authority violates the principle of UNITY of command; therefore it should be used sparingly and in special cases. If carried to extremes it may destroy order and discipline. To be effective functional authority should satisfy the following conditions:

1. It should be granted only when company wants uniformity in operations.
2. It should cover only a very minor part to the line authority.
3. It should be restricted to procedure not policy matters.
4. It should be confined to areas in which line executives do not possess expertise.
5. It should delegate to the level, which is directly below the positions of the line manager.

7.4 Delegation of Authority

Delegation of Authority is the "the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organizational placement can perform effectively and so that he can get others to help with what remains".

In simple words, to delegate means to entrust authority to a subordinate. It involves granting the right to decision making in certain defined areas and changing the subordinates with responsibilities for carrying out the assigned tasks. Delegation has the following characteristics:

1. Delegation takes place when a superior grants some discretion to a subordinate. The subordinate must act within the limits prescribed by the superior. He is not free to use authority arbitrarily but subject to the policies and rules of the organization.
2. A manager cannot delegate authority, which he himself does not possess. Moreover, he cannot delegate the entire authority to his subordinates because if he delegates all his authority he passes his position to his subordinates.
3. Generally authority regarding routine decisions and for execution of policies is delegated to subordinates. A manager retains the authority to take policy decisions and to exercise control over the activities of subordinates.
4. The extent of authority, which is delegated, depends upon several factors. E.g the ability of the executive to delegate, the ability of the subordinates to accept delegation, the philosophy of management, the confidence of the superior in his subordinates etc.
5. Delegation does not imply reduction in the authority of a manager. He can reduce, enhance or take back the delegated authority.
6. Delegation may be specific or general, written or implied, formal or informal. Delegation may be downward, upward or sideways but downward delegation is the most common type of delegation in practice.
7. Delegation does not mean abdication of responsibility. No manager can escape from his obligation by delegating authority to subordinates. Therefore he must provide a means of checking upon the work that is done for him to ensure that it is done as he wishes.
8. Delegation is an art because it is creative, practiced based, result-oriented, personal skills, and it is also a personalized process.

7.5 Merits and Demerits of Delegation

Merits

Delegation is the dynamics of management and the essence of sound organization. A single individual cannot manage and control everything due to physical and mental limitations. The tasks involved in the management of an organization are too large and one particular person cannot discharge them single-handedly. Therefore he must divide his workload and share his responsibilities with others. Once a man's job grows beyond his personal capacity, his success lies in his ability to multiply himself through other people. How well he delegates determines how well he can manage.

1. It enables the managers to distribute their workload to others. By reducing the workload for routine matters they can concentrate on more important policy matters.
2. Delegation facilitates quick decisions because the authority to make decisions lies near the point of action. Subordinates need not approach the boss every time a need for decision arises.
3. Delegation helps to improve the job satisfaction, motivation and morale of subordinates. It helps to satisfy their needs for recognition, responsibility and freedom.
4. By clearly defining the authority and responsibility of subordinates a manager can maintain healthy relationships with them.
5. Delegation binds the formal organization together. It establishes authority relationships and provides a basis for efficient functioning of the organization.
6. Delegation enables a manager to obtain the specialized knowledge and expertise of subordinates.
7. Delegation helps to ensure continuity in business because managers at lower levels are enabled to acquire valuable experience in decision-making.

Thus, delegation is an aid to executive development. It also facilitates the expansion and diversification of business through a team of competent and contented workers. But for delegation firms would remain small.

Demerits

1. **Lack of Uniformity:** When every operating unit is given the authority to take work related decisions there may be no uniformity of policy and procedures.
2. **Difficulty in Coordination:** Operating units may work at cross-purposes. It becomes difficult to integrate their efforts towards the common objective of the organization.
3. **Incapacity of Subordinates:** Where the lower level executives are untrained and inexperienced, delegation of authority may result in serious mistakes threatening the survival of the enterprise.

7.6 Types of Delegation

1. General or Specific Delegation

In general delegation, the subordinate is granted authority to perform all the function in his department or division. However the subordinate exercises this authority under the overall guidance and control of the superior.

Under specific delegation a person is given authority regarding specific function or functions. For e.g. sales person may be given the authority to collect payments from debtors. Thus specific delegation is functional in nature. Specific delegation is precise and the subordinate clearly understands what he is expected to do. But it may create inflexibility in the organization.

2. Formal or Informal Delegation

When authority is delegated as per the organization structure, it is called formal delegation. Such delegation is effective because it leaves no option to the subordinate but to obey the commands of the superior. For e.g. a sales person may be granted authority to grant discount up to 5% on the list price to customers buying goods worth Rs.5000 or more

Informal delegation takes place when an individual or a group agrees to work under the direction of an informal leader. Need for informal delegation arises due to procedural delays and red tape. When people want to short-circuit the formal procedures so as to perform the a task quickly they resort to informal delegation.

3. Written or Oral Delegation

Delegation made by written orders and instructions is known as written delegation. Unwritten or oral delegation is based in custom and conventions.

4. Downward and Sideward Delegation

Downward delegation occurs when a superior assigns duties and grants authority to his immediate subordinate. This is the most common type of delegation. Sideward delegation takes place when a subordinate assigns some of his duties and authority to another subordinate of the same rank.

7.7 Process of Delegation

The process of delegation involves the following steps:

1. Determination of results expected

A manager has to define the results he wants to obtain from his subordinates for the achievement of organizational objectives.

2. Assignment of duties

The manager then assigns specific duties or tasks to each subordinate. He must clearly define the function of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.

3. Granting of authority

Assignment of duties is meaningless unless adequate authority is given to subordinates. They can discharge their responsibilities without adequate authority. By granting authority, subordinates are permitted to use resources to take decisions and to take exercise discretion.

4. Creating accountability for performance

The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility. A person cannot be held answerable for the acts not assigned to him by his superior.

Thus, duty authority and accountability are three fundamental components of delegation. All the three phases of delegation are interdependent.

7.8 Obstacles to Delegation

Even though delegation is vital for the efficient functioning of an organization, in practice there are several factors, which prevent effective delegation. These problems or barriers in delegation may be classified into 3 categories:

- Superior
- Subordinate and
- Organization

A. On the part of Delegator

A superior may not delegate adequate authority due to the following reasons:

- Some managers may not delegate authority because of their lure for authority. They are autocrats and think that delegation will lead to reduction of their influence in the organization. They want to make their presence felt and desire that subordinates should come frequently for approval. They like to dominate the whole show.
- Some managers feel that none can do the job as well as they can do. They think that if they delegate work will not be done, as it ought to be done. They consider themselves indispensable and do not want to give other people's ideas a chance.
- When a manager is incompetent his work methods and procedures are likely to be faulty. He keeps all the authority to himself for fear of being exposed. He is afraid that is he lets the subordinates make decisions they may outshine him. He is afraid of losing his importance.
- Few managers are inclined to accept the risk of wrong decisions, which the subordinates might take. Therefore they do not delegate authority and take all the decisions themselves. They are unwilling to take calculated risk.
- A manager may not delegate authority because he feels that the subordinates are not capable and reliable. He lacks confidence in his subordinates.

- A manager is not likely to delegate authority when he cannot issue suitable directions to guide the activities of subordinates. Such lack of ability to direct shows that he is unfamiliar with the art of delegation.
- Effective delegation requires adequate controls and means of knowing the proper use of authority. A manager will hesitate to delegate authority if he has no means to ensure that the authority is being properly used by the subordinates.

B. On the part of Subordinates

Subordinates may not like to accept delegation and shoulder responsibility due to the following reasons.

1. Subordinates may not like to accept delegation when they lack self-confidence.
2. A subordinate who is afraid of committing mistakes and does not like to be criticized by the boss is likely to avoid delegation of authority.
3. Some subordinates are unwilling to accept authority due to the desire to play safe by depending on the boss for all decisions. They have a love for spoon-feeding.
4. When the subordinates are already overburdened with duties they do not like additional responsibility through delegation.
5. Subordinates are likely to avoid delegation when adequate information, working facilities and resources are not available for proper discharge of duties.
6. Subordinates may not come forward to accept delegation of authority when no incentives are available to them.

C. On the part of the Organization

Sometimes superior want to delegate authority and subordinates like to accept delegation. But delegation may be hampered due to weakness in the organization structure some of the weaknesses are as follows:

- Inadequate planning
- Splintered authority
- Lack of unity of command
- Absence of effective control techniques.

- Non- availability of competent managers
- Unclear authority relationships
- Environment of mutual distrust

In any organization the degree of delegation depends upon several factors e.g., Size of the organization, decentralized performance, management philosophy, availability of managers, workload of managers, environmental influences etc.

7.9 Effective Delegation

Inadequate and ineffective delegation leads to several undesirable consequences e.g. lack of commitment, lack of initiative, frustration, inefficiency, etc. Therefore it is necessary to make delegation effective. The following measures may be used for this purpose:

1. **Establishment of definite goals:** Delegation is a means for efficient accomplishment of organizational objectives. Therefore objectives must be clearly defined for meaningful delegation. Subordinates hesitate to accept delegation when they do not know clearly what is expected of them. Proper goal setting focuses attention on what authority will be required to achieve the goals.
2. **Clear definition of authority:** The authority and responsibility of each subordinate should be defined in clear terms. This helps to prevent overlapping of authority, avoid gaps in responsibility and avoids confusion. It enables a manager to know his limits of authority. The delegate must know what authority is to be delegated and within what limits.
3. **Proper motivation:** Subordinates should be given positive incentives for accepting responsibility. A manager's feeling of insecurity should be suitably rewarded.
4. **Appropriate environment:** A work climate free from fear and frustration should be created. Top management should provide adequate support and resources to subordinates for effective delegation.
5. **Proper training:** Subordinates should be given adequate training for proper use of delegated authority. This will also help to develop the self-confidence of the subordinates to whom authority is to be delegated.
6. **Effective control mechanism:** Proper control techniques should be developed to follow through the performance of subordinates. However control system should

focus on major deviations from the standards and should not interfere in the day-to-day functioning to subordinates. The delegation of authority must be in accordance with the organizational set up.

7. **Proper communication:** There should be free and open lines of communication. This will enable the subordinates to get the help of the manager in discharging their duties sound communication will also enable the delegator to be in touch with his subordinates.

7.10 Principles of Delegation

Delegation of authority cannot be effective unless certain principles are followed in practice. While delegating authority a manager should observe the following principles:

1. **Functional Definition:** Before delegating authority a manager should define clearly the functions to be performed by subordinates. The objectives of each jobs, the activities involved in it and its relationship with other jobs should be defined clearly.
2. **Delegation by Results Expected:** Authority should be delegated only after the results to be achieved by the subordinates are decided. This will enable them to know by what standards their performance will be judged.
3. **Parity between Authority and Responsibility:** There must be a proper balance between authority and responsibility of a subordinate. Responsibility without authority will make a subordinate ineffective, as he cannot discharge his duties. Similarly authority without responsibility will make the subordinate irresponsible. Therefore authority and responsibility should be co-extensive.
4. **Absoluteness of Responsibility:** Responsibility cannot be delegated. No manager can avoid his responsibility by delegating his authority to subordinates. After delegating authority he remains accountable for the activities of his subordinates. Similarly the subordinates remain accountable to their superior for the performance of assigned duties.
5. **Unity of Command:** At one time a subordinate should receive one command and be accountable to only one superior. If a person reports to two superiors for the same job, confusion and conflict will arise. He may receive conflicting orders and his loyalty will be divided. Therefore dual subordination should be avoided.

6. **Well-defined limits of Authority:** The limits of authority of each subordinate should be clearly defined. This will avoid overlapping of authority and will allow the subordinate to exercise initiative. He will refer only those matters to the superior which are outside the limits of his authority.

7.11 Case Study

German Corporation makes compressors and pumps for variety of industrial clients. Up until last year production and operations were running smooth. But recently Gorman was facing major difficulties in meeting production schedules, maintaining quality and dealing with special orders from customers. The President summoned three of his top aids and asked them to investigate the problem. And report back to him how these could be solved.

Philip Hayden had been with the company for seven years and had an M.S. in industrial engineering. After being a supervisor of quality control, he had been promoted to the position of department head of product engineering. Upon investigation and his own prior observations, he concluded that Gorman's problem lay in the ambiguities and confusion in the chain of command. He contended that the whole operation was totally disorganized. Too many production foremen reported directly to the manufacturing Vice-President (VP). The authority and responsibility of the manufacturing VP were unclear. Two of the plant managers bypassed the VP and communicated directly with the President, and on two occasions President gave directions to plant managers on special orders without first notifying the Manufacturing VP. The chain of command product engineering which resulted in inordinate delays in meeting customers requirements. Philip Hayden suggested that the President consider a total plan of reorganization to solve the problems.

Tom Rosenfield, another aid, was responsible for corporate development. His background was an MBA with (OR) quantitative analysis. He was with Gorman for only two years. Although he conceded that organization structure could be improved, he was convinced that the problems were as a result of a lack of proper equipment and a primitive production system. He suggested that an investment of \$200,000 to obtain new capital equipment and some rearrangement of existing manufacturing operations will improve production output by 20 % to 30 % immediately. Increased output with optimum production lot sizes would enable Gorman to meet regular demand and enable them to produce special orders without interrupting regular production. Quality would automatically improve because the crisis atmosphere would disappear.

Dick Keiler was the director of R&D. From his vantage point, he thought the problem was not; with the organisation or captive equipment but with managers themselves. The key managers were competing with each other for President's attention which bred hostilities and distrust. Everybody blamed everybody else for the difficulties, went over the boss's head and developed coalitions with other managers, forming factions within the company. The solution was to develop an effective working team and encourage general management development of key executives.

President thought that the confused decisions and inconsistent action by Gorman were primarily due to lack of long range corporate strategy. There were no basic priorities that would determine which product lines and special orders needed more attention than others. The company was not using its strengths properly to position itself in the market place. Infact the company did not have clear idea of its mission, objectives, and strategies and management ignored ongoing management process with emphasis on system concepts.

1. Classify these management approaches.
2. Would any one of the four approaches suggested here to solve difficulties faced by the company? What would be the results?
3. Are any one of these approaches not appropriate, for the President to pursue?
4. What would you do if you were the CEO (Chief Executive Office) of the company?

7.12 Summary

Authority may be defined as the legitimate right to orders and to get orders obeyed. The basic purpose behind the use of authority is to influence the behaviour of the subordinates in terms of doing right time so that organizational objectives are achieved. Organizations prescribe different types of authority, which are in the form of line and staff. Line authority is the direct authority, which a superior exercises over his subordinates to carry out orders and instructions. Staff authority involves giving advice and service to line managers on the basis of their specialized knowledge and skills. Functional authority generally relates to laying down systems and procedures. Delegate means to entrust authority to a subordinate. Delegation is the dynamics of management and the essence of sound organization. The process of delegation involves determination of results expected, Assignment of duties, Granting of authority, Creating accountability for performance. Duty, authority and accountability are three fundamental components of delegation. There are several factors, which prevent effective delegation. These problems or barriers in delegation may be classified as Superior, Subordinate and Organization.

The degree of delegation depends upon several factors such as, Size of the organization, decentralized performance, management philosophy, availability of managers, workload of managers, environmental influences etc. To make delegation effective, measures such as, establishment of definite goals, clear definition of authority, proper motivation, appropriate environment, proper training, effective control mechanism, proper communication are necessary. Delegation of authority cannot be effective unless certain principles are followed in practice.

7.13 Key Words

- Authority
- Delegation
- Delegation Obstacles

7.14 Review Questions

1. What do you mean by Authority?
2. What are the characteristics of Authority?
3. As a manager, how will you improve the line staff relationship in your organisation?
4. "Delegation of authority is not loss of power, it is enhancement of power." Examine this statement clearly.
5. Discuss the essentials of effective delegation of authority. Explain its difficulties.
6. Discuss the principles of delegation.

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LESSON - 8

CENTRALISATION AND DECENTRALISATION

Learning Objectives

After reading this lesson, you must be able to

- Discuss the meaning of centralisation and decentralisation
- Describe its merits and demerits
- Differentiate delegation and decentralisation
- Explain the factors for decentralisation

Structure

- 8.1 Introduction**
- 8.2 Centralisation**
- 8.3 Decentralisation**
- 8.4 Delegation and Decentralisation**
- 8.5 Merits and Demerits of Decentralisation**
- 8.6 Factors considered for Decentralisation of Authority**
- 8.7 Case Study**
- 8.8 Summary**
- 8.9 Key Words**
- 8.10 Review Questions**
- 8.11 References**

8.1 Introduction

In this lesson we will discuss centralisation and decentralisation. We will try to differentiate delegation and decentralization. We will also explain the factors considered for decentralisation of authority. We will list out the merits and demerits of centralisation and decentralisation.

8.2 Centralisation

Centralisation of authority refers to systematic and consistent retention or concentration of authority for decision-making at higher levels of management. In centralized organization top management has the absolute authority for making almost all the decisions. Middle and lower – level managers are given little authority.

They depend on the top management for instruction and guidance on all matters. They are expected to show no initiative and freedom in their day-to-day activities. The top management exercises strict supervision and control over all the activities in the organization. For e.g. the owner of a grocery store may himself take all decisions relating to purchase, sales accounts, stocks, etc.

