

PRINCIPLES OF MANAGEMENT

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Published by



CAPE FORUM

OF BY AND FOR YOUPUBLICATIONS ®

E-Mail:capeforumyoutrust@gmail.com

Website:https://www.capecorumyoutrust.org

Book Name: Principles of Management

Published by: OF BY AND FOR YOU PUBLICATIONS ®

Authors: Dr.M.Durgarani and Dr.R.Gokilavani

Edition: First-Volume I

Month & Year: October 2023

Pages: 1-143

ISBN: 978-81-957692-47



PREFACE

*Principles of management is likely to be one of the first management or business courses that students take. Consequently, our objective when developing material for each chapter was to provide students and instructors with a solid and comprehensive foundation on the fundamentals of management. This principles of management book is organized around the well-established **planning, organizing, leading, and controlling** framework (or, simply, P-O-L-C). The P-O-L-C structure provides a number of benefits. Each chapter opens with a brief discussion of how the chapter topic fits in P-O-L-C. For instructors, the use of P-O-L-C as an overarching framework helps with organizing class material, developing the class calendar, and making choices about adding or removing readings. It also provides instructors with an invaluable reference point at the beginning and conclusion of each class session to share with students “where we’ve been, and where we’re going next.” Pedagogically, this is a simple yet a powerful tool to aid and promote student learning. For students, the P-O-L-C typology provides an enduring framework for processing and organizing just about everything they will learn and experience, during and beyond their classroom-based education, related to the management of organizations.*

*We incorporate a truly **interdisciplinary perspective** to principles of management course. We are energized to write a text where mastery of the content has important implications for key skills such as effective decision making, coupled with the strategic, entrepreneurial, and leadership orientations. Your authors are award-winning teachers who have collectively been teaching classes for over half a century and harbor a deep knowledge and appreciation for the book’s conceptual underpinnings with a sincere appreciation for experiential teaching approaches.*

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CHAPTER I **OVERVIEW OF MANAGEMENT**

1.1 DEFINITIONS OF MANAGEMENT

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

- Koontz and Weihrich.

“**Management** is the art of getting things done through the people”

- Mary Parker Follett

Management is a distinct process consisting of planning, organising, actuating and controlling to determine and accomplish the objectives by the use of people and resources.

- George R.Terry.

Organization is a systematic arrangement of people brought together to accomplish some specific purpose. E.g., College or university is an organization.

Three common characteristics of an organization

- Purpose
- People, and
- Systematic structure that defines and limits the behavior of its members.

Operatives Vs Managers

Operatives are people who work directly on a job or task and have no responsibility for overseeing the work of others.

Managers are individuals in an organization who direct the activities of others. Customarily classified as top, middle, or first-line managers, these individuals supervise both operative employees and lower-level managers. E.g., direct sales manager also have basic responsibilities of servicing some accounts in addition to overseeing the activities of other sales associates in their territory.

1.2 LEVELS OF MANAGEMENT

The levels of management can be classified in three broad categories: -

- 1. Top level / Administrative level**
- 2. Middle level / Executory**
- 3. Low level / Supervisory / Operative / First-line managers**



1. Top Level of Management

Individuals who are responsible for making decisions about the direction of the organization and establishing policies that affect all organizational members are called the top level managers. Top managers typically have titles such as vice president, president, chancellor, managing director, chief operating officer, chief executive officer, or chairperson of the board.

2. Middle Level of Management

Individuals at levels of management between the first-line manager and the top management are the middle level manager. The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department.

3. Lower Level of Management/ First-line managers

Lower level is also known as supervisors. They are responsible for directing the day-to-day activities of operative employees. It consists of supervisors, foreman, section officers, superintendent etc.