Merits

- **Standardized Systems and Procedures:** Centralization provides opportunity to establish standardized systems and procedures, which facilitates smooth and effective functioning and working in the organization. The centralization makes and enables consistency in the day-to-day operation and working of business. The customer service will receive a boost if standardized systems and policies are utilized in the operation of business.
- **Professional and Personal Leadership:** Centralization provides opportunity for effective and efficient personal leadership. The personal and professional leadership is vital and important for business houses. In both the cases the operations are relatively on a small scale and top-level executives can concentrate his authority with himself. This will result in quick decisions and imaginative action, which are vital for success of modern business.
- **Economy of Operation:** Centralization of authority will create economics of scale in terms of large-scale operation of business. There is centralized buying and selling which is bulk nature and it will fetch heavy discounts and savings in transportation expenses. Sales are done in very large volume and quantities, which will offer better terms and conditions and prices. All that helpful to provide the organization in terms of economy in operation.
- **Coordination and Cooperation of Functional Activities:** Centralized organization structure brings the coordination of various activities and functions of the organization. Centralized organizational management will help in coordinating the work of different

divisions, segments, productions and functions which all will help to achieve the organizational goals and objectives of business.

- **Utilization of Personnel:** Centralized organizational structure helps for better utilization of highly qualified, professional and skilled personnel in technical as well as administrative areas of different segments of business. It reduces wastage of efforts by avoiding duplication.

Demerits

Centralized organization system may be useful up to a certain level and also under specified conditions. Beyond a certain point it creates difficulties in day-to-day working and also restricts the growth and development of the business. The following are some of the limitations of centralization.

- **Individual Effort are Restricted:** Centralized system revolves around one person only. One man takes all the decisions and decides the modes of implementing them. No other person is given authority to use his own judgement even if there is a glaring decision of nature. It destroys the initiative of subordinates. They are not in a position to offer suggestions and carry on with whatever has been conveyed to them.
- **Over Burden of Work of Subordinates:** The centralized system created responsibilities to few persons in the organization. They remain overburdened with routine work while subordinates do not have sufficient work. The centralization of power does not make all the chief executives to devote sufficient time for important tasks of planning, coordinating and motivation.
- **Slow Operations of Business:** The centralization of organizational structure will lead to slow down in operational and functional activities of business. All decisions are taken by only one person and his unavailability keeps the matter pending. Even clarifications about decision are referred to the top, which destroys invaluable time in formalities. Things move very slowly in a centralized set up because everything has to pass through the manager.
- **Distance from Customers:** The customers do not come in to contact with the policy makers of the business. They meet only those officials who don't have the powers to take decisions. Moreover one person cannot meet and know the reactions of customers regarding products and services. This also comes in the way of intimate understanding of market situation by the chief executive.
- **No Scope for Specialization:** Centralization of authority does not offer any scope for specialization. All decisions are taken by one person and he may not be a specialist in all the areas. In the present competitive world there is a need for employing the services of specialist. The specialists do not have any role in an organization with centralized authority.

8.3 Decentralisation

Decentralisation of authority means systematic dispersal of authority in all departments and at all levels of management. An organization said to be decentralised when managers at middle and lower levels are given the authority to take decisions on matters relating to their functions. For e.g. the production manager and the factory manager are authorized to decide the quality and quantity of the product, the technology and materials to be used etc. They are required to take decision keeping in view the overall policies of the company. They are also responsible to the top management for achieving the targets set in advance. The top management retains authority for overall coordination and control of operations.

Centralisation and decentralisation should not be confused with location of work. An organization having branches in different cities may be centralised. Similarly a company may be decentralised even though all its offices are located in one building.

Centralisation and decentralisation are relative terms. No organization can be fully decentralised or fully centralised. They exist together. For example, even in a decentralised organization the top management retains the authority for overall policy decisions to ensure coordination and control. The degree of centralisation and decentralisation differs from one organisation to another. According to Henri Fayol, “everything that goes to increase the subordinate’s role is decentralization”, everything which goes to decrease it is centralization,”

8.4 Delegation and Decentralisation

The main points of difference between the process of delegation and decentralisation are given below.

1. **Nature:** Delegation is the process of development of authority while decentralization is the end result, which is achieved when authority is delegated at different levels. Delegation is the cause, decentralization is the result. Delegation can take place without decentralization but decentralization is not possible without delegation of authority.
2. **Scope:** Delegation of authority is confined to a manager and his subordinates. It takes place when a manager shares his authority with his subordinates. On the other hand, decentralization involves systematic dispersal of authority at all levels and in all function of the organization. It is an extension for delegation to lowest level. Thus, decentralization is wider in scope and consequence than delegation.

3. **Significance:** Delegation is a means of getting things done through others. It is almost an essential technique because a manager cannot do everything himself. But decentralization is a philosophy of management. Top management may or may not adopt it. An organization cannot function without delegation of authority but it can function with decentralization. Therefore, delegation is an essential feature of organization and management. On the other hand, decentralization is a matter of choice and preference of the top management.
4. **Freedom of Action:** After delegation of authority to his subordinates, a manager regularly exercises supervision and controls on their behaviours and performance. But in a decentralized organization, lower level managers enjoy greater freedom of action. Top management does not exercise close supervision and control on them. They are free to work within the broad guidelines and targets laid down by the top management.

8.5 Merits and Demerits of Decentralisation

Merits

1. **Reduces Burden of Top Executive:** Decentralization helps to reduce the workload of top executives. They can devote greater attention to important and vital policy matters by decentralizing authority for routine and operational and functional decisions.
2. **Quick Decisions:** The decentralized decision-making powers are delegated to the level of actual execution. As a result more accurate and quick and also faster decisions can be taken, as the subordinates are well aware of the realities of the situation. It quickens the process of decisions making.
3. **Motivation to Subordinates:** The decentralization helps the subordinates to get opportunity for taking decisions independently. It helps to improve the job satisfaction and morale of lower level executives by satisfying their needs for independence, participation and status. It encourages team spirit and group coordination among the subordinates.
4. **Growth and Diversification:** The decentralization provides opportunity for growth and diversification of the enterprise. Each product division is given sufficient autonomy for innovations and creativity. The top management can extend leadership

over a bigger business houses. Sense of competition can be created among different divisions or departments.

5. **Management Development:** Decentralization of authority provides subordinates get the opportunity of exercising their own judgement. They learn how to decide and develop managerial skills. As a result the problem in succession is overcome and the continuity and growth of the organization are ensured. This helps for better utilization of lower level executives, which facilitates executive and managerial development.
6. **Diversion of Risk:** The enterprise is dividing into number of departments under decentralization. Management can experiment new ideas at one department without disturbing others. This will reduce the risk of things go adverse. Once the experiment is successful it can be used in other segments also. Hence the risk element can be limited under decentralized system.
7. **Effective Supervision and Control:** The decentralization creates delegation of authority, which makes span of management, and control will be effective. The executives at lower levels will have the full authority to take important decisions they will recommend awards or punishments as per their performance. This will improve supervision and control.

Demerits

Decentralization suffers from a number of drawbacks and some of them are illustrated as under:

1. **Lack of Coordination :** In decentralization each department or division has substantial autonomy. Hence coordination among different departments and divisions are becoming more and more difficult.
2. **Difficulty in Control:** The decentralization provides that different departments and divisions work independently and it is difficult to exercise control in their activities. Top management may not be able to exercise effective control because it does not remain in touch with day-to-day activities of various divisions and segments of business.
3. **High Cost of Operations:** Decentralization increases the administration and establishment expenses. Each division or department has to maintain self-sufficiency

in terms of physical facilities as well as well-trained personnel. There are chances of duplication of activities and function, which may lead to underutilization of facilities. Hence a decentralized organization, is better for large industrial house.

4. **Non-availability of Talented Managers:** Decentralized system will be effective and better only if competent and able persons are employed to manage various functional activities in different segments. The well-equipped and able managers may not be available sometime to fulfill the requirements of this system. This organization structure may not succeed if able and competent managerial personnel are not available.
5. **External Constraints:** Decentralization may not be possible and effective due to external constraint factors like market uncertainties, aggressive trade union movement and government interventions.

8.6 Factors considered for Decentralisation of Authority

- **Size of the Organization:** In a large and big industrial house there is a greater need for decentralization. In a small and medium size organization, top management can make most of the decisions and creation of autonomous units may be a very costly scheme.
- **Nature of Operations:** When production and sales of an enterprise are geographically dispersed and scattered, centralized control becomes very difficult and there is increasing pressure for decentralization of authority. If the activities are located in one building centralized organizational set up is much easier.
- **Level of Diversification:** In case of a Company having several diversified product lines, decentralization is not only necessary but also beneficial. High degree of standardization on the other hand results in centralization.
- **History of the Business:** Business, which has grown internally, is likely to retain its original structure to some extent. On the contrary if it expanded through absorption, merger and amalgamation, it is more likely to be decentralized.
- **Availability of Skilled Personnel:** The decentralized business set up is preferred when the company has able and talented managers and executives to manage the business operations.

- **Perception of the Top Management:** When top management has belief in individual freedom. there will be an opportunity for high degree of decentralization. In case the top management is conservative, centralized organizational structure will be liked and opted by them.
- **Type of functions:** The basic functions of business such as production and sales are more decentralized than staff functions such as personnel, finance, research and development.
- **Communication System:** Effective communication system is required to coordinate and control the activities of business operations .In case communication system is ineffective centralization should be convenient. That is why the computerized management information system enables centralized operation coupled with decision.
- **Complexity of the Environment:** The environmental factors exercise significant influences on the degree of decentralization. For example where business conditions are highly uncertain, high degree of freedom to operating units may endanger the very existence of the business.

8.7 Case Study

Bharat Products Ltd. is a big factory with a turnover of Rs.10 crores and with 400 workers. You have been in the office of its Factory Manager, Mr. Kaushik, for nearly 40 minutes. During this short period you have found that your conversation with him has been interrupted several times. First, it was the Office Manager who rang him to get his approval for samples of office stationary. Mr. Kaushik sends for the samples. Then comes the ring from a supplier who informs Mr. Kaushik that a particular part of machiner, which is otherwise not available in the market, can he had from him. Mr. Kaushik rings the Storekeeper to purchase this part immediately from the supplier and to cancel the order. If any, which the Purchase Manager might have placed. Then there is a ring from a customer requesting Kaushik to allow a higher percentage of discount than that promised by the company's Sales Manager. Kaushik not only turns down the request but also expresses his surprise at the high percentage already allowed by the Sales Manager. Finally, a foreman enters and complains that a certain part of one machine is broken and it not being available in the stock, the production may suffer. Mr. Kaushik asks the foreman to tell the Purchase Manager to order the part immediately.

Is Kaushik performing the job of a manager? What are your suggestions to improve his managerial style?

8.8 Summary

Centralization of authority refers to systematic and consistent retention or concentration of authority for decision-making at higher levels of management. Decentralization of authority means systematic dispersal of authority in all departments and at all levels of management. Factors considered for decentralization of authority are size of the organization, nature of operations, level of diversification, history of the business, availability of skilled personnel, perception of the top management, communication system, complexity of the environment.

8.9 Key Words

- Centralisation
- Decentralisation
- Delegation

8.10 Review Questions

1. What do you mean by centralization and discuss its merits and demerits.
2. Cite two situation where centralization would be more effective than decentralisation.
3. Explain the factors to be considered for decentralization.

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LESSION - 9

SPAN OF CONTROL

Learning Objectives

After studying this lesson, you must be able to

- Explain the meaning of span of control
- Determine the span of control
- List out the factors related to span of control
- Differentiate wide and narrow span

Structure

- 9.1 Introduction**
- 9.2 Meaning**
- 9.3 Determination of Span of Control**
- 9.4 Factors affecting Span of Management**
- 9.5 Wide or Narrow span**
- 9.6 Case Study**
- 9.7 Summary**
- 9.8 Key Words**
- 9.9 Review Questions**
- 9.10 References**

9.1 Introduction

The grouping of activities to create various departments presents another problem i.e. how many individuals should be placed under one superior. This problem is related to the horizontal dimension of an organization structure. In management literature, span of management, span of control, or span of supervision is used to denote the same concept of number of subordinates, which should be put under one superior. However the term span of management appears to be more suitable as compared to its alternatives because a superior is responsible for the total activities of his subordinates, which involve not merely controlling, or supervising but the total managerial activities.

9.2 Meaning

Span of management refers to the number of subordinates who can be managed effectively by a superior. The number of subordinates who report to superior has two important implications. First it is influential in determining the complexity of individual managers jobs. Second the span of management determines the shape or configuration of the organizations; the fewer the number of people reporting to the superior, the larger the number of managers required. Therefore the number of subordinate's reporting to a superior should be fixed which in any case cannot go beyond a certain limit.

9.3 Determination of Span of Control

Management thinkers agree that span of management principle holds true but they do not agree about the number of subordinates that can be put under one superior. The classical approach to the span of management has dealt with generalization embodying specific number of subordinates for effective span. The classical writers have suggested between three to eight subordinates as ideal depending on the levels of management. With lower the level of management consultant has suggested the fixation of number of subordinates based on mathematical calculation. He has analyzed superior- subordinates relationships and developed mathematical formulae. Graicunas has identified three types of superior subordinate relationships; direct single relationships, direct group relationship and cross relationships.

1. **Direct Single Relationships:** Direct single relationships arise from the direct individual contacts of the superior with his subordinates. Thus, if there are three subordinates A, B, C under one superior X, there will be three direct single relationships.
2. **Direct Group Relationships:** Direct group relationships arise between the superior and his subordinates in all possible combinations. Thus, the superior may consult his subordinates with one or more providing assistance. With three subordinates, there will be nine such relationships like A with B, A with C, B with C, and so on with the superior associated with all groups.
3. **Cross Relationships:** Cross relationships arise because of mutual interaction of subordinates working under the common superior, such as A and B, A and C, B and A, and so on. The relationship is quite different between A and B than B and A from management point of view because the type of interaction will be different in both the cases. There are six such relationship with three subordinates.

Graicunas has given formulae to find out various relationships with varying number of subordinates. With number of subordinates being 'n' the number of various relationship will be as follows:

| | | |
|-----------------------------|---|----------------|
| Direct single relationships | = | n |
| Direct group relationships | = | $n(2n-1)$ |
| Cross relationships | = | $n(n-1)$ |
| Total relationships | = | $n[2 + (n-1)]$ |

This formula suggests that while the number of subordinates increase in arithmetical progression, the number of relationship increase in geometrical progression.

According to Graicunas, most ideal span for a manager is six subordinates involving 222 relationships. No doubt Graicunas has given a mathematical treatment of the problem of fixing the span for managers, showing how the problem of managing subordinates increase in the number of subordinates, his contribution suffers from a basic limitation. All the relationships are not equally important from management point of view and therefore these cannot increase the complexity of managing. Moreover, Graicunas has not considered many other possible relationships particularly in cross relationships. Therefore, span based on mere number of relationship cannot be fixed.

Relationships with variable number of subordinates

| No. of Subordinates | No. of relationships |
|----------------------------|-----------------------------|
| 1 | 1 |
| 2 | 6 |
| 3 | 18 |
| 4 | 44 |
| 5 | 100 |
| 6 | 222 |
| 8 | 1,080 |
| 7 | 5,210 |
| 12 | 24,708 |
| 18 | 23,59,602 |

The recognition that potential managerial effectiveness is limited as the number of subordinates increases has led others to propose definite limits on the span of management. For example, Davis distinguishes between two categories of span of control, an executive span and an operative span. Executive span includes the middle and top management positions in an organization. The span for these managers should vary from three to nine, depending on the nature of manager's jobs and responsibilities and the rate of growth of the organization. The operative span applies to the lowest level of management and it can be effective with as many as 30 subordinates. Similarly, Urwick has proposed span for top management as four but management has been suggested differently by various writers. Further, differences also exist for different levels of management. Therefore, it is desirable to identify those factors which affect the span of management.

9.4 Factors affecting Span of Management

The basic idea behind limiting the span of management is to enable a manager to manage his subordinates effectively. As such the important determinant for specifying the span of management is the managers ability to reduce the frequency and time impact of superior-subordinate relationships. This ability in turn is affected by several factors. Therefore such factors are quite important in determining the suitable span of management. Following are such factors:

- **Capacity of Superior:** Each manager has different ability and capacity in respect of such factors as leadership, communication, decision-making control, etc. effecting management of subordinates. Managers having more capacity in respect of these attitudes and personality factors of the manager also determine his span of management. For example, any empire builder may like to have wider span as compared to a submissive manager.
- **Capacity of Subordinates:** Capacity of subordinates also affects the degree of span of management. Efficient and trained subordinates may discharge their function more efficiently without much help of their superior. They may just need broad guidelines and rest of the things can be performed by them. In such cases, they require lesser time from their superior who will be in position to manage larger number of subordinates. Similarly if there is no frequent change in subordinates, span can be wider.

- **Nature of Work:** Nature of work affects degree of span of management because different types of work requires different patterns of management and hence time from superior. If subordinates are performing similar functions, they require less attention of their superior and span can be wider. For example, a study discloses that mean span of management in the case of supervisors supervising similar work was 16 as against only 6.5 for those supervising different work. Similarly rate of change in the work also affects the span of management with lower degree of change facilitating higher span and work with higher degree of change restricting the span of management. This is so because work with frequent changes requires detailed instructions from the superior. Every time when there is change in the work, type of technology used also affected the span of management. For example Woodward's study suggests that in the case of mass production and assembly line technology the span is highest. Similarly in UNITs and batch production, span is higher than process production.
- **Degree of Decentralizations:** Degree of centralization or decentralization affects span of management by affecting the degree of involvement of the superior in decision-making process. Thus, higher is the degree of decentralization; higher is the degree of span. If a manager clearly delegates his authority and defines it fully, he requires less time to devote to manage his subordinates because most of the action will be taken by the subordinates on their own in the case of centralization of authority or ambiguity in delegation of authority the subordinates would require considerable consultations, clarification and instructions from their superior. This will require more time on the part of the superior and his span will be narrow.
- **Degree of Planning:** Higher is the degree of plans particularly standing plans clearly providing rules, procedures, method etc. in doing the work, higher would be the degree of span of management. In such cases the subordinates can take actions on their own. On the other hand, if they have to draw their own plans, they may not know what exactly they have to do and they may require more time for guidelines and consultation. In a situation, where the production foremen were performing repetitive work with well-formulated standing plans, span averaged between 60 and 70.
- **Communication Techniques:** The pattern of communication, its means and media affect the time requirement in managing subordinates and consequently span of

management. If communication is mostly face- to- face it requires more time on the part of both superior and subordinates. On the other hand communication with staff assistant and through the use of modern communication tools like electronic devices will save lot of time and span can be increased.

- **Use of Staff Assistance:** Use of staff assistance in reducing the work- load of managers enables them to manage more number of subordinates. Many of the managerial functions can be discharged by these staff personnel on behalf of the managers. They can collect information, process communication, and issue orders and instructions on behalf of their superior. This process saves time of managers and the degree of span can be increased.
- **Supervision from Others:** It is not very uncommon that a subordinate receives supervision from several other personnel besides his direct superior. In such a case, the work- load of direct superior is reduced and he can supervise more number of subordinates. The trend is changing, towards getting supervision from many persons. For example, Udell has found that is not uncommon that men in the organizations receive 50per cent or more of their supervision from someone else than their own immediate superior. He has found that where people were getting supervision from others also besides from their own superior, the average span was 17.6 as compared to 9.7 for those not getting supervision from others.

The analysis of various factors affecting span of management suggests that there cannot be any fixed number of subordinates under one superior. Rather, the span should be decided taking the various factors into account. Therefore the span of management may vary in the same organization for different levels of management and functions and also in different organization for similar functions and levels of management.

Various research studies have suggested the actual span of management followed under various situations. On the basis review of such studies, house and miner conclude that:

- Under most circumstances, the optimal span is likely to be in the range of 5 and 10.
- The larger spans say 8 to 10 are most appropriate at the highest policy making levels of the organizations where greater resources for diversified problem saving appear to be needed
- The breadth of effective span of first line supervisors is contingent on the technology of the organizations; and

- In prescribing the span of control for specific situations, considerations are given to a host of local factors such as desirability of high group cohesiveness, the performance demands of the task, the degree of stress in the environment, task interdependencies the need of the member satisfaction and the leadership skills available to the organizations.

9.5 Wide or Narrow span

Often there is a controversy whether an organization should adopt the policy of narrow span or wide span of management. While most of classical writers have suggested a narrow span of management. Modern approach suggests a wider span of management. This is so because the modern trends work in favour of wider span of management. A narrow span throughout an organization causes tall or vertical structure and a wide span causes a flat or horizontal structure. In the first case more supervisory personnel will be required as shown in table.

| Organizational level | Members at each level | |
|----------------------|-----------------------|--------------|
| | At span of 4 | At span of 8 |
| 1 | 1 | 1 |
| 2 | 4 | 8 |
| 3 | 16 | 64 |
| 4 | 64 | 512 |
| 5 | 256 | 4,096 |
| 6 | 1,024 | 32,768 |
| 7 | 4,096 | 2,62,104 |

The following factors have also made it possible to adopt wider span of management in modern –day organizations.

1. Trends towards decentralization;
2. Improved communication technology;
3. Increasing size of organizations; and
4. The new pattern of leadership with more emphasis on democratic styles.

However despite the desirability of wider span of management it is limited by real and important restrictions. And organizations cannot extend its span of management beyond a certain level. Therefore, what is more important in this context is to maintain a precise balance between wide and narrow span of management. One must balance all the cost of adopting one course or the other— not only the financial costs but also cost in morale, personnel development and attainment of organizational objectives. This requires an understanding of various implications of tall and flat organizations structure.

Tall Structure

Tall structure is one, which fosters narrow span of control a large number of management levels and more centralized decision-making. The advantages of this structure are close supervision close control of subordinates activities, and fast communication between superior and his subordinates. However this structure results into too much control creation of many levels of management, high cost of the organizations and excessive distance between lowest level and highest level in the organizations.

Flat Structure

Flat structure is that which reduces the levels of managements widens span of control of managers at various levels of the organization and is often more decentralized with regard to decision-making autonomy. Its main advantage are more delegation of authority more clear policy development of managers for higher positions because of their initiative and authority to make decisions. The disadvantages are tendency of over loaded superior to become bottlenecks in decision making, danger of superior loss of control and requirement of highly trained managerial personnel.

Thus the choice of tall or flat structure may not be determined merely by their relative strengths and weaknesses alone but factors affecting these should also be taken into consideration. This is what the situational approach of management also suggests.

9.6 Case Study

Idealism, Motivation and Community Service are at the Centre City YWCA. After three days of interviewing for the job of director of the Center City YWCA, Harriet Bowen was having lunch with Margaret Pierce, the retiring director. When Pierce offered her the position, Bowen hesitated. "You still aren't sure?" Pierce asked. "Tell me what's bothering you".

“As I’ve told you,” Bowen replied, “I’m looking for a job with a challenge. I would expect the YWCA to face financial difficulties - in today’s economy, every nonprofit agency has these problems. But despite all the ideas and energy you have not to mention the wide diversity of programs the staff seems uninspired and worn out”.

Pierce smiled. “That’s true. You’ve hit on one of our biggest problems. As I’ve told you, the YWCA has undergone major changes in goals and programs over the past few decades. We no longer serve as a dormitory for young women when they first move to the city. Nor are we simply a place for a quick swim after work at the National Convention, the YMS declared our major targets to be relevant programs for women, youth and minorities. And yet our image in Center City and even for some of our staff-is clearly that of a community recreation center, not a powerful force in the women’s movement”.

Bowen became animated. “I can see the types of programs you have : bilingual activities for Hispanics, Creative skills classes, the Women’s Center, the Rape Crisis Center, a battered wives program, youth programs, a nursery, as well as a health club for women, men and children, and a small residence. The building is in pretty good shape. Where’s the problem?”

Pierce paused, “As you know, a lot of our staff in the 1960s and 1970s started as volunteers and became paid staff when we got federal funding. But the fervor of the social movement wanted just at the time that government grants, including CETA programs, were cut back. Although the neighbourhood is much safer, thanks to urban renewal, many of our traditional big contributors have moved to the suburbs. Membership has not really increased substantially. So we’ve had to cut some programs, lost staff; and freeze wages. As a result, we don’t have enough people to maintain the building or keep up the records, let alone reach out into the community”.

“But surely you must still have some around”. Bowen commented.

“Yes, we do. But many have left, and most of our staff does just the minimum work required, for barely adequate wages”. Pierce continued, “The morale problem is more complex, In the 1970s, we adopted the strong affirmative action program of the National YWCA; as a result, our staff today reflects the racial composition of Center City - half white, half minority. This wasn’t easy. Qualified minority professionals are difficult to recruit. We lost some board members and long term volunteers because of affirmative action. And some of the staff complained that less qualified people were being hired to meet quotas. Furthermore, we lost

many white members who resisted integration. Therefore, some of our programs are unintentionally segregated. But with our limited finances, it's hard to create new programs and recruit really talented staff".

Bowen listened carefully as Pierce added, "It's very frustrating. We have the facilities and some good programs - but I haven't been able to communicate this to the staff or the community. I don't have time to institute better record keeping and an organized system of promotion and raises. So you see, we have a lot of the basic resources, but also a lot of problems".

Bowen smiled and sat back. "I think I understand the situation. It won't be easy to communicate my enthusiasm, but I'd like to try. I'll take the job."

"I'm very pleased," responded Pierce. "And remember, I intend to stay a member of the YW, so you can always call on me for help. Good luck".

1. What are the major problems facing Harriet Bowen?
2. If you were Herzberg, how would you advise Harriet Bowen to Manage the YWCA?
3. What would Nadler and Lawler tell Harriet Bowen to assist her in leading her staff?
4. How might reinforcement theory apply to this case?

9.7 Summary

Span of management refers to the number of subordinates who can be managed effectively by a superior. The classical writers have suggested between three to eight subordinates as ideal depending on the levels of management. Potential managerial effectiveness is limited as the number of subordinates increases. The important determinant for specifying the span of management is the managers ability to reduce the frequency and time impact of superior-subordinate relationships. This ability in turn is affected by several factors. Most of classical writers have suggested a narrow span of management. Modern approach suggests a wider span of management. To maintain a precise balance between wide and narrow span of management, one must balance all the cost of adopting one course or the other- not only the financial costs but also cost in morale, personnel development and attainment of organizational objectives.

9.8 Key Words

- Narrow Span
- Wide Span
- Span of Control

9.9 Review Questions

1. Define span of control and discuss the factors affecting span of control.
2. Briefly describe Graicunas theory of the superior-subordinate relationship.
3. Analyse the pros and cons of wider and narrow span of control.

9.10 References

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LESSON - 10

CO-ORDINATION

Learning Objectives

After reading this lesson, you must be able to

- Explain the meaning of coordination
- Describe the need and requisite for good coordination
- List out the types and techniques of coordination

Structure

- 10.1 Introduction**
- 10.2 Meaning**
- 10.3 Need for Coordination**
- 10.4 Requisite for good Coordination**
- 10.5 Types of Coordination**
- 10.6 Techniques of Coordination**
- 10.7 Difficulty of Coordination**
- 10.8 Case Study**
- 10.9 Summary**
- 10.10 Key Words**
- 10.11 Review Questions**
- 10.12 References**

10.1 Introduction

The management of a modern enterprise is based on the principle of specialization and division of labour. Jobs are down into single repetitive tasks and entrusted to individuals either working in the same department or in different departments of the enterprise. But the mere application of the principle of specialization does not enable an organization to attain the desired results. With jobs specialized and divided among units, coordination becomes necessary.

10.2 Meaning

Co-ordination is the management of interdependence in work situations. It is the orderly synchronization or fitting together of the interdependent efforts of individuals in order to attain a common goal. In a modern enterprise, which consists of a number of departments, such as production, purchase, sales, finance, personnel, etc. there is need for all of them to properly time their interdependent activities and to efficiently reunite the sub divided work. To coordinate is to keep expenditure proportionate to financial resources, equipment and tools to production needs, stocks to rate of consumption, sales to production and so on.

In a well-coordinated enterprise the following facts are to be observed.

- i) Each department works in harmony with the rest. Stores know what has to be supplied and at what time production knows its target maintenance, keeps equipments and tools in good order and so on.
- ii) Each department, division and sub-division is precisely informed as to the share it must take in the common task.
- iii) The working schedule of the various departments is constantly attuned to circumstances.

10.3 Need for Coordination

The need for coordination arises because of the following factors:

1. Division of labour

When managers divide work into specialized functions or departments, they at the same time create a need for the coordination of these activities. Generally the greater the divisibility of labour, the greater the need for coordination. If two people in one units do all the work of an organization, it is clear that there is little need for coordination. But if the work has been divided into 10 Units with 100 employees, the need for coordination is much great. Coordination ensures proper synchronization between activities of different Units, tools, vague directions or omissions, or wrong allocation of duties and eliminates overlapping duplicators of work.

2. Interdependence of work

The need for coordination in an organization also arises because of the interdependent of various units. The greater the interdependence of the units, the greater the need for coordination.

This is illustrated by James Thompson's typology of interdependence. Thompson points out that Units can be linked in any of three ways.

- i) **Pooled interdependence:** Units linked by pooled interdependence make contributions to the total organisation but are not directly related. Hindustan Zinc Smelter plants in Udaipur and Vishakhapatnam both contribute to the company's profile but they are not directly interrelated. The need for coordination between them is minimal. All product-bases departmentalization where their separate self-contained units for the manufacturing and marketing of each product are examples of pooled interdependence.
- ii) **Sequential interdependence:** In this kind of linkage one organizational units must act before the next can. For example in a beer company its distribution units will have nothing to distribute until the beer has been brewed and bottled. Greater coordination is necessary in sequential than in pooled interdependence. Here also the dependence of Units can be reduced by creating buffer inventories.
- iii) **Reciprocal interdependence:** Here the input of one units becomes the output of the other and vice versa. The maintenance and operations departments of an airline company provide an example of this kind of relationship. When the maintenance department finishes servicing as aeroplane, the aeroplane is an output of maintenance. The serviced aeroplane then becomes an input to operations. When the operations department sees that an aeroplane needs maintenance, the aeroplane is an output of operations and becomes an input to maintenance. Therefore this close interrelationship leads to the strongest need for coordination between maintenance and operations.

Individual interest vs Organisational interest

The need for coordination is also felt to integrate the activities and objectives of the separate Units of an organization in order to efficiently achieve organizational goals. Without coordination, individuals and departments would begin to pursue their own specialized interests often at the expense of the larger organizational goals. Coordination reconciles differences in approach, effort or interest of various departments by avoiding inconsistencies in their priorities, objectives and policies. It harmonizes corporate and individual goals by making individuals see how their jobs contribute to the dominant goals of the enterprise. This implies knowledge and understanding of enterprise objectives not just on the part of a few at the top but by everyone throughout the enterprise.

If the efforts of employees are closely coordinated, their total accomplishment is far greater than the sum total of the individual achievements. In the words of George.R.Terry within any group coordination makes possible a total accomplishment in excess of the sum of the individual parts making up the total. The total accomplishment of department X consisting of ten employees whose efforts are closely coordinated is far greater than that of the same ten employees working as individuals.

10.4 Requisite for good Coordination

Good coordination attacks problems as they arise excellent coordination anticipates them and prevents their occurrence. The following are some of the requisites for good coordination.

1. Direct Contact

Mary Parker Follet states that coordination can be more easily achieved by direct personal contact among the responsible people concerned. By direct personal contact, ideas, ideals, goals, views can be discussed and misunderstandings if any can be clarified much more efficiently than by any other method.

2. Early Start

Coordination can be achieved more readily in the early stages of planning and policy making. While preparing the plan itself there should be mutual consultation. By this the task of adjustment and integration in the process of implementation of the plan becomes easier.

3. Continuity

Coordination is a continuous process and it must go on all time starting from the stages of planning. Since coordination is the basis of the organization structure it will have to be continued so long as the enterprise functions.

4. Dynamism

Coordination should be continually modified in the light of changes in the internal and external environments, or else coordination must not be rigid.

5. Clear-cut Objectives

Clear-cut objectives are essential for securing effective coordination in an enterprise. The departmental managers should be told of the objectives of the enterprise and be prevailed

upon to work for the common goal of the enterprise. A clear-cut objective and its effective teaching to the departmental heads is bound uniformity of action.

6. Simplified Organization

Simplified organization structure facilitates effective coordination. Rearrangement of the departments may be considered in order to have better coordination among the departmental heads. Closely related operations and functions may be put under the charge of one executive as this would facilitate the taking of actions necessary for coordination. It suggested that all interfacing departments may be entrusted to one common boss for ensuring better coordination.

7. Definition of Authority and Responsibility

The clear-cut authority not only reduces conflict among the different officers but also helps in making them carry out their job with unity of purpose. Further a clear-cut authority helps the manager in holding subordinates responsible for violating the limits.

8. Effective Communication

Effective communication is most important prerequisites for proper coordination. Through continuous interchange of information, individual and departmental differences can be resolved and policy changes, adjustment of programmes for the future. This can avoid actions or operations that are contrary to the objectives of the enterprise and the efforts of the entire staff can be harmoniously directed towards the realization of the stated objective of the enterprise.

9. Effective Leadership and Supervision

Success of coordination is largely influenced by the nature of leadership and supervision. Effective leadership ensures coordination of the activities of people both at the planning and the implementation stage. An effective leader creates confidence in his subordinates and also keeps up their morale. In fact effective leadership is the best method of coordination and no other method can replace it.

10.5 Types of Coordination

Coordination may be variously classified as internal or external, vertical or horizontal and procedural or substantive. Coordination among the employees of the same department or section, among workers and managers at different levels among branch offices, plants departments

and sections is called internal coordination. Coordination with customers, suppliers, government and outsiders with whom the enterprise has business connections is called external coordination.