EFFICIENCY AND EFFECTIVENESS

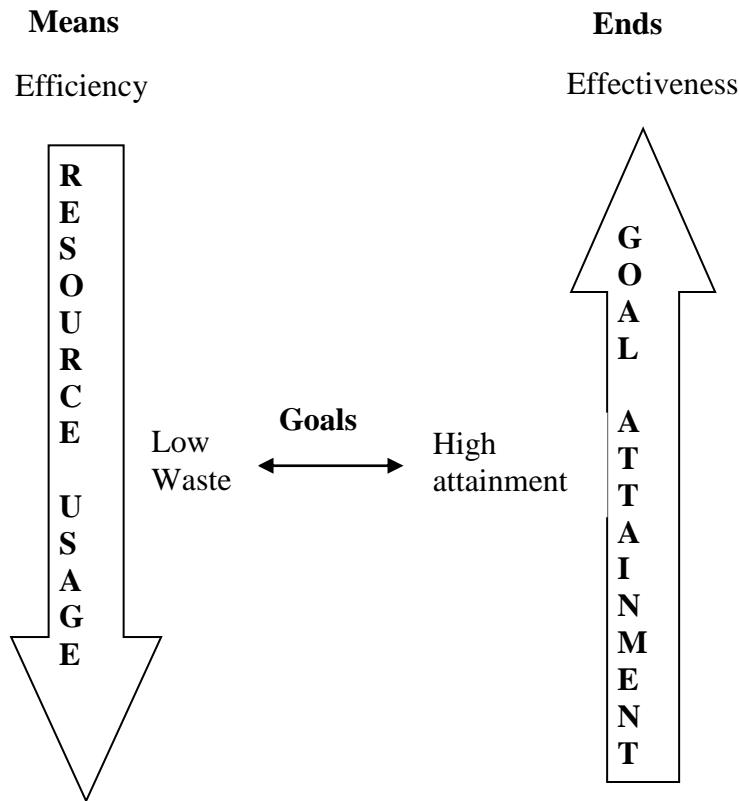
Efficiency: doing things in the most economical way (good input to output ratio).

Efficiency means doing the task doing the things correctly and refers to the relationship between inputs and outputs. For instance, if you get more output for a given input, you have increased efficiency. It seeks to minimize resource costs.

$$\text{Efficiency} = \text{Output} / \text{Input}$$

Effectiveness: doing "right" things, i.e. setting right targets to achieve an overall goal (the *effect*)

Effectiveness means doing the right task. In an organization, that translates into goal attainment.

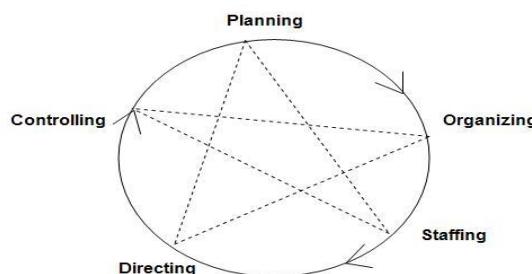


1.3 FUNCTIONS OF MANAGEMENT OR THE PROCESS OF MANAGEMENT

Newman and Summer recognizes only four functions namely, Organising, planning, leading and controlling.

Henry Fayol identifies five functions of Management, viz., Planning, organizing, commanding, coordinating, and controlling.

Luther Gulick states seven functions under the catch word “POSDCORB” which stands for Planning, organizing, staffing, directing, coordinating, reporting and budgeting.



Planning:

The planning component encompasses defining an organisation's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. Planning is the function that determines in advance what should be done. It is looking ahead and preparing for the future. Planning is a function which is performed by managers at all levels- top, middle and supervisory.

Organising:

Organising includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made. Once managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out these plans successfully.

Directing/ Leading:

Directing involves three sub-functions

- ✓ **Communication:** is the process of passing information and understanding from one person to another.
- ✓ **Leadership:** process by which a manager guides and influences the work of his subordinates.
- ✓ **Motivation:** arousing desire in the minds of workers to give their best to the enterprise.

Controlling:

The process of monitoring performance, comparing it with goals, and correcting any significant deviations is called controlling. The controlling function of management involves three elements.

1. Establishing standards of performance
2. Measuring current performance and comparing it against the established standards.
3. Taking action to correct any performance that does not meet those standards.

Innovation:

These days, it is not necessary for an organization to grow bigger. But it is necessary that it constantly grows better. This makes innovation an important function of a manager. Innovation means creating new ideas which may either result in the development of new products or finding new uses for the old ones.

Representation:

A manager is also required nowadays to spend a part of his time in representing his organization before various outside groups which have some stake in the organization.

MANAGEMENT PROCESS

(A) Management Process:



(B) Elements of Management Process (Functions of Management):



1.4 ROLES OF MANAGERS

Ten Managerial Roles identified by Henry Mintzberg

Interpersonal Roles

- Figurehead:** Performing ceremonial and social duties 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 and responsible for staffing, training and associate duties. 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:** The manager passes some of his privileged information directly to his subordinates who would otherwise have no access to it.

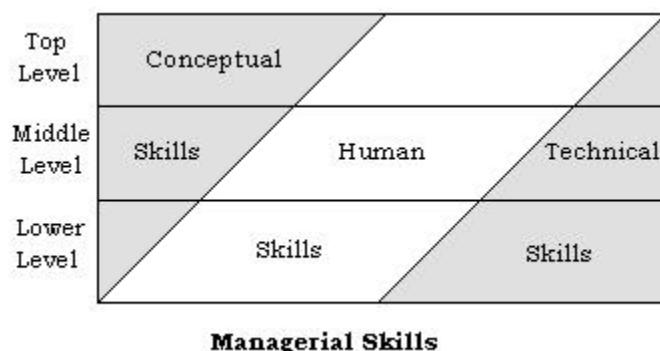
- c. **Spokesperson:** The manager informs and satisfies various groups and people who influence his organization.

Decision Roles

- a. **Entrepreneur:** The manager constantly looks out for new ideas and seeks to improve his unit by adapting it to changing conditions in the environment.
- b. **Disturbance-handler:** The manager has to work like a fire fighter. He must seek solutions of various unanticipated problems – a strike may loom large, a customer may go bankrupt, a supplier may renege on his contract, and so on.
- c. **Resource-allocator:** The manager must divide work and delegate authority among his subordinates. He must decide who will get what.
- d. **Negotiator:** The manager has to spend considerable time in negotiations. It means dealing with various persons and groups of persons.

1.5 MANAGERIAL SKILLS AND THE ORGANIZATIONAL HIERARCHY

In order to be able to successfully discharge his roles, a manager should possess three major skills. These are conceptual skill, human relation skill and Technical skill



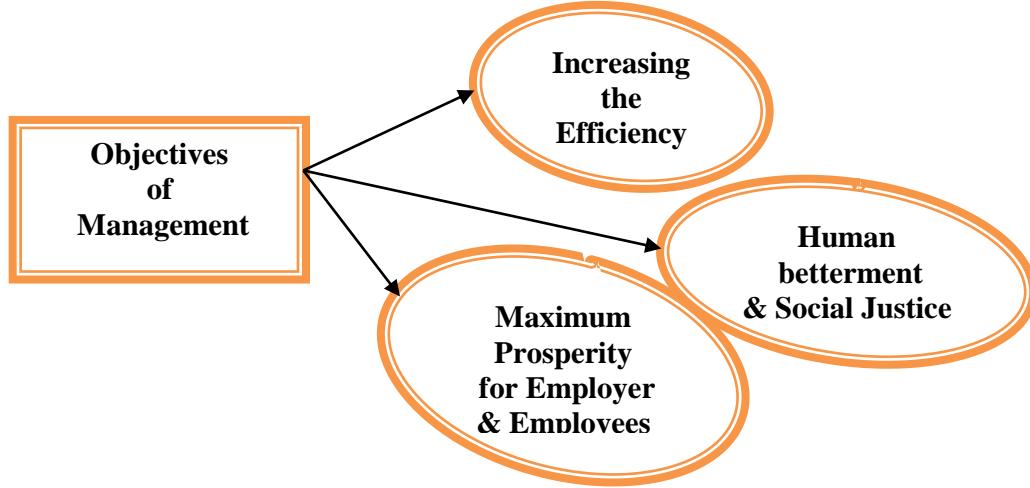
1. **Conceptual and Design Skills:** refers to the ability of a manager to take a broad and farsighted view of the organization and its future, his ability to think in abstract, his ability to analyse the forces working in a situation, his creative and innovative ability to access the environment and the changes taking place in it.
2. **Technical Skills:** is the managers understanding of the nature of job that people under him have to perform. This type of skill is more important at the lower levels of management.
3. **Human relations skills:** is the ability to interact effectively with people at all levels.