Vertical coordination is what exists within a department where the departmental head is called upon to coordinate the activities of all those placed below him. On the other hand horizontal coordination takes place sideways. It exists between different departments such as production, sales, purchase, finance, personnel etc.

Procedural coordination is meant the specification of the organization itself. That is generalized description of the behaviours and relationships of the members of the organization. Procedural coordination establishes the lines of authority and outlines the spheres of activity and authority of each member of the organization. Substantive coordination is concerned with the content of the organization's activities. In an automobile factory an organization chart is an aspect of procedural coordination while blue prints for the engine block of the car being manufactured are aspect of substantive coordination.

10.6 Techniques of Coordination

1. Hierarchy

The oldest and simplest device for achieving coordination is hierarchy or chain of command. By putting interdependent Units under one boss, some coordination among their activities is ensured. According to Chris Argyris the system of hierarchy makes individuals dependence upon passive towards subordinate to the leader. This is what mature and adult individuals do not like. According to Prof.Rennis Likert hierarchical structure impairs communication and decision-making.

2. Rules, Procedures and Policies

The specification of rules, procedures and policies is another common device to coordinate sub Units in the performance of their repetitive activities. Standard policies, procedures and rules are laid down to cover all possible situations. But as some critics says device leads to vicious cycle syndrome in which the dysfunctional consequences of this devices leads to a still stronger reliance on it.

3. Planning

Planning ensures coordinated effort. Under planning targets of each department dovetail with the targets of all other departments. For Example, by fixing the target of 10,000 Units of additional production and sale for the production and sales departments. The head of the organization can be fairly sure that the work of the two departments would be coordinated since their targets so demand.

4. Committees

Participative committee, or group decision-making is another common coordinating device. This device greatly eases the rigidity of the hierarchical structure, promotes effective communication and understanding of ideas, encourages the acceptance of the commitment to policies and makes their implementation more effective. But this wholly positive estimate of committees has been criticized by several classical writers.

5. Induction

Inducting the new employee into the new social setting of his work is also a coordinating mechanism. This device familiarizes the new employee with the organization's rules and regulations its dominant norms of behaviours, values and beliefs and integrates his personal goals with the organizational goals

6. Indoctrination

Indoctrinating organizational members with the goals and mission of the organization, a device used commonly in religious and military organization is still another coordinating device. According to Gullick the leader should develop in the minds of his followers the desire and will to work together for a purpose .Not merely cognitive faculties but emotions need to be enlisted.

7. Incentives

Providing interdependent Units with an incentive to collaborate such as a profit sharing plan is another mechanism. Advocates of profit sharing claims that it promotes team spirit and better cooperation between employees and workers between superiors and subordinates, between workers and workers. Mutuality of interest reduces strife and ensures better coordination.

8. Liaison Departments

When there is a large volume of contact between two departments, a liaison department evolves to handle the transactions. This typically occurs between sales and production departments. For example a packaging company that is processing particularly large order or containers might have a liaison department to make sure that the production department is meeting the client's specification and the delivery will take place on time.

9. Workflow

A workflow is the sequence of steps by which the organization acquires inputs and transforms them into outputs and exports these to the environment. It is largely shaped by technological, economic and social consideration and helps in coordination.

10.7 Difficulty of Coordination

Large business enterprises consists of a number of departments, such as production, purchase, sales, finance, personnel, etc. These departments often find it hard to collaborate with each other due to the differences in their attitudes and working styles.

1. Differences in Orientation towards Particular Goals

Members of different departments develop their own views about how best to advance the interests of the organization. To sales people, product variety may take precedence over product quality. Accountants may see cost control as most important to the organization's success while marketing managers may regard product design as most essential.

2. Difference in Time Orientation

Some members of an organization such as production managers will be more concerned with problems that have to be solved immediately or within a short period of time. Other like members of a research and development team may be preoccupied with problems that may take years to solve.

3. Differences in Interpersonal Orientation

In some organizational activities such as production there may be relatively more formal ways of communication and decision making .In other activities such as R&D the style of

communication and decision-making may be informal. Everyone may be encouraged to have a say and to discuss his ideas with others.

4. Differences in Formality of Structure

Each units in the organization may have different methods and standards for evaluating progress towards objectives and for rewarding employees. In a production department for example where quantity and quality are rigidly controlled the evaluation and reward process might be quite different. Employees will be judged quickly on how they will meet or exceed well-defined performance criteria. In the personnel department on the other hand standards of performance may be much more loosely defined.

From the above description it is clear that however desirable the division of work and specialization are in helping the organization use its resources most efficiently they do make it more difficult for managers to achieve effective coordination.

5. System approach and coordination

Coordination implies the adjusting of the efforts of a number of individuals and or of materials or machines so that they come together in the right quantity, the right quality, in the right place, at the right time .By coordination we balance a number of different parts of an organization, harmonizing their interaction so that the total organization moves towards an agreed or defined objective.

10.8 Case Study

Mr. N.N. Vatia, Branch Manager of Kenya Main Branch of Kamini Bank was wondering as to what can be done to restore the punctuality of the staff in his branch. A majority of the staff was taking time off from the work on a number of occasions during a day which resulted in working remaining incomplete, and payment of overtime wages for its completion.

The problem was generally not faced by other banks in Kenya, except the Bharat Bank, another Indian Bank having branches in Kenya. Other local and British banks were able the exercise sufficient control over their staff to ensure proper attendance.

Initially Mr. Vatia tries to persuade these staff to be punctual; He sermonized them on several occasions; None of these, however, made any dent of the problem. Falling in these

methods he resorted to punishment to the erring members of the staff. This led to some improvement but not to the desired extent. Mr. Vatia also felt that prolonged use of this method may indeed lead to a more serious trouble. He therefore thought of analyzing and identifying the cause of the problem.

His investigation on the habits formed revealed that the unauthorized “time off” was used mainly for personal work which included shopping, personal errands, meetings friends, going for coffee, etc., when caught, the general explanation given by the staff was that he had gone out for a cup of coffee. Mr. Vatia noticed that no canteen facilities were available in the branch nor was there any space there it could be set up. The British and other local banks, however, had made adequate provision for the purpose.

An automatic coffee vending machine was installed but the move did not succeed as the staff complained that the coffee given was not upto the standard. The members of the staff protested and refused to use the machine.

Days passed, one day it occurred to Mr. Vatia that the muster roll of the branch did not have any provision of making the period of the absence by the members of the staff in the event they had to go out for coffee. It was not possible to know or to control the period of his absence. To overcome this, he decided to install “time-clock” at the main gate with in and out trays for attendance cards. The staff was advised to use these cards for marking their arrival and departure and also the absence periods. Authorised outside work could be authenticated by the immediate office Supervisor.

The idea was brought to the notice of the branch union by the staff members. There was resistance to the idea initially. Mr. Vatia however pointed out; the them that this was a scientific method of recording the attendance and it was not possible to falsify the same. As it happened, during that period only, services of three members of the staff were terminated for departure, thereby claiming overtime for periods in which they did not work. This was proved by the photocopy of the day’s muster roll taken by Mr. Vatia from time to time by an unscheduled visit to the branch late at night without any indication to anyone in the branch.

Mr. Vatia pointed out to the Union representatives that by the introduction of “time-clock” the temptation to alter time by the members of the staff would be removed and that it would be of long term benefit to that staff. The union members almost came round to accepting the idea abut still were not fully convinced.

At this stage, the Regional Manger, who came to know of the proposal of installing the clock, suggested to Mr. Vatia that as no other bank in Kenya Was adopting this procedure, he should have this scheme approved by the Secretary of the Kenya Bankers Association.

The meeting with the Secretary was a failure. He was a man of old British tradition and was shocked at the idea of introduction of a time clock in the banking industry there. All efforts by Mr. Vaia to convince him that there was nothing wrong in it and that most officers of major corporations had this systemic not move him. Other bankers, when individually contacted, also did not favour the idea.

Not willing to go all alone the Regional Manger advised Mr. Vatia to shelve the idea.

1. What was wrong in the approach to the change suggested by Mr. Vatia?
2. If you were to manage this change, in what way wo0uld your approach be different from the one adopted by Mr. Vatia?
3. If you were the Regional Manger then, what advice you would have given to Mr. Vatia?
4. Do you think that the “time-clock” at the main gate will solve the problem faced by Mr. Vatia?

10.9 Summary

The division of work and departmentalization in organization make coordination necessary. However coordination is not a separate activity of a manager for it underlies all managerial functions. There are several coordinating mechanisms that can be used to achieve effective coordination. But the different working styles and attitudes that develop among specialized personnel and departments complicate the task of coordination. The systems approach to organization in which all parts of the organization are woven into a configuration called the organization system, makes coordination easy. There are also some requisites for effective coordination.

10.10Key Words

- Procedure Co-ordination
- Vertical Co-ordination
- Division of Labour

10.11 Review Questions

1. Discuss the need and importance of coordination. Why is it considered the essence of management?
2. Explain the importance of coordination in modern management.
3. Discuss the techniques of coordination.

10.12 References

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LESSON - 10

CONTROL PROCESS

Learning Objectives

After reading this lesson, you must be able to

- List out the steps in control process
- Explain Management by Exception
- Outline the principles of Management by Exception

Structure

11.1 Introduction

11.2 Control Process

11.2.1 Performance Standards

11.2.2 Measurement of Performance

11.2.3 Comparison of Actual Performance and Standard Performance

11.2.4 Taking Remedial Action

11.3 Integrated Control System

11.4 Management By Exception (MBE)

11.4.1 Merits of MBE

11.4.2 Principles of MBE

11.5 Case Study

11.6 Summary

11.7 Key Words

11.8 Review Questions

11.9 References

11.1 Introduction

Control is one of the important function of management. The main objectives of control is to bring to light the variations between the standards set and performance and then to take necessary steps to prevent the occurrences of such variation in future. It is the process through which managers assure that actual activities confirm to planned activities.

11.2 Control Process

Whatever the level at which control is exercised the process of control is basic and involves the following stages:

11.2.1 Performance of Standards

Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criteria for judging the performance. Standards generally are classified into two-

- a) **Measurable or tangible:** Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
- b) **Non-measurable or intangible:** There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

11.2.2 Measurement of performance

The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in Units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-

- a) Attitude of the workers,
- b) Their morale to work,
- c) The development in the attitudes regarding the physical environment, and
- d) Their communication with the superiors.

It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

11.2.3 Comparison of actual and standard performance

Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, “ If a manager controls everything, he ends up controlling nothing.” For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

- a) Erroneous planning,
- b) Co-ordination loosens,
- c) Implementation of plans is defective, and
- d) Supervision and communication is ineffective, etc.

11.2.4 Taking remedial actions

Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-

- a) Taking corrective measures for deviations which have occurred; and
- b) After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

11.3 Integrated Control System

Managerial functions invariably involve decision making and action for the future. In real practice, there are discrepancies between plan and results. Planning involves uncertainty. Hence results may deviate from planned accomplishments due to many reasons. The modern business corporate to employ managerial control in all business system and at all organisational levels to keep the actual results from each venture in line with planned targets, the control function of management, therefore has a unique importance. It must answer two vital questions arising out of implementation of our plans:

- (i) How well is the business organization achieving the objectives and plans developed by management?
- (ii) When are corrective actions necessary and what particular action is required to rectify the deviations?

11.4 Management by Exception (MBE)

Management by exception is a concept that managers use to focus on key areas of business performance instead of looking at the business as a whole. Managers only look at the areas that have large variances from the standard or budgeted projections.

Every other process that is running smoothly and closely to the standard goals is ignored. These variances could be good or bad. The budget on one project might have been way over and the budget of another project might be way under budget. A manager who uses the management by exception philosophy will take a look at both projects to determine why the large variances exist and how they can be minimized.

Trying to control everything may end up in controlling nothing". Managers cannot control every organisational activity. This is neither desirable nor possible within the frame of time, money and resource constraints. If actual performance conforms to planned performance, the

matter need not be brought to the notice of top managers. Even when the deviation is not significant (when it is within the range of control) the matter may not be reported to top managers.

However, if deviations are significant (beyond the acceptable range of errors) they should be reported up the hierarchy for managerial action. These deviations may be exceptionally good or bad situations. The principle of 'management by exception' states that managers should concentrate only on significant deviations rather than each and every organisational activity.

11.4.1 Merits of 'Management by Exception':

- It saves time, effort and money as superiors deal with only exceptional deviations.
- It leads to development of lower-level managers as they learn to deal with simple and routine problems.
- It leads to optimum attainment of organisational goals by categorizing the deviations between significant (those that significantly affect organisational objectives) and insignificant (those that do not require top managerial attention).
- It leads to optimum utilisation of resources as they are concentrated in areas that need managerial attention.

11.4.2 Principles of 'Management by Exception':

The principle of 'management by exception' is closely related to the principle of 'critical point control'. While critical points determine the areas or elements where control should be exercised, the 'exception principle' determines the deviations occurring at the critical points. It, thus, serves as a performance appraisal technique which identifies significant deviations in the 'critical points' and reduces their chances of recurrence.

11.5 Case Study

Honda has debunked the auto industry's claim that "nobody can make an economy car in the United States at a profit". Not only is Honda's plant in Marysville, Ohio, Profitable, it is said, but its cars are as well built as those made in Japan.

Sine Honda holds only a relatively small share of the Japanese car market (in 1990 it ranked fourth in Japan, behind Mitsubishi), it needed an outlet to grow. In the early 1970's when gas became scarce and expensive, Honda introduced its fuel efficient cars in the United States.

Strong demand and growing trade friction convinced Honda that it needs to repeat the strategy that worked for its motor cycles: build a U.S. Operation. The first cars rolled out in 1983 the year quotas became effective. In 1985, Honda outsold both Nissan and Toyota and became the fourth largest car manufacturer in the United States.

The Marysville plant is not demonstrably more automated than American factories, but it works differently. All employees are treated as equals. Workers are chosen for their team skills as well as their expertise. A quarter of the first employees spent up to 3 months in Honda's plant in Japan. When they returned, they taught their co-workers how to assemble in cars in teams.

New workers spend several weeks practicing on training cars before they are assigned to a team. Team members trade jobs and learn as many tasks as they can. Team leaders check the quality of the work and help the team in any way they can (solving problems, replacing an absent member, and so on).

Honda attributes the success to workers who are willing to work hard for the company. The "equal partnership" gives employees a stake in the company. Mr. Honda believes that all employees are equally important. Everyone including plant manager employees on help make decisions. Initially, workers were surprised that their supervisors asked them for advice.

The workers are very proud of their work. They like working at Honda, even though they earn roughly 20 per cent less than other U.S. Autoworkers. Honda's labour costs are about 60 per cent lower than the industry average because it has a lower overhead per workers.

Honda expects suppliers to establish the same quality standards it uses. It was willing to hold U.S. Parts suppliers that did not meet them. Those who insisted that Honda could simply return defective parts were replaced by Japanese suppliers. Some of them have built plants near Marysville, which, in turn, had helped Honda minimise inventory.

Although most U.S. manufacturers barely break even on compacts, Honda earns a handsome profit on each car, and it sells every car it makes. And while this is only half the profit Honda earns on the cars it imports from Japan, it expects the difference to narrow as the workers in the U.S. plant learn to be more efficient.

Now that the company is well established in the U.S. Car market, Honda plans to double its U.S. capacity and build luxury cars, which should be more profitable than the less expensive

cars. Honda attempts to avoid problems from its low-cost image by selling its luxury cars, Honda is developing “European-style” models specifically for the U.S. Market. European styling has two advantages; it appeals to the growing number of young professionals, and the cars are small enough that they can be built on Honda’s existing compact-car production lines.

1. Why did Honda a plant in the united States (what were the objectives)? How is the plant in the united States affecting the company in Japan? What problems or advantages might the U.S. operation give Honda in the future?
2. Why was Honda able to build economy cars in the united States when American car manufacturers could not? What advantages does Honda have over the American companies?
3. How much of Honda’s success is due to its policies? How much is due to no managerial factors?

11.6 Summary

It is the process through which managers assure that actual activities confirm to plan activities. Control process involves establishment of standards, measurement of performance, comparison of performance with standards, corrective action. Control system should have a set of connected parts or assemblages of components or constituent parts with an integrative effect and a common purpose.

11.7 Key Words

- Control
- Standards
- Performance
- Management by Exception

11.8 Review Questions

1. Discuss the nature of control. Why it is necessary for better management?
2. Explain various steps required in controlling process.
3. Discuss control as an integrated system.

4. What do you mean by MBE?
5. Explain the merits and principles of MBE.

11.9 References

1. Peter F. Drucker, Management-Task, Responsibilities, Allied Publishers Pvt. Ltd; Bombay, 1975.
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LESSON – 12

LEADERSHIP

Learning Objectives

After studying this lesson, you should be able to

- List out the qualities of Leadership
- Discuss the Leadership Styles
- Explain the importance of Leader Organisation.