1.6 MANAGEMENT AND ADMINISTRATION

According to *Theo Haimann*, “Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects”.

Basis	Management	Administration
Meaning	Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals.	It is concerned with formulation of broad objectives, plans & policies.
Nature	Management is an executing function.	Administration is a decision-making function.
Process	Management decides who should do it & how should he do it.	Administration decides what is to be done & when it is to be done.
Function	Management is a doing function because managers get work done under their supervision.	Administration is a thinking function because plans & policies are determined under it.
Skills	Technical and Human skills	Conceptual and Human skills
Level	Middle & lower level function	Top level function
Applicability	It is applicable to business concerns (i.e) Profit making Organisations	It is applicable to non- business concerns (i.e) clubs, schools, hospitals etc
Influence	The management decisions are influenced by the values, opinions, beliefs & decisions of the managers	The administration is influenced by the public opinion, govt.policies, religious organizations, customs etc
Status	Management constitutes employees of the organization who are paid remuneration (In the form of salaries & wages)	Administration represents owners of the enterprise who earn return on the capital invested and profits in the form of dividend

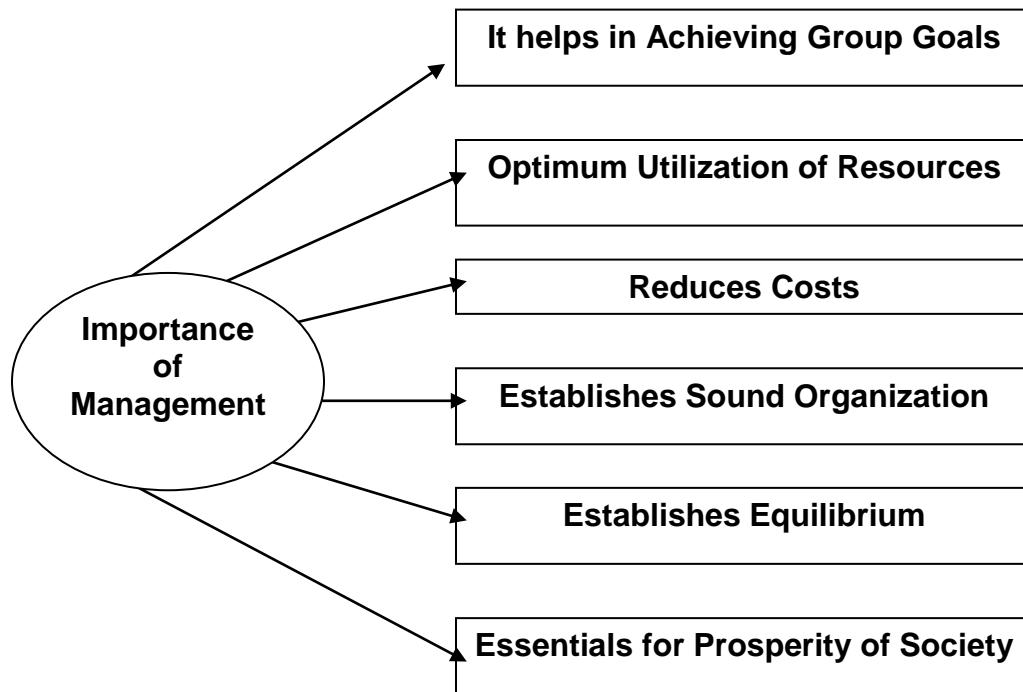
1.7 OBJECTIVES OF MANAGEMENT



The main objectives of management are:

1. **Getting Maximum Results with Minimum Efforts:** The main objective of management is to secure maximum outputs with minimum efforts & resources.
2. **Increasing the Efficiency of factors of Production:** Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakage of all kinds, this in turn leads to saving of time, effort and money which is essential for the growth & prosperity of the enterprise.
3. **Maximum Prosperity for Employer & Employees:** Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employee in the shape of good working condition, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other hand.
4. **Human betterment & Social Justice:** Management serves as a tool for the upliftment as well as betterment of the society. Through increased productivity & employment, management ensures better standards of living for the society. It provides justice through its uniform policies.

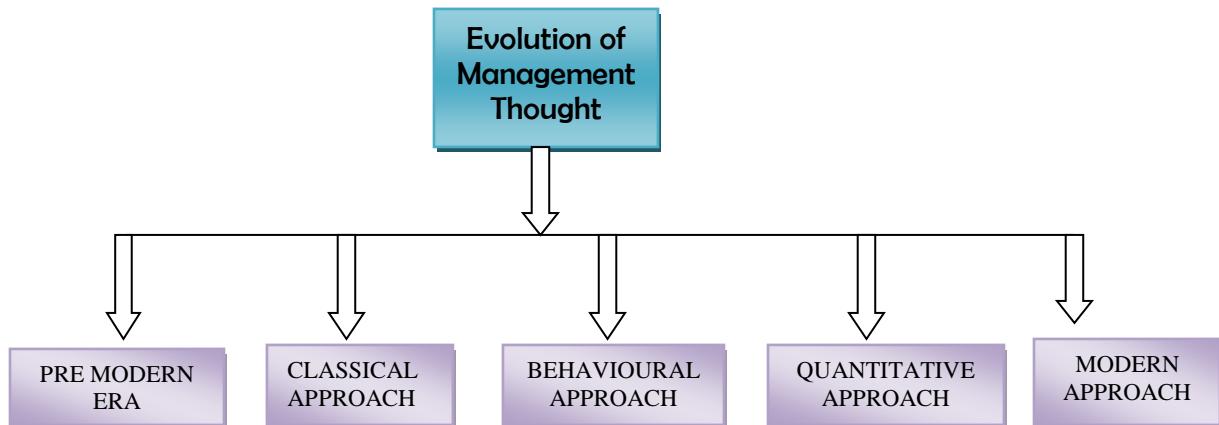
1.8 IMPORTANCE OF MANAGEMENT



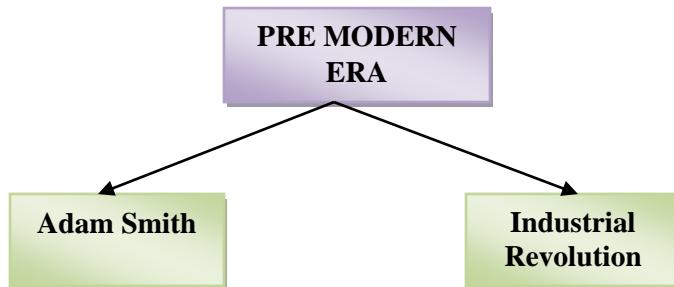
1. **It helps in Achieving Group Goals:** It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals.
2. **Optimum Utilization of Resources:** Management utilizes all the physical & human resources productively. This leads to efficacy in management.
3. **Reduces Costs:** It gets maximum results through minimum input and by proper planning. Management uses physical, human and financial resources in such a manner which results in best combination.
4. **Establishes Sound Organization:** To establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for fulfillment of this, it establishes effective authority & responsibility relationship.
5. **Establishes equilibrium:** Management enables the organization to survive in the changing environment. It keeps in touch with the changing environment.
6. **Essentials for Prosperity of Society:** Efficient management leads to better economical production which helps in turn to increase the welfare of people.

1.9 EVOLUTION OF MANAGEMENT THOUGHT

- Management thought has a long history. It is as old as human civilization itself.
- Organized activities and management have existed for thousands of years. Egyptian pyramids and the Great Wall of China are evidence that projects of tremendous scope were done at those time.



1.9.1 I.PRE MODERN ERA



Adam Smith's Contribution to the field of Management

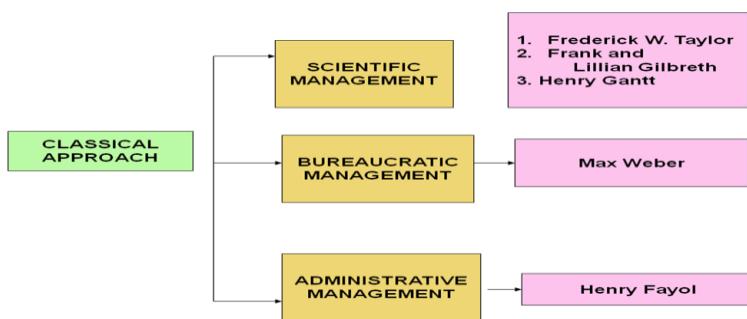
- Adam Smith's name is typically cited in economics course for his contributions to classical economic doctrine, but his discussion in *Wealth of Nations* (1776) included a brilliant argument on the economic advantage that organisations and society would reap from the **division of labour**.
- He used the pin-manufacturing industry for his examples. Smith noted that 10 individuals, each doing a specialized task, could produce about 48,000 pins a day among them. However, if each worked separately and independently, those 10 workers would be lucky to make 200 or even 10 pins in one day.

Industrial Revolution influence in Management Practices

Possibly the most important pre-twentieth influence on management was the **Industrial Revolution**. The Industrial Revolution provided the impetus for developing various management theories and principles. This led to the emergence of approaches to management: classical, behavioral, quantitative and modern.

1.9.2 II. CLASSICAL CONTRIBUTIONS (1900 to 1930)

The classical management approach had three major branches: scientific management, administrative theory and bureaucratic management.



- **Scientific management** emphasized the scientific study of work methods to improve worker efficiency.

SCIENTIFIC MANAGEMENT

Contributions of F. W. Taylor to Management Thought

F. W. Taylor (1856-1915) is rightly treated as the **father of scientific management**. Taylor made several important contributions which are classified under scientific management.

1. Job Analysis

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

a. Time Study

It is a technique which enables the manager to ascertain standard time taken for performing a specified job.

$$\text{Standard Time} \times \text{Working Hours} = \text{Fair Day's Work}$$

b. Motion Study

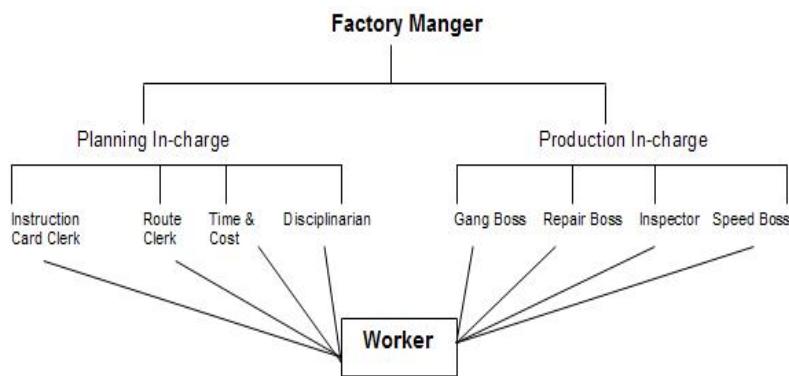
Motion study is to eliminate useless motions and determine the best way of doing the job.

c. Fatigue Study

Fatigue study indicates the amount and frequency of rest required in completing the job.