Structure

- 12.1 Introduction**
- 12.2 Meaning of Leadership**
- 12.3 Definition of Leadership**
- 12.4 Nature of Leadership**
- 12.5 Importance of Leadership**
- 12.6 Qualities of a Good Leader**
- 12.7 Leadership Styles**
- 12.8 Strategies to Leadership**
- 12.9 Constituents of Leadership**
- 12.10 Case Study**
- 12.11 Summary**
- 12.12 Key Words**
- 12.13 Review Questions**
- 12.14 References**

12.1 Introduction

Leadership is an important element of the directing function of management. Wherever, there is an organized group of people working towards a common goal, some type of leadership

becomes essential. “The power of leadership is the power of integrating. The leader stimulates what is best in us, he unites and concentrates what we feel only gropingly and shatteringly. He is a person who gives form to the uncoarctate energy in every man. The person who influences me most is not he who does great Deeds, but he who makes me feel that I can do great deeds.”

12.2 Meaning of Leadership

Leadership is the ability to build up confidence and zeal among people and to create an urge in them to be led. To be a successful leader, a manager must possess the qualities of foresight, drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership.

12.3 Definition of Leadership

Leadership has been defined in various ways. Stogdill has rightly remarked that there are almost as many definitions of leadership as there are people who have tried to define it.

1. **Koontz and O'Donnell** defined Leadership as it is the ability of a manager to induce subordinates to work with confidence and zeal.
2. **Jame J. Cribbins** says Leadership is a process of influence on a group in a particular situation at a given point of time, and in a specific set of circumstances that stimulates people to strive willingly to attain organisational objectives and satisfaction with the type of leadership provided.
3. **Peter Drucker** defined Leadership as it is not making friends and influencing people, i.e., salesmanship it is the lifting of man's visions to higher sights, the raising of man's personality beyond its normal limitations.

12.4 Nature of Leadership

- a) Leadership is a personal quality.
- b) It exists only with followers. If there are no followers, there is no leadership
- a) It is the willingness of people to follow that makes person a leader.
- b) Leadership is a process of influence. A leader must be able to influence the behaviour, attitude and beliefs of his subordinates.
- c) It exists only for the realization of common goals.

- d) It involves readiness to accept complete responsibility in all situations.
- e) Leadership is the function of stimulating the followers to strive willingly to attain organizational objectives.
- f) Leadership styles do change under different circumstances.
- g) Leadership is neither bossism nor synonymous with; management.

12.5 Importance of Leadership

The importance of leadership in any group activity is too obvious to be over-emphasized. Wherever, there is an organized group of people working towards a common goal, some type leadership becomes essential. Lawrence A. Appley remarked that the time had come to substitute the word leadership for management.

Although the concern for leadership is as old as recorded history, it has become more acute during the last few decades due to the complexities of production methods, high degree of specialization and social changes in the modern organizations. A good dynamic leader is compared to a 'dynamo generating energy' that charges and activates the entire group in such a way that near miracles may be achieved. The success of an enterprise depends to a great extent, upon effective leadership.'

- a) It Improves Motivation and Morale:Through dynamic leadership managers can improve motivation and morale of their subordinates. A good leader influences the behaviour of an individual in such a manner that he voluntarily works towards the achievement of enterprise goals.
- b) It Acts as a Motive Power to Group Efforts:Leadership serves as a motive power to group efforts. It leads the group to a higher level of performance through its persistent efforts and impact on human relations.
- c) It Acts as an Aid to Authority:The use of authority alone cannot always bring the desired results. Leadership acts as an aid to authority by influencing, inspiring and initiating action.
- d) It is needed at All Levels of Management:Leadership plays a pivotal role at all levels of management because in the absence of effective leadership no management can achieve the desired results.

- e) **It Rectifies the Imperfectness of the Formal Organisational Relationships:**No organizational structure can provide all types of relationships and people with common interest may work beyond the confines of formal relationships. Such informal relationships are more effective in controlling and regulating the behaviour of the subordinates. Effective leadership uses there informal relationships to accomplish the enterprise goals.
- f) **It Provides the Basis for Co-operation:**Effective leadership increases the understanding between the subordinates and the management and promotes co-operation among them.

12.6 Qualities of a Good Leader

A successful leader secures desired behaviour from his followers. It depends upon the quality of leadership he is able to provide. A leader to be effective must possess certain basic qualities. A number of authors have mentioned different qualities which a person should possess to be a good leader.

Some of the qualities of a good leader are as follows:

- a) Good personality.
- b) Emotional stability.
- a) Sound education and professional competence.
- b) Initiatives and creative thinking.
- c) Sense of purpose and responsibility.
- d) Ability to guide and teach.
- e) Good understanding and sound judgment.
- f) Communicating skill.
- g) Sociable.
- h) Objective and flexible approach.
- i) Honesty and integrity of character.
- j) Self-confidence, diligence and industry.
- k) Courage to accept responsibility

12.7 Leadership Styles

All leaders do not possess same attitude or same perspective. As discussed earlier, few leaders adopt the carrot approach and a few adopt the stick approach. Thus, all of the leaders do not get the things done in the same manner. Their style varies. The leadership style varies with the kind of people the leader interacts and deals with. A perfect/standard leadership style is one which assists a leader in getting the best out of the people who follow him.

1. **Autocratic leadership style:** In this style of leadership, a leader has complete command and hold over their employees/team. The team cannot put forward their views even if they are best for the teams or organizational interests. They cannot criticize or question the leader's way of getting things done. The leader himself gets the things done. The advantage of this style is that it leads to speedy decision-making and greater productivity under leader's supervision. Drawbacks of this leadership style are that it leads to greater employee absenteeism and turnover. This leadership style works only when the leader is the best in performing or when the job is monotonous, unskilled and routine in nature or where the project is short-term and risky.*
2. **The Laissez Faire Leadership Style:** Here, the leader totally trusts their employees/team to perform the job themselves. He just concentrates on the intellectual/rational aspect of his work and does not focus on the management aspect of his work. The team/employees are welcomed to share their views and provide suggestions which are best for organizational interests. This leadership style works only when the employees are skilled, loyal, experienced and intellectual.
3. **Democrative/ Participative leadership style:** The leaders invite and encourage the team members to play an important role in decision-making process, though the ultimate decision-making power rests with the leader. The leader guides the employees on what to perform and how to perform, while the employees communicate to the leader their experience and the suggestions if any. The advantages of this leadership style are that it leads to satisfied, motivated and more skilled employees. It leads to an optimistic work environment and also encourages creativity. This leadership style has the only drawback that it is time-consuming.
4. **Bureaucratic leadership:** Here the leaders strictly adhere to the organizational rules and policies. Also, they make sure that the employees/team also strictly follows the rules and procedures. Promotions take place on the basis of employees' ability

to adhere to organizational rules. This leadership style gradually develops over time. This leadership style is more suitable when safe work conditions and quality are required. But this leadership style discourages creativity and does not make employees self-contented.

12.8 Strategies to Leadership

David Kipnis, has identified the following strategies used by managers to perform leadership.

- To frame the logical reasons to justify leadership.
- To facilitate leadership managers get friendly with subordinates.
- Try to bind all in a coalition or group.
- To adopt given and take approach.
- Assert forcefully to address the issues faced by them.
- To take support of higher authorities in solving issues.
- Reward positive workers and apply restrictions on negative thinkers.

12.9 Constituents of Leadership

The leadership is a concerted effort. The following four constituents determine the quality of leadership.

- i. **Leader:** Effectiveness of leadership depends upon personal qualities of the leader like his approach towards his follows, personal skills, behavioural skills and communication skills. If a leader by nature honest, tactful and humane, he can motivate his followers better than a dishonest, submissive or cruel leader. Leaders who are democratic generate better response and obedience as compared to autocratic leaders.
- ii. **Subordinates:** To a large extent the outlook, prceptions and skills of followers also determine the success of leadership. If the followers are lazy, incompetent, obstinate and uncompromising, leadership may not be effective. However, a successful leader is one who despite of limitations of his subordinates in a positions to guide them effectively and succeeds in getting the work done.
- iii. **Environment:** It means all external and internal forces within a leader have to work. It is segmented into type's names external environment and internal

environment comprises organizations structure, work centre and resources including men power. External environment consists of economic forces, social forces, political forces, legal forces and technological forces. These forces and their impact determine the conditions for a leader.

- iv. **Organization:** It also determines leadership. Different aspects of an organization like its nature and types, extent of decentralization of authority, its structure, are important factors that contribute to quality of leadership.

12.10 Case Study

Laura is the Associate Director of a non-profit agency that provides assistance to children and families. She is the head of a department that focuses on evaluating the skill-building programs the agency provides to families. She reports directly to the agency leadership. As a whole, the agency has been cautious in hiring this year because of increased competition for federal grant funding. However, they have also suffered high staff turnover. Two directors have left as well as three key research staff and one staff person from the finance department.

Laura has a demanding schedule that requires frequent travel; however, she supervises two managers who in turn are responsible for five staff members each. Both managers have been appointed within the last six months.

Manager 1: Kelly has a specific background in research. She manages staff who provide research support to another department that delivers behavioral health services to youth. Kelly supports her staff and is very organized; however, she often takes a very black and white view of issues. Upper level leadership values Kelly's latest research on the therapeutic division's services. Kelly is very motivated and driven and expects the same from her staff.

Manager 2: Linda has a strong background in social science research and evaluation. She manages staff that work on different projects within the agency. She is known as a problem solver and is extremely supportive of her staff. She is very organized and has a wealth of experience in evaluation of family services. Linda is very capable and can sometimes take on too much.

The managers are sensing that staff are becoming over worked as everyone takes on increased responsibilities due to high staff turnover. Staff have also mentioned that Laura's "glass half-empty" conversation style leaves them feeling dejected. In addition, Laura has not shared budgets with her managers, so they are having difficulty appropriately allocating work to staff. Laura said she has not received sufficient information from the finance department to

complete the budgets. The finance department said they have sent her all the information they have available.

As staff become distressed, the managers are becoming frustrated. They feel like they are unable to advocate for their staff or problem solve without key information like the departmental budget.

Discussion Questions:

1. How can Laura most effectively use both management and leadership skills in her role as associate director? What combination of the two do you think would work best in this setting?

2. What steps could be taken to build staff confidence?

3. What advice would you give Laura on improving her leadership skills and to the managers on improving their management skills?

4. Which leadership style do you think a leader would need to be effective in this situation?

12.11 Summary

Leadership is an important element of the directing function of management. Wherever, there is an organized group of people working towards a common goal, some type of leadership becomes essential. The power of leadership is the power of integrating. The leader stimulates what is best in us. He unites and concentrates what we feel only gropingly and shatteringly. He is a person who gives form to the uncoarctate energy in every man. The person who influences me most is not he who does great Deeds, but he who makes me feel that I can do great deeds.”

12.11 Key Words

- Autocratic Style
- Authority
- Leader
- Democratic Style
- Motivation
- Morale

12.13 Review Questions

1. Define Leadership.
2. Explain the nature of Leadership.
3. Explain the importance of Leadership.
4. Describe elaborately the different Leadership Styles.
5. Bring the strategies needed to develop Leadership.

12.14 References

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LESSON – 13

COMMUNICATION

Learning Objectives

After reading this lesson, you must be able to

- Explain the Meaning of Communication
- Distinguish Formal and Informal Communication
- Identify the Communication Network
- Discuss the Methods of Communication
- Define Management by Objectives
- Identify the Role and Need of MIS
- Describe the Essentials of a sound MIS

Structure

- 13.1 Introduction**
- 13.2 Definition**
- 13.3 Elements of Communication**
- 13.4 Formal Communication**
- 13.5 Informal Communication**
- 13.6 Communication Networks**
- 13.7 Methods of Communication**
- 13.8 Effective Communication**
- 13.9 Management Information System**
- 13.10 Role of MIS**
- 13.11 Information Needs of Management**
- 13.12 Essentials of a sound MIS**
- 13.13 Case Study**
- 13.14 Summary**
- 13.15 Key words**
- 13.16 Review Questions**
- 13.17 References**

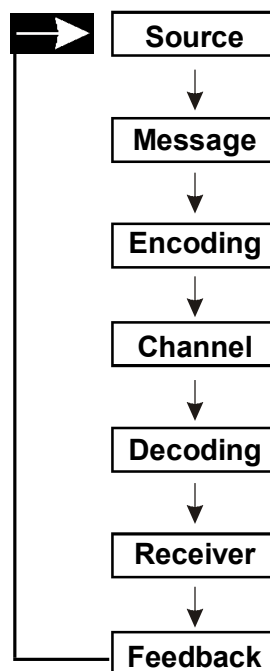
13.1 Introduction

Communication is an indispensable element in human relationship. Human beings interact with one another through communication. There is a communication when a salesman talk to a customer or a supervisor gives order to a worker. When you watch the TV or a film or write a letter, there is communication of ideas and feelings. Effective communication is essential in any type of human grouping – business, government, military, hospitals, universities, community and homes. In fact, it is difficult to imagine any kind of interpersonal activity, which does not depend upon communication.

13.2 Definition

The word 'communication' has been derived from the Latin word 'communis' that implies common. Thus communication may be defined as interchange of thought and information to bring about mutual understanding. It involves exchange or sharing of ideas, opinion and facts between two or more persons. Peter little defines communication as "The process by which information is transmitted between individuals or organization so that an understanding response results." W.H. Newman and C.F. Summer define "Communication is an exchange of facts, ideas, opinions, or emotions by two or more persons."

13.3 Elements of Communication



- 1) **Sender:** The person who intends to convey the message with the intention of passing information and ideas to others is known as sender or communicator.
- 2) **Ideas:** This is the subject matter of the communication. This may be an opinion, attitude, feelings, views, orders, or suggestions.
- 3) **Encoding:** Since the subject matter of communication is theoretical and intangible, its further passing requires use of certain symbols such as words, actions or pictures etc. Conversion of subject matter into these symbols is the process of encoding.
- 4) **Channel:** It is the media through which the message passes from the sender to the receiver. Channel may be formal or informal. The sender may use spoken or written methods. Channel is used for transmission of the message.
- 5) **Receiver:** Receiver is the person who receives the message or for whom the message is meant for. It is the receiver who tries to understand the message in the best possible manner in achieving the desire objectives.
- 6) **Decoding:** The person who receives the message or symbol from the communicator tries to convert the same in such a way so that he may extract its meaning to his complete understanding.
- 7) **Feedback:** Feedback is the process of ensuring that the receiver has received the message and understood in the same sense as sender meant it.

13.4 Formal Communication

Formal channels carry the official message in the organization. All the organization have regular flow of messages to increase their efficiency. But the communications are made to flow easily so that it reaches all the persons in the organization. When the channels are not well organized, there is a communication gap which leads to confusion and unable to take action immediately. Information should pass through proper channels. Clerks from one department are not supposed to exchange information to another department directly, as the information should pass through the supervisors of the department. Thus the messages should be made to pass through the fixed channels so that the top authorities are aware of what is going on.

The messages will move upwards or downwards or sideways between the persons of same level authority. When the message move up and down it is termed as vertical communication and those passed among the person of the same level is called as horizontal or lateral communication.

1) Downward Communication

When the message moves from the higher authority to the lower levels, it can be either in the form of oral or written. The aim of the downward communication is to instruct about the work, the procedures to be followed by the organization to get the feedback about the employee's performance, to inform the goals of the organization so that it creates a sense of belongingness among the employees.

2) Upward Communication

When the messages are passed from the subordinates to the superiors it is called upward communication, which can be in written or oral form. This communication is made to give information to the management and enables the employees to contribute their ideas and suggestions. But this sort of communication does not move easily as the superiors do not have the patience to listen to their subordinates.

3) Horizontal or Lateral Communication

When the messages pass through the employees of same category in the organization it is called horizontal communication. It can be in the form of oral or written. This type of communication is more among the superiors. The higher levels have to be in constant touch with one another and it is more interactive than vertical communication. Apart from exchange of information and suggestions it is helpful for discussing plans, solving the problems, settle disputes, and coordination of work is possible.

13.5 Informal Communication

Informal communication or grapevine implies communication among the people through informal contacts or relations. Informal communication coexists with the formal communication system. It arises from social interaction of people; it is the expression of their natural desire to communicate. People resort to informal communication when there are barriers in the formal channels. Managers may also use informal channels when they find it difficult to collect information through the informal channels.

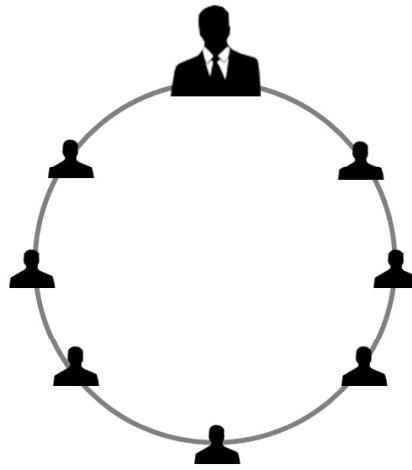
Informal communication is the main source of information about the feelings and attitudes of the employees. In absence of grapevine the ability of the manager to motivate people and to build team work is reduced. It also helps to satisfy the information needs of employees.

- It is a powerful medium to transmit messages at great speed.
- This communication is born out of social relations who mean that it is beyond the restrictions of the organisation. No superior-subordinate relationship figures therein. A more sociable superior can gather much information through this channel.
- Through this communication, information about the work and the individual can be collected.
- Since it is beyond the restrictions of the organisation, it follows no definite channel. Like a grapevine, it moves in a zigzag manner.
- Responsibility for the true or false nature of communication does not lie on any individual and, therefore, not much attention is paid to its meaning while communicating. Consequently, the rumours keep floating.
- Informal communication makes news spread like wildfire. Not only this, people start adding something of their own which sometimes changes the real meaning of the communication.

Grapevine has no definite origin and direction. Therefore it is difficult to assign responsibility for false information or rumours. The informal communication is a part and parcel of the organisation management cannot eliminate it. The only thing management can do is to minimize its effect. Therefore management must be aware of the utility and positive contribution of grapevine. Management should analyse and try to stop rumours as early as possible because once employees accept the rumour they distort future events to confirm to the rumour. The best way to deal with rumour is to supply true facts in face to face contacts so as to eliminate ambiguities in the minds of individuals.

13.6 Communication Networks

Communication network is a pattern of inter connected lines. It is a system where the message may flow in one direction or in several directions. As a pattern of contacts among the members of an organisation, communication network contains channels. It determines the rapidity, accuracy and smoothness with which the messages flow in the organisation. If the network is too narrow then the messages will be blocked. There are several types of communication networks depending upon the nature of channels and the number of persons involved in the communication process.



A. Circle pattern

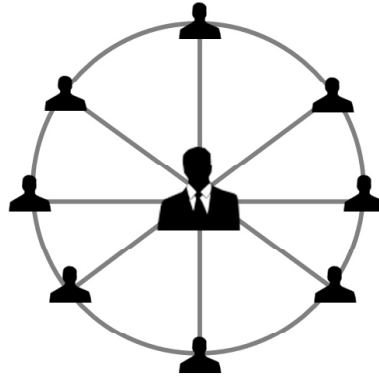
Circle Network

In case of circle network, the message moves in a circle. Under it each person can communicate with two others located on both of his sides. Such networks offer a wider choice of channels and offers greater satisfaction of employees. But it is very slow, noisy and unorganised.



Chain Network

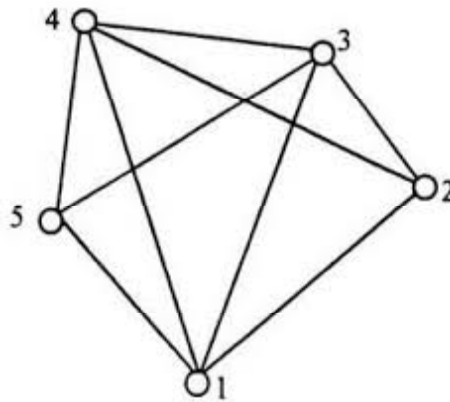
Under this network, the message flows in a direct vertical line. All the subordinates receive orders and instruction from one superior. This type of network tends to be faster and less noisy.



D. Wheel pattern

Wheel Network

Under it, a number of subordinates report to one superior, it is called wheel because all communication pass through the centre person similar to the hub of a wheel. It provides no direct communication among the subordinates. It is the fastest and most accurate network.



Free Flow Network

It represents a free flow of communication. Every member is allowed to communicate freely with all other members. It provides highest satisfaction. But it is relatively slow and less accurate.

13.7 Methods of Communication

There are three methods of communication media

1. Oral Communication

Oral communication could be said to be the most used form of communication. Whether it is to present some important data to your colleagues or lead a boardroom meeting, these skills are vital. Usage of words verbally to inform our subordinates of a decision, provide information, and so on. This is done either by phone or face-to-face. The person on the receiving end would also need to exercise much caution to ensure that he/she clearly understands what is being said. This shows therefore that you would need to cultivate both your listening and speaking skills, as you would have to carry out both roles in the workplace, with different people.

Merits

- Economical
- Personal touch
- Speed
- Flexibility
- Quick response

Demerits

- Lack of record
- Time consuming
- Lengthy message
- Physical distance
- Misunderstanding

2. Written Communication

Writing is used when you have to provide detailed information such as figures and facts, even while giving a presentation. It is also generally used to send documents and other important material to stakeholders which could then be stored for later use as it can be referred to easily as it is recorded. Other important documents such as contracts, memos and minutes of meetings

are also in written form for this purpose. It can be seen in recent years, however, that verbal communication has been replaced to a great extent by a faster form of written communication and that is email.

Merits

- Effectiveness
- Lengthy message
- Economical
- Repetition
- Permanent record
- Better response

Demerits

- Time consuming
- Expensive
- Inflexibility
- Little secrecy
- Lack of personal touch
- Misunderstanding

3. Gestural Communication

Although the most common methods of communication are carried out orally or in writing, when it comes to management techniques, the power of non-verbal communication must never be underestimated. Smile, gestures and several other body movements send out a message to the people around you. It needs to be mindful of this while dealing with your employees and customers. Always remember to maintain eye contact. This would show that you are serious and confident about what is being said.

13.8 Effective Communication

Effective communication is vital to effective management. Therefore, it is necessary to overcome the barriers to communication. Although perfect communication may not be possible,

yet considerable improvements can be made in communication. The following guidelines may be followed to make communication effective.

Principles of Effective Communication

1. Clarity

Clarity is the number one rule all business communication must follow. A message that leaves the reader scratching his head is a failed message. Clarity springs from a knowledge of the message (what you want to say), the method (how you want to say it), and the medium (what format do you want to say it in). A lack of insight in any one of these components is going to affect the effectiveness of your message.

2. Conciseness

Business communication is founded on the principles of brevity. There is little room for lyrical prose or academic loquaciousness. This applies to not just the length of your message, but also its contents. Try to use short sentences and short words. Avoid jargon and words that send the reader to the dictionary (unless you sell dictionaries!). Adopt this principle for intra-team as well as client focused communication.

3. Objectivity

Business communication must always have a purpose. This purpose must be apparent to any who glances through your message. Before you put a single word to paper, ask yourself: “what am I trying to achieve with this message?”. This will help you stay on course through the message creation process and effect a remarkable improvement in the message efficacy.

4. Consistency

Imagine that you’re reading a book that starts out as a serious medieval romance, turns into a supernatural screwball comedy around the half-way mark, before finally finishing as an avant-garde, high-brow literary exegesis. Without a doubt, such a book will leave you confused and even angry.

5. Completeness

Each message must have a clear and logical conclusion. The reader shouldn’t be left wondering if there is more to come. The message must be self-sufficient, that is, it must hold

good on its own without support from other messages. This is particularly apt for blog posts which often end abruptly and leave the reader scratching his head.

6. Relevancy

Every message you send out must be contextually cohesive with previous/future messages. The message must also be relevant to your primary offering. A blog post about Kobe Bryant's free-throw record followed by a webinar on inbound marketing will only leave your readers confused. So make sure that everything you write in a business setting is contextually related and relevant.

7. Audience Knowledge

Lastly, your message must have a thorough understanding of your primary audience. Everything else – clarity, completeness, objectivity – results from your knowledge of your audience. Always know who you are writing for as it will influence the tone, voice and quality of your message. You can't write to a company's SVP the same way you would write to your colleague in the next cubicle, and you can't write to a client the same way you would write to a SVP.

13.9 Management Information System (MIS)

Managers have to take important decisions from time to time. no effective decision can be taken unless the full information relating to the problem is made available in time. Information is useful only when it is relevant, accurate, up-to-date and timely. The system which is designed to provide the right information to decision makers at the right time is known as Management Information System.

Management Information System may be defined as “a formal method of collecting timely information in a presentable form. In order to facilitate effective decision making and implementation, and carry out organisation operations for the purpose of achieving the organisational goals. An MIS is a system, designed to provide selected decision oriented information needed by management to plan, control and evaluate the activities of the corporation. It is designed within a framework that emphasizes profit planning, performance planning and control at all levels. It contemplates the ultimate integration of required business information sub-systems both financial and non-financial within the company.

MIS is a formal system for providing management with accurate and timely information necessary for decision making. The system provides information on the past, present and projected future and on relevant events inside and outside the organisation. It may be defined as a formalised and structured system for providing information to managers on a regular basis to assist them in their functions of planning and control. MIS is a planned and integrated system for gathering relevant data, converting it into the right information and supplying the same to the concerned executives. The basis objectives of MIS are to provide the right information to the right people at the right time.

An MIS may be described as an input-process-output system. Inputs of an MIS are the data collected from various sources inside and outside the organisation. Input element of MIS collects data from the organisation and its environments. Processes refer to the conversion of data into relevant information and storage of the information. Storage element maintains a database in the form of historical records, forecast, plans, standards, decision rules, models etc. outputs imply the information supplied to managers. A variety of information is provided to support the decision making activities of management. Continuous control over the performance of MIS is necessary to ensure that the system meets effectively and efficiently the information needs of the management.

13.10 Role of MIS

An MIS contributes towards effective management in the following ways:

1. **Facilitates Planning:** Sound MIS helps to improve the quality of plans by providing relevant information for sound decision making. Due to increase in the size and complexity of organisation, managers have lost personal contact with the scene of operations. MIS keeps them aware of changes in the environment of business. It quantifies relationship among variables which can be projected to forecast future trends. Need for MIS has increased with the growing turbulence in environment.
2. **Reduces Information Overload:** A sound MIS converts the vast amount of data into summarised form and thereby avoids the confusion which may arise when managers are flooded with too many details. Use of computers has made information handling easier.
3. **Improves Decentralisation:** Decentralisation of authority can be successful when there is a system for monitoring operations at lower levels. MIS can be effectively used for measuring performance and making necessary changes in the

organisational plans and procedures. It identifies and meets separate needs of all units in a decentralised set-up without duplication of efforts.

4. **Assists Co-ordination:** MIS is an integrated approach to planning and control. It facilitates integration of specialised activities by keeping each department aware of the problems and requirements of other departments. It links all decision centers in the organisation.
5. **Simplifies Control:** Management Information System serves as a linking pin between managerial planning and control. It enhances the ability of management to evaluate and improve performance. Widespread use of computers has increased the data processing and storage capabilities, and reduced the cost. It has made information handling easier.

13.11 Information needs of Management

Information, as required at different levels of management can be classified as operational, tactical and strategic.

1. **Operational information:** Operational information relates to the day-to-day operations of the organisation and thus, is useful in exercising control over the operations that are repetitive in nature. Since such activities are controlled at lower levels of management, operational information is needed by the lower management.

For example, the information regarding the cash position on day-to-day basis is monitored and controlled at the lower levels of management. Similarly, in marketing function, daily and weekly sales information is used by lower level manager to monitor the performance of the sales force.

2. **Tactical information:** Tactical information helps middle level managers allocating resources and establishing controls to implement the top level plans of the organisation. For example, information regarding the alternative sources of funds and their uses in the short run, opportunities for deployment of surplus funds in short-term securities, etc. may be required at the middle levels of management.

The tactical information is generally predictive, focusing on short-term trends. It may be partly current and partly historical, and may come from internal as well as external sources.

3. **Strategic information:** While the operational information is needed to find out how the given activity can be performed better, strategic information is needed for making choices among the business options.

The strategic information helps in identifying and evaluating these options so that a manager makes informed choices which are different from the competitors and the limitations of what the rivals are doing or planning to do. Such choices are made by leaders only.



Figure 13.1 Information Needs and Organisational Level

Strategic information is used by managers to define goals and priorities, initiate new programmes and develop policies for acquisition and use of corporate resources. For example, information regarding the long-term needs of funds for on-going and future projects of the company may be used by top level managers in taking decision regarding going public or approaching financial institutions for term loan. Strategic information is predictive in nature, relies heavily on external sources of data, has a long-term perspective, and is mostly in summary form. It may sometimes include 'what if' scenarios. However, the strategic information is not only external information.

Designing an MIS

Murdick has suggested the following steps in designing a computer based MIS:

1. **A preliminary survey and problem definition stage:** First of all, a thorough assessment of the organisation's strategic goals and capabilities is made. The external analyst examines the decisions for which information is required. The needs of every

level and functional area must be considered. From this analysis and assessment the information system needed by the organisation can be defined.

2. **A conceptual design stage:** An analysis of the current information system is made to determine alternative information system designs with specific performance requirements. These alternatives are then evaluated against the organisation's objectives, capabilities and information needs. An initial MIS design is selected. At this stage, tasks are delegated, information on the design is communicated to employees and the plan for a training program is conceived.
3. **A detailed design stage:** Once the conceptual plan is formulated, performance specification of the new MIS can be developed. This is the stage when the actual system for collecting, storing, transmitting and retrieving information is developed. Components, programming, flow charting and databases are designed. A model of the system is created, tested, refined and reviewed, until it meets the specific level of performance.
4. **A final Implementation Stage:** The formal requirements for the system are determined. This logistics of space allocations, equipment additions and forms designs are worked out and enacted. The training program is launched. Design and testing of software for the MIS are completed. The organisation's databases are entered into the system. After a series of final checks, the MIS is ready for implementation.
5. In addition to the above stages, it is necessary to periodically review the system. Once the system is implemented, deficiencies may arise and the system may have to be adapted to the changing needs and environment of the organisation. It is therefore, necessary to build and implement control procedures that can detect and remove deficiencies in the system.

13.12 Essentials of Sound MIS

MIS is designed to provide selected decision oriented information to management to plan, control and evaluate the activities of a business organisation.

1. The information provided by MIS should help in the evaluation of performance of various managers in relation to the goals of the enterprise.

2. MIS should follow systematic procedures for collection, processing and dissemination of information so as to ensure accuracy and consistency.
3. Only relevant data should be collected for further processing, collection and processing of unnecessary data should be avoided.
4. The MIS should be capable of providing right information at the right time because information delayed is information denied.
5. The MIS should present information in a manner that it can be used for rational decision making.
6. MIS should be flexible so that appropriate changes can be made in the system in case of need.
7. MIS should identify and recognise the functional as well as personal relationships within an organisation.
8. MIS should be evaluated in terms of benefits and costs. The costs of the system in any case should not exceed its benefits.

13.13 Case Study

Communication Failures at Bhopal

All the safety features had failed – that much was abundantly clear. What Warrant Anderson could not find out was why. As CEO of Union Carbide, he needed to know exactly what had happened in Bhopal, India, that night for a number of reasons. He knew that he would have to explain a tragic accident to employees, to government officials in both the United States and India, to the courts, and to the people. Yet he could not get answers to his own preliminary and personal questions. When telephone contact failed to yield answers, Anderson got on a plane and flew to India. Where he was immediately placed under house arrest-unable to attend to the very business that had brought him there. His plant managers had also been arrested and were not allowed to talk to anyone. Indian government officials had closed the Plant to Union Carbide management in order to prevent “tampering with evidence”.

The basic facts that Anderson could not determine on December 3, 1984, were really quite simple. A runaway reaction had occurred in a storage tank of methylisocyanate (MIC) which was used to manufacture a pesticide. The valves on the tank had burst and a cloud of poisonous gas had escaped. Climatic conditions kept the gas from dissipating, and the winds carried it to

nearby shantytowns and the populous city of Bhopal, where many people either died in their sleep or woke and died while fleeing. Those who survived suffered from burning eyes and lungs. Local medical facilities were not equipped for the disaster, and over the next few weeks thousands more died.

The Bhopal plant was operated by Union Carbide India Ltd. (UCIL). With the parent company, Union Carbide, owning roughly 51 percent. After installing the plant and training its first staff, Union Carbide withdrew from the daily operation of the plant, as it was required to do by the Indian Government. Union Carbide did participate in the inspections and responded to official questions and concerns, but no U.S. official of the company was on-site in Bhopal.

Before the accident, the plant had been under a great deal of pressure to cut costs. Because of production problems, it was unable to run at more than 50 percent capacity, and meeting its original profit predictions had become impossible. Thus, a number of shortcuts had been taken in such matters as crew training, staffing patterns, and maintenance schedules. Although the plant had been virtually shut down for weeks for extensive maintenance and cleaning, a number of important safety features remained inoperable and there is some doubt whether they would have been adequate even if they had been working.

Perhaps most importantly, the staff did not realize the danger of the situation—they even took tea break after the leak had been noticed, thinking they would have plenty of time to fix it. The operation in the control room did not notify his supervisor when the temperature began to rise inside the tank, and the entire situation went untended for at least an hour. The original procedures called for up to two years of training for employees in critical superintendent capacities, but these men had received only about month, using classroom materials developed in the United States and printed in English.

Clearly, Anderson and Union Carbide had a significant communication problem. First of all, there was a lot of confusion over the facts. Even today, no one is clear as to exactly what sequence of events led to the disaster. Second, each party has a different interpretation of the “facts” that have come to light. That is why, after Union Carbide settled its lawsuit with the government of India in late 1989, a number of voluntary groups claiming to represent the victims asked to have the settlement voided.

Of course, there were a number of barriers to effective communication in the immediate aftermath of the event. Various parties gave voice to differing perceptions of the “facts”, and the

high pitch of emotion amounted to a form of noise interfering with communication channels. In addition, Anderson had to communicate in multiple ways in the wake of the disaster-all of which were hampered by subsequent events and circumstances. The whole world was watching to see what Union Carbide would do. Anderson made the symbolic move of going to India to show his concern, but his subsequent arrest made any form of communication virtually impossible. Ultimately, he needed to have a policy of one-way communication in order to state what Union Carbide was going to do, but before that he needed to engage in multiple-party communication to determine exactly what had happened. Both channels of communication had been effectively shut down.

There was also the little-publicized, but important, issue of Anderson's communication with other Union Carbide employees. After all, some of them worked in facilities very much like the one in Bhopal.

By the time the first death tolls reached Union Carbide headquarters of Danbury, Connecticut its formal communication channels had already been severely limited. There was only two telephone lines into the Bhopal area, so upper management had to rely on fragments of information funneled out of its Bombay subsidiary. Furthermore, the plant's supervisors had been arrested, which for all intents severed the rest of Union Carbide's formal channels of communication with the Bhopal plant. Anderson, too, was arrested when he arrived to assess the situation first hand. Freed on bail, he was informed that the government of India expected Carbide to pay astronomical compensation damages far beyond Carbide's \$200 million insurance coverage.

Ultimately, this demand became the first in a long, agonizing negotiation process that, in late 1989, saw Union Carbide reaching a \$470 million settlement with the government of India. In return, India's Supreme Court ordered the dismissal of all civil and criminal charges against Carbide and its officers and granted them further immunity from prosecution.

In theory, this should have ended the formal negotiations about legal liability. In the United States, certainly, the matter would have been closed, since U.S. Supreme Court decisions can only be overturned by an act of Congress. India, however, has a different system.

Under its constitution, India's Supreme Court has 26 justices, who are divided into a number of smaller benches. (Carbide's case, for example, was heard by a 5-judge bench). Because the court is so large, any bench's decision can be reviewed by another bench, if

anyone appeals decisions within 30 days. This is what happened in the Bhopal case: A number of voluntary organizations, claiming to represent the victims, petitioned India's Supreme Court, demanding that the settlement be voided on the grounds that it grossly underestimated the actual number of people who were severely injured.

Indian legal experts doubted that the voluntary groups had adequate grounds to reopen the case, but Carbide still faced the possibility that the long, painful negotiations might resume. Furthermore, it was bound by two critical conditions, agreed to early on in the original negotiations. It would accept the jurisdiction of the Indian courts, and it would satisfy any of their judgments-conditions that had been upheld in the U.S. Second Circuit Court of Appeals. Most troubling perhaps, for Anderson was the provision, under Indian law, that managers could face criminal charges for organizational wrongdoing although legal experts thought the Indian managers were more vulnerable here. In any case, Carbide's communications failures continue to haunt them and shadow their efforts to rebuild the company. Meanwhile, the money set aside for the settlement sits in bank and cannot be used to help the real victims-the citizens of Bhopal.

13.14 Summary

Communication may be defined as interchange of thought and information to bring about mutual understanding. Elements of communication are sender, message, encoding, channel, receiver, decoding. Formal communication follows the routes formally laid down in the organization structure of the enterprise. Informal communication or grapevine implies communication among the people through informal contacts or relations. Communication network is a system where the message may flow in one direction or in several directions. An MIS is a system, designed to provide selected decision-oriented information needed by management to plan, control and evaluate the activities of the corporation.

13.15 Key Words

- Channel
- Communication
- Downward Communication
- Receiver
- Sender
- Feedback
- Upward Communication

13.16 Review Questions

1. Define Communication and enumerate the elements of communication.
2. Discuss the informal communication.
3. What are the essential characteristics of a good communication system? Discuss the steps for making communication effective.
4. Discuss the information needs of the manager. How does the MIS contribute for effective management?

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LESSON – 14

BUSINESS ETHICS

Learning Objectives

After reading this lesson, you must be able to

- Outline the term Business Ethics
- Bring out importance of Business Ethics
- Discuss issues related to Business Ethics
- Explain the Ethical Audit

Structure

- 14.1 Introduction**
- 14.2 Meaning of Business Ethics**
- 14.3 Definition of Business Ethics**
- 14.4 Concept of Business Ethics**
- 14.5 Characteristics of Business Ethics**
- 14.6 Elements of Business Ethics**
- 14.7 Features of Business Ethics**
- 14.8 Principles of Business Ethics**
- 14.9 Ethical Issues and Dilemma in Business**
- 14.10 Ethical Decision Making and Ethical Leadership**
- 14.11 Ethics Audit**
- 14.12 Case Study**
- 14.13 Summary**
- 14.14 Key Words**
- 14.15 Review Questions**
- 14.16 References**

14.1 Introduction

Business ethics are moral principles that guide the way a business behaves. The same principles that determine an individual's actions also apply to business. Acting in an ethical way involves distinguishing between "right" and "wrong" and then making the "right" choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery.

However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. A company also has wider responsibilities. It should minimise any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.

14.2 Meaning of Business Ethics

Ethics is a branch of social science. It deals with moral principles and social values. It helps us to classify, what is good and what is bad? It tells us to do good things and avoid doing bad things. So, ethics separate, good and bad, right and wrong, fair and unfair, moral and immoral and proper and improper human action. In short, ethics means a code of conduct. It is like the 10 commandments of holy Bible. It tells a person how to behave with another person.

So, the businessmen must give a regular supply of good quality goods and services at reasonable prices to their consumers. They must avoid indulging in unfair trade practices like adulteration, promoting misleading advertisements, cheating in weights and measures, black marketing, etc. They must give fair wages and provide good working conditions to their workers. They must not exploit the workers. They must encourage competition in the market. They must protect the interest of small businessmen. They must avoid unfair competition. They must avoid monopolies. They must pay all their taxes regularly to the government.

In short, business ethics means to conduct **business** with a human touch in order to give welfare to the society.

14.3 Definition of Business Ethics

According to Crane, “Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.”

Baumhart defines, “The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly.”

14.4 Concept of Business Ethics

Business ethics involves the application of *moral standards* to the systems and organizations through which we produce and distribute goods and services—and to the people who work within these systems and organizations.

Business ethics concepts are concerned with three different kinds of ethical/moral issues. Some concepts are related to issues involving the conduct of business within the systems where business operates, including economic, political, legal and other social systems. Other concepts are concerned with corporate issues—those involving questions related to the conduct of a particular company. And, still other concepts are concerned with examination of individual issues—those where questions are related to the behavior/conduct of one or more individuals within a company. In this Hub, I am taking a brief look at concepts including:

- Businesses as “Corporate” Citizens
- “Good” Business Ethics
- “Immoral” Business Practices
- What Constitutes a Moral “Right?”
- Ideas about Justice

14.5 Characteristics of Business Ethics

- a) **A Discipline:** Business ethics are the guiding principles of business function. It is the knowledge through which human behaviour is learnt in a business situation.
- b) **Ancient Concept:** Business ethics is an ancient concept. It has its origin with the development of human civilization.
- c) **Personal Dignity:** The principles of ethics develop the personal dignity. Many of the problems of ethics arise due to not giving dignity to individual. All the business

decisions should be aimed by giving dignity to the customers, employees, distributors, shareholders and creditors, etc. otherwise they develop in immorality in the business conducts.

- d) **Related to Human Aspect:** Business ethics studies those activities, decisions and behaviours which are concerned with human aspect. It is the function of the business ethics to notify those decisions to customers, owners of business, government, society, competitors and others on good or bad, proper or improper conduct of business.
- e) **Study of Goals and Means:** Business ethics is the study of goals and means for the rational selection of sacred objects and their fulfillment. It accepts the principles of “Pure goals inspire for pure means” and “Means justifies the end”. It is essential that goals and means should be based on morals.
- f) **Different from Social Responsibility:** Social responsibility mainly relates to the policies and functions of an enterprise, whereas business ethics to the conduct and behaviour of businessmen. But it is a fact that social responsibility of business and its policies is influenced by the business ethics.
- g) **Greater than Law:** Although the law approves various social decisions, but the law is not greater than ethics. Law is usually related to the minimum control of social customs whereas ethics gives importance to individual and social welfare actions.

14.5 Elements of Business Ethics

1. **Identification:** It means that businessmen should be competent enough to rank and identify the ethical issues in order of importance.
2. **Evaluation:** It means that businessmen must develop the rules and regulations in order to evaluate the ethical issues of the business.
3. **Imagination:** A businessman should be imaginative enough that he should think about the society before taking any decision about the business. He must be aware of the areas towards which people are sensitive.
4. **Tolerance:** Businessmen must have the quality to tolerate ethical disagreement.
5. **Obligations:** Business decision making process should be evaluate that it must fulfill the ethical obligations.

6. **Competence:** A businessman should be competent enough to integrate the business ethical issues with the ethical issues of the society otherwise he has to pay the huge amount for the disagreement.

14.6 Features of Business Ethics

There are eight major features of business ethics :

- **Code of Conduct** : Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- **Based on Moral and Social Values** : Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- **Protection to Social Groups** : Business ethics protect various social groups including consumers, employees, small businesspersons, government, shareholders, creditors, etc.
- **Offers a Basic Framework** ” Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- **Voluntary** : Business ethics is meant to be voluntary. It should be self-practiced and must not be enforced by law.
- **Requires Education & Guidance** : Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.
- **Relative Term** : Business ethics is a relative term. It changes from one business to another and from one country to another.
- **New Concept** : Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

14.7 Principles of Business Ethics

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows “

- **Avoid Exploitation of Consumers** : Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.
- **Avoid Profiteering** : Unscrupulous business activities such as hoarding, black-marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- **Encourage Healthy Competition** : A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.
- **Ensure Accuracy** : Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.
- **Pay Taxes Regularly** : Taxes and other duties to the government must be honestly and regularly paid.
- **Get the Accounts Audited** : Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- **Fair Treatment to Employees** : Fair wages or salaries, facilities and incentives must be provided to the employees.
- **Keep the Investors Informed** : The shareholders and investors must know about the financial and other important decisions of the company.
- **Avoid Injustice and Discrimination** : Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.
- **No Bribe and Corruption** ” Do not give expensive gifts, commissions and payoffs to people having influence.
- **Discourage Secret Agreement** : Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- **Service before Profit** : Accept the principle of “service first and profit next.”

- **Practice Fair Business** : Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- **Avoid Monopoly** : No private monopolies and concentration of economic power should be practiced.
- **Fulfil Customers' Expectations** : Adjust your business activities as per the demands, needs and expectations of the customers.
- **Respect Consumers Rights** : Honor the basic rights of the consumers.
- **Accept Social Responsibilities** : Honor responsibilities towards the society.
- **Satisfy Consumers' Wants** : Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.
- **Service Motive** : Service and consumer's satisfaction should get more attention than profit-maximization.
- **Optimum Utilization of Resources** : Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- **Intentions of Business** : Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

14.8 Factors governing Business Ethics

Personal Code of Ethics: A man's personal code of ethics that is what one considers moral is the foremost responsible factor influencing his behavior.

- **Legislation**: It is already stated that the Government will intervene and enact laws only when the businessmen become too unethical and selfish and totally ignore their responsibility to the society. No society can tolerate such misbehavior continuously. It will certainly exert pressure on the Government and the Government consequently has no other alternative to prohibit such unhealthy behavior of the businessmen.
- **Government Rules and Regulations**: Laws support Government regulations regarding the working conditions, product safety, statutory warning etc. These provide some guidelines to the business managers in determining what are acceptable or recognized standards and practices.

- **Ethical Code of the Company:** When a company grows larger, its standard of ethical conduct tends to rise. Any unethical behavior or conduct on the part of the company shall endanger its established reputation, public image and goodwill. Hence, most companies are very cautious in this respect. They issue specific guidelines to their subordinates regarding the dealings of the company.
- **Ethical Climate of the Industry:** Modern industry today is working in a more and more competitive atmosphere. Hence only those firms, which strictly adhere to the ethical code, can retain its position unaffected in its line of business. When other firms, in the same industry are strictly adhering to the ethical standards, the firm in question should also perform up to the level of others. If the company's performance is below than other companies, in the same industry, it cannot survive in the field in the long run.

14.9 Ethical Issues and Dilemma in Business Ethics

Being the most important element of a business, stakeholders' main concern is to determine whether or not the business is behaving ethically or unethically. The business' actions and decisions should be primarily ethical before it happens to become an ethical or even legal issue. "In the case of the government, community, and society what was merely an ethical issue can become a legal debate and eventually law." Some unethical issues are:

- a) Fairness:** The three aspects that motivate people to be fair is; equality, optimization, and reciprocity. Fairness is the quality of being just, equitable, and impartial.
- b) Misuse of company's times & Resources:** this particular topic may not seems to be a very common one, but it is very important, as it costs a company billions of dollars on a yearly basis. This misuse is from late arrivals, leaving early, long lunch breaks, inappropriate sick days etc. This has been observed as a major form of misconduct in businesses today. One of the greatest ways employees participate in misuse of company's time and resources is by using the company computer for personal use.
- c) Consumer Fraud:** There are many different types of fraud, namely; friendly fraud, return fraud, ward robing, price arbitrage, returning stolen goods. Fraud is a major unethical practice within businesses which should be paid special attention. Consumer fraud is when consumers attempt to deceive businesses for their very own benefit.^[113]

- d) **Abusive Behavior:** A common ethical issue among employees. Abusive behavior consists of inflicting intimidating acts on other employees. Such acts include harassing, using profanity, threatening someone physically and insulting them, and being annoying.

Dilemma in Business Ethics

In general, an ethical dilemma is a complex situation a person (business) faces in which a decision must be made about the adequate action to be taken. A dilemma may derive from the conflict between the rightness or wrongness of the actions and the goodness or badness of the consequences of the actions. In other words, doing what is morally right apparently results in a bad outcome and doing what is morally wrong seems to lead to better effects.

From another perspective, an ethical dilemma is a conflict between at least two ethical principles both of which could lead to an equally good or equally bad outcome. In such a situation, obeying one principle leads to transgressing another, whereas both principles seem equally valid. Hence the dilemma: If doing what is right produces something bad, or if doing what is wrong produces something good, the force of moral obligation may seem balanced by the reality of the good end. We can have the satisfaction of being right, regardless of the damage done; or we can aim for what seems to be the best outcome, regardless of what wrongs must be committed.

Resolving ethical dilemmas

Several frameworks have been developed as aid for resolving ethical dilemmas. One of them is the Potter box model for ethical decision making, this model was developed by Jay Black for consideration in making ethical decisions within the medical profession, even that this model is developed for other disciplines it can be used in various other disciplines such as business, media, social work, research, public service, etc.

The Potter box model considers six different steps: Define the dilemma (or the situation) Identify values Develop an accountability system (establishing principles) Compare the alternatives Implement the decisions Monitor the consequences and develop a policy The use of this framework is particularly useful in clarifying ambiguous situations or contradictory loyalties.

14.10 Ethical Leadership and Ethical Decision Making

Ethical Leadership

- Leadership is the ability or authority to guide and direct others toward achievement of a goal.
- Leaders are key to influencing an organization's corporate culture and ethical posture.
- Leadership styles influence many aspects of organizational behavior, including employees' acceptance of and adherence to organizational norms and values.

Ethical Decision Making

The first step in ethical-decision making is to recognize that an ethical issue requires an individual or work group to choose among several actions that various stakeholders inside or outside the firm will ultimately evaluate as right or wrong.

14.11 Ethics Audit

Audits are designed to dig deep into company records to ensure reliability and accuracy in areas like accounting systems, financial reporting and legal compliance. Audits generally deal with quantitative, easily measurable data. Ethical issues, on the other hand, are more often qualitative or subjective in nature. A number of qualitative research techniques make an ethical audit possible, but an ethical audit still necessarily functions differently from any kind of financial audit. Considering multiple perspectives to gain a big-picture understanding of a company's commitment to ethics is the key to an ethical audit.

- Review the company's formal codes of ethics, ethics training programs and compliance policies for legal and industry guidelines regarding ethics. A commitment to ethics begins with formal policies in the employee handbook. Although having such policies in place does not guarantee real-world compliance, it is a vital first step in building a culture of strong ethics, and it can show how serious management is about ethical issues. Make sure ethics policies cover the full range of common issues in business, including discrimination, equal employment opportunity, financial management, sourcing, customer relations and the impact of company operations on the environment, the community and the world.
- Look into past breaches of ethics through company records and archived online news sources. Begin by asking the business owner or an executive to discuss any

legal issues the company has experienced, but do not let on that you intend to investigate on your own. If you find something the company representative tried to hide, it can be a large red flag pointing to a culture of dishonesty. When searching past news releases, look for any negative press about the company, and scrutinize the story for breaches of ethics. If any previous ethical lapses have occurred, speak with the company owner or an executive about what the company has done to prevent similar incidents from occurring since then and in the future.

To make this information more measurable, create a timeline listing each past incident of a public breach of ethics, and analyze the frequency, rate and momentum of the occurrences.

- Speak with employees regarding their impressions of the company's commitment to ethics. Take this opportunity to ask them to share their experiences about co-workers, managers and executives. Make sure all employees know their interviews are confidential and that honest answers will help to improve their organizations. Insiders know a large amount of information that the public, the press and government regulators are not aware of. Not every breach of ethics is illegal, either, and employees can be an insightful source of information on legal breaches of ethics occurring on a regular basis.

To make this information more quantitative, look for patterns in the responses you receive and record the number of times specific issues come up. If you find employees frequently speaking about management's rude treatment of females, for example, note the number of times the issue came up and calculate the percentage of interviewees who mentioned it.

14.12 Case Study

An MBBS – named – Dr. Mehra – was with a very reputed hospital of Trichi for last seven years. His performance feedback was exceptional and he had received many promotions during this tenure. Prior to joining this hospital, he was the student of medicine in a reputed University and his behavior and performance as student were also quite laudable. He was an excellent student with very good academic track record. His father was a renowned scientist. Dr Mehra was also involved in a lot of social activities apart from his job.

The hospital he was serving was also a name to reckon with in the society. It had set high standards of employee ethical behavior and it was known to follow its ethical code of conduct “in toto”. In the past, the Chief Medical Officer of the company was heavily fined (financially)

when one of his actions had violated the code of conduct of the company. The company did not care “who” violated the code of conduct and it followed the law of the land to deal with any deviation in behavior of any employee strictly as per the ethical code of conduct of the hospital. It was recipient of many awards like “Best Hospital to Work For” in the past.

The hospital was known to get many rich businessmen / who’s who of the world as its patients. It also received donations from many quarters of the world, including from Europe, USA etc.

On one not so fine Monday morning for Dr. Mehra, he was served with a show cause notice (by post to his home) from the HR department of the hospital. The HR department of the hospital argued that Dr. Mehra had failed to disclose in his application form to the hospital that he used to serve a community hospital part time along with his studies as a student. So, it was a gross misconduct of the ethical code of conduct and that left no choice for them but to terminate his services.

Meanwhile, Dr. Mehra received some media attention. He was called by DSP of that area for inquiring about a dinner he had taken with one of the wanted mafias. That was reported in media. The DSP, though, gave him clean cheat, on record, that, Dr. Mehra was called for only a routine enquiry and he was not sent to jail. He added that no evidence was found against Dr. Mehra.

Dr. Mehra was now struggling on two fronts – one was due to the enquiry of police, the other was the notice from HR Department of the hospital. Dr. Mehra replied to the notice that as he was serving a community hospital as a part of his social responsibility, he thought it was not necessary to share that information with hospital in the application form. As generally, many of the doctors who would be working with private hospitals like this one, had not shared such information in the past – it was a common practice not to share such information. So, he should not be punished.

But the HR Department the company still terminated his services on the grounds of breach of code of conduct. Now, Dr. Mehra accuses the hospital that because police took him under custody for a routine enquiry, the hospital fired him and he was being targeted for wrong reasons.

What do you think? Who is right? Dr. Mehra or HR Department of the hospital? Why?

14.13 Summary

Business ethics concepts are concerned with three different kinds of ethical/moral issues. Some concepts are related to issues involving the conduct of business within the systems where business operates, including economic, political, legal and other social systems. Other concepts are concerned with corporate issues—those involving questions related to the conduct of a particular company. And, still other concepts are concerned with examination of individual issues—those where questions are related to the behavior/conduct of one or more individuals within a company.

14.14 Key Words

- Business Ethics
- Discipline
- Ethical Audit
- Goals

14.15 Review Questions

1. Explain the concept of Business Ethics.
2. Bring out the characteristics of Business Ethics.
3. Discuss in detail about the Elements of Business Ethics.
4. What are the features of Business Ethics?
5. List out in detail the various principles of Business Ethics
6. Do Business ethics get affected by anything? If yes, Discuss.
7. What do you understand by Ethical Issues and Dilemma in Business Ethics?
8. Outline clearly about Ethical Audit.

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LESSON – 15

CORPORATE SOCIAL RESPONSIBILITY

Learning Objectives

After reading this lesson, you must be able to

- Explain about Social Responsibility and Corporate Social Responsibility
- Differentiate Business Ethics from Social Responsibility
- Describe different models of CSR
- Discuss various benefits and limitations of CSR

Structure

- 15.1 Introduction**
- 15.2 Meaning of Corporate Social Responsibility**
- 15.3 Definition and Characteristics of Corporate Social Responsibility**
- 15.4 Concept of Corporate Social Responsibility**
- 15.5 Differences between Business Ethics and Social Responsibility**
- 15.6 Models of Corporate Social Responsibility**
- 15.7 Arguments against Corporate Social Responsibility**
- 15.8 Arguments for Corporate Social Responsibility**
- 15.9 Case Study**
- 15.10 Summary**
- 15.11 Key Words**
- 15.12 Review Questions**
- 15.13 References**

15.1 Introduction

Social responsibility of business implies the obligations of the management of a business enterprise to protect the interests of the society. According to the concept of social responsibility the objective of managers for taking business decisions is not merely to maximize profits or

shareholders' value but also to serve and protect the interests of other members of a society such as workers, consumers and the community as a whole.

Corporate Social Responsibility on the other hand is the current terminology for defining the role of business in the well-being of society. Often this is referred to as the "triple bottom line" - People, Planet and Profit. Companies in today's society represent the values of all their stakeholders (owners, employees, suppliers, communities...etc.), and work to leverage those values to maximize the economic and social impacts on society, while minimizing the environmental impact.

15.2 Meaning of Corporate Social Responsibility

Corporate Social Responsibility, or "CSR," refers to the need for businesses to be good corporate citizens. CSR involves going beyond the law's requirements in protecting the environment and contributing to social welfare. It is widely accepted as an obligation of modern business.

CSR goes beyond earning money for shareholders. It's concerned with protecting the interests of all stakeholders, such as employees, customers, suppliers, and the communities in which businesses operate. Examples of CSR include adopting humane employee practices, caring for the environment, and engaging in philanthropic endeavors.

Some people contend that companies owe no duty to society outside making as much money as possible within the law. But those who support Corporate Social Responsibility believe that companies should pursue a deeper purpose beyond simply maximizing profits.

15.3 Definition and Characteristics of Corporate Social Responsibility

Corporate social responsibility is similar to ideas of social responsibility for individuals and businesses. Some sources provide similar definitions for the two terms, but corporate social responsibility is a specific business approach that **began in the 1950s and 1960s**, with definitions expanding in the ensuing decades.

There is **no universally accepted definition** of corporate social responsibility, according to the *Journal of Business Ethics*, but two features can be used to differentiate corporate social responsibility from other activities: 1) They partly or entirely benefit society and/or general

interests; and 2) they are not obligated by law. Other aspects of corporate social responsibility can vary.

- Domains include environmental friendliness, community support, local products promotion, fair employee treatment and more.
- Stakeholders include employees, suppliers, customers, communities, the environment, investors and regulators.
- Policies and activities include cause-related marketing (marketing programs that combine sales objectives and helping worthy causes), sponsorship (connecting worthy causes to a brand or organization for money) and corporate philanthropy (charitable donations).

Some organizations engage in corporate social responsibility activities for intrinsic reasons: to help out and make societal contributions. Another motive is extrinsic, which relates to a company expecting financial or other benefits for socially responsible behavior. Many studies reflect positive organizational outcomes for corporate social responsibility activities, the *Journal of Business Ethics* reports. Finally, a third motive for corporate social responsibility activities is meeting societal expectations and stakeholder pressure.

15.4 Concept of Corporate Social Responsibility

CSR has been defined by **Lord Holme** and **Richard Watts** in the **World Business Council for Sustainable Development's** publication "Making Good Business Sense" as "...the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large." CSR is one of the newest management strategies where companies try to create a positive impact on society while doing business. Evidence suggests that CSR taken on voluntarily by companies will be much more effective than CSR mandated by governments. There is no clear-cut definition of what CSR comprises.

Every company has different CSR objectives though the main motive is the same. All companies have a two-point agenda to improve qualitatively (the management of people and processes) and quantitatively (the impact on society). The second is as important as the first and stake holders of every company are increasingly taking an interest in "the outer circle"-the

activities of the company and how these are impacting the environment and society. The other motive behind this is that the companies should not be focused only on maximization of profits.

15.5 Differences between Business Ethics and Social Responsibility

Though business ethics and social responsibility seem to be overlapping, there has always been a contradiction between the two. Companies, though they are committed to be socially responsible for their behaviour have been found to be engaging in acts that cannot be called ethical.

What is good for the society is sometimes not good for the business, and what is good for the business is almost always not good for the society.

If the society is conscious, it responds in such a way that businesses are forced to behave responsibly. The same applies to the administration and the judiciary of any country.

Selling of liquor and tobacco in any society is not against **business ethics** though it may be against the principles of social responsibility. The same applies to lotteries and gambling. But it is certainly against business ethics as well as against social responsibility to entice minors to engage in smoking and drinking.

15.6 Models of CSR

15.6.1 Carroll's Model

As we have seen, CSR has gone through several phases of evolution. There remains little consensus on its precise definition. We can say that all the theoretical constructions developed after the 1950s agree that companies committed to CSR demonstrate corporate motivations that go beyond profit-making and formal legal obligations to involve a wider set of social and ethical concerns. Such principally include protection of the environment, fostering an improved society, supporting economic development, and sustaining good corporate relationships.

The social responsibilities of media companies are arguably more extensive and intensive than for most other industries because media are so central to cultural production and play such an important role in educating citizens and equipping them to participate in the democratic process. Moreover, media firms are able to influence others by shaping public opinion, cultivating

social perspectives, and inculcating systemic values (not ignoring the fact that such is contentious, of course, and always fractured). It is clearly true that media industries have, or should have, significant responsibilities.

Carroll's model synthesizes a range of theories and models summarized in four kinds of social obligations that together constitute CSR:

- Economic responsibilities are fundamental. Without the foundation of profitability, none of the other responsibilities are feasible or deliverable.
- Moving up one step, legal responsibilities are the next most important and reflect the way that society's ethical principles are codified and applied.
- Ethical or moral responsibilities form a higher set of internalized obligations that encourage workers, managers, and firms to do what is right and avoid doing harm.
- Philanthropic obligations reside at the apex of Carroll's pyramid of corporate social responsibility, obliging the corporation to act as a good corporate citizen to promote a generalized social welfare that is crucial to shared quality of life.

15.6.2 The Stakeholder Model

It is a theory of **organizational management** and **business ethics** that addresses morals and values in managing an organization. It was originally detailed by Ian Mitroff in his book "Stakeholders of the Organizational Mind", published in 1983 in San Francisco. **R. Edward Freeman** had an article on Stakeholder theory in the California Management Review in late 1983, but makes no reference to Mitroff's work, attributing the development of the concept to internal discussion in the Stanford Research Institute. He followed this article with a book *Strategic Management: A Stakeholder Approach*.

This book identifies and models the groups which are **stakeholders** of a **corporation**, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "principle of who or what really counts. In the traditional view of a company, the shareholder view, only the owners or shareholders of the company are important, and the company has a binding **fiduciary** duty to put their needs first, to increase value for them

The stakeholder view of strategy integrates both a resource-based view and a market-based view, and adds a socio-political level. One common version of stakeholder theory seeks

to define the specific stakeholders of a company (the normative theory of stakeholder *identification*) and then examine the conditions under which managers treat these parties as stakeholders (the descriptive theory of stakeholder *salience*).

15.7 Arguments against Corporate Social Responsibility

- Skeptics often claim that businesses should focus on profits and let the government or non-profit organizations deal with social and environmental issues.
- Milton Friedman claimed that free markets, rather than companies, should decide what is best for the world. He believes that Adam Smith's "invisible hand" will do all the work to make everything better.
- Another argument is that companies are meant to create products or provide services rather than handle welfare activities. They do not have the expertise or knowledge necessary for handling social problems. Also, if managers are concentrating on social responsibilities, they are not performing their primary duties for the company at full capacity.
- Finally, being socially responsible damage a company in the global marketplace. Cleaning up the environment, ensuring product safety, and donating money or time for welfare issues all raise company costs. In the end, this cost will be passed on to the consumer through the final prices of the product or service. While some customers may be willing to pay more for a product from a company that is socially responsible, others might not be. This can place a company at an economic disadvantage.

15.8 Arguments for Corporate Social Responsibility

- The simplest argument for social responsibility is that it is the right thing to do. Some of society's problems have been created by corporations such as pollution and poverty-level wages. It is the ethical responsibility of business to correct these wrongs.
- Another point is that businesses have many of the resources needed for solving society's problems and they should use them to do so.
- Another reason for companies to be socially responsible is that if businesses are not, then the government will create new regulations and establish fines against corporations. This has especially been the case for the pollution issue.

- If businesses police themselves, they can avoid government intervention. Finally, social responsibility can be profitable. It is possible for companies to prosper and build shareholder value by working to solve social problems. It can be a great way for a company to build positive public relations and attract top talent in the industry.

15.9 Case Study

Intel Corporation is a semiconductor chip maker corporation headquartered in Santa Clara, California. Based on revenue, Intel is one of the world's largest semiconductor chip makers with a multinational presence. Intel Corporation was founded in 1968, by semiconductor pioneers Robert Noyce and Gordon Moore under the executive leadership and vision of Andrew Grove. Intel makes motherboards, network interface controllers, integrated circuits, flash member, graphic chips, and processors, combining advanced chip design capability with a leading-edge manufacturing capability. Until 1981 the majority of its business was devoted to SRAM and DRAM memory chip manufacturing. Currently Intel is actively developing the 3-D transistor and 4th generation core processors. As a socially responsible corporation, Intel is actively involved in improving lives, the community, and the environment. In 1988 Intel established the Intel Foundation to fund educational and charitable endeavors. Intel corporate leadership has a history of investment and engagement in programs to support social issues that has generated significant value both for Intel and for their stakeholders. Intel is especially active in developing "conflict free" mineral products. Many product made by Intel, as well as countless others in the marketplace, contain tin, tantalum, tungsten, or gold, that are known as "conflict minerals". These minerals are often sold by rebels to fund violent conflict. Intel is partnering with other organizations to find conflict free smelters for its resource supplies.

Intel supported Mike Mick Ebeling's Not Impossible Lab's to develop Project Daniel that initially set to provide a boy with new arms and his village in South Sudan with the Intel® technology, Ultrabooks™, using 3-D printing to develop prosthetics to help other civil war victims.

In other areas, Intel's She Will Connect program strives to close the Internet gender gap for girls and women that excludes them from 21st century jobs and opportunities. This is especially critical in sub-Saharan Africa. The project is intended to empower women, improve digital literacy training, provide online peer interaction, and gender relevant content. It is expected to transform African economy and families. Additionally, Intel supports educational projects especially for girls in Egypt, Tanzania, and 65 other developing countries through project such as Smart Girls

and Girls Rising. Intel emphasizes the benefits communities and developing countries obtain when girls are educated leading to healthier and safer people, and less child marriage. Intel India's Empowering Women in Jharkhand, provides education and local economic support, into empower underserved tribal women with education to start prosperous micro-businesses. Intel's corporate culture has as its foundation a value for its people, the environment, human rights, and empowering the next generation. Their commitment to the environment includes projects to improve energy efficiency, reduce emissions, conserve resources, and use innovative ways for sustainability.

Questions

1. How do each of these companies address sustainability?
2. How does the focus on sustainability provide a strategic position for the company, if any?
3. Analyze why the company engages in social activities.
4. What form of corporate governance best fits a sustainable company?

15.10 Summary

Corporate Social Responsibility, refers to the need for businesses to be good corporate citizens. CSR involves going beyond the law's requirements in protecting the environment and contributing to social welfare. It is widely accepted as an obligation of modern business. CSR goes beyond earning money for shareholders. It's concerned with protecting the interests of all stakeholders, such as employees, customers, suppliers, and the communities in which businesses operate. Examples of CSR include adopting humane employee practices, caring for the environment, and engaging in philanthropic endeavors.

15.11 Key Words

- Business Ethics
- Corporate Social Responsibility

15.12 Review Questions

1. Define Corporate Social Responsibility.
2. Mention the various characteristics of Corporate Social Responsibility.
3. State the differences between Business Ethics and CSR.
4. Explain the various models of CSR. Provide suitable examples to them.
5. Explain the arguments against and for CSR.

15.13 References

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Model Question Paper
MBA Degree Examination, DECEMBER 2018
First Year – First Semester
Paper - I
MANAGEMENT PRINCIPLES AND BUSINESS ETHICS

Time : 3 Hours

Maximum : 80 Marks

SECTION - A

Answer any TEN of the following in 50 words each (10 x 2 = 20 Marks)

1. Who are Managers?
2. What is Planning?
3. What are organisations?
4. Who is a leader?
5. Define Management.
6. What are policies ?
7. What is departmentalisation ?
8. What is Communication ?
9. What is Control Process ?
10. What is Coordination?
11. What is Business Ethics?
12. What is authority ?

SECTION - B

Answer any FIVE of the following in 250 words each (5 x 6 = 30 Marks)

13. What are the functions of Managers ?
14. List out the importance of Planning
15. What are the characteristics of control process ?

222

16. What are the features of Business Ethics ?
17. What are the merits of departmentalisation ?
18. What are the features of matrix organisation ?
19. List out the principles of delegation.

SECTION - C

Answer any THREE questions in about 500 words each (3 x 10 = 30 Marks)

20. Explain Fayol's principles of Management.
21. Discuss the steps in planning process.
22. Describe the phases of Policy Making.
23. Discuss the merits and demerits of Centralisation.
24. Explain the techniques of coordination.