2. Separation of Planning and Doing

Taylor suggests the Separation of Planning from actual doing. Taylor says that supervisor should do the planning and the workers should concentrate on doing the work.



3. Differential Piece Wage Plan

Taylor introduced a new payment plan called the differential piece work, in which he linked incentives with production. Under this plan a worker received low piece rate if he produced the standard number of pieces and high rate if he surpassed the standard.

4. Scientific Selection, Training & Development of Workers

Taylor emphasized the need for scientific selection and development of the worker. He said that the management should develop and train every worker to bring out his best faculties.

5. Standardization

It implies the physical attitude of products should be such that it meets the requirements & needs of customers. Taylor advocated that tools & equipments as well as working conditions should be standardized to achieve standard output from workers. Standardization is a means of achieving economics of production

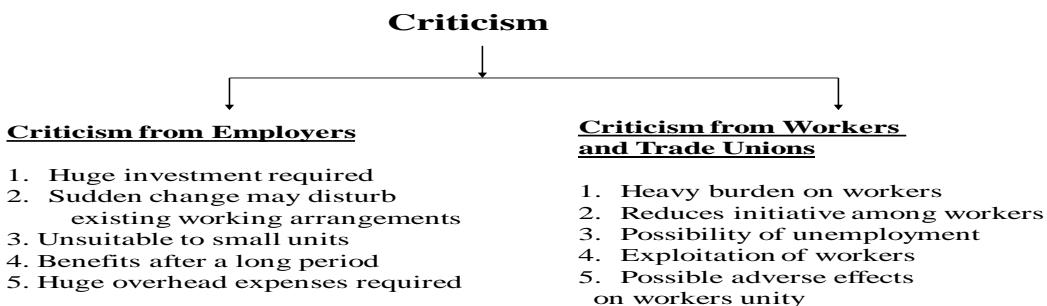
6. Mental Revolution

Taylor said that for the above suggestions to succeed, “a complete mental revolution” on the part on management and labour was required.

Principles of Scientific Management

- The development of '**One best way**' of doing a job. The standards are decided scientifically for Jobs and incentive wages were paid for all production above this standard.
- **Scientific selection of workers** and their development through proper training.
- **Scientific approach by management**. The management has to develop a true science in all fields of work activity through scientific investigation and experiments.
- Close **co-operation of managers and workers**

Criticism of Taylors Contribution



13

Contributions of Frank and Lillian Gilbreth

Frank and Lillian Gilbreth were associates of Frederick Winslow Taylor. Frank and Lillian Gilbreth are world renowned for their pioneering work in the fields of time and motion study, fatigue study, work simplification, scientific management, and ergonomics.

- Frank Gilbreth's well-known work in **improving brick-laying** in the construction trade is a good example of his approach. From his start in the building industry, he observed that workers developed their own peculiar ways of working and that no two used the same method. In studying bricklayers, he noted that individuals did not always use the same motions in the course of their work. These observations led him to seek **one best way to perform tasks**.
- As a result of these and other improvements, he reduced the number of motions made in laying a brick from 18 to 4½.

They originated micro-motion study, a breakdown of work into fundamental elements now called **therbligs** (derived from Gilbreth spelled backwards with 'th' transposed). These elements were studied by means of a motion-picture camera and a timing device which indicated the time intervals on the film as it was exposed.

Therbligs

In their study of hand movements, the Gilbreths found that terms such as "move hand" were too general to allow detailed analysis. They split hand movements into **17 basic units of motion** that could then, through various combinations, form the hand movements being monitored. The movements include "select," "grasp," "search," and "hold". These units were known collectively as "therbligs"--Gilbreth spelled backwards, with the 'th' transposed.

Contributions of Henry L Gantt

Around the time that the Gilbreths began working, **Henry Laurence Gantt, A.B., M.E.** (1861-23 November 1919) was a mechanical engineer and management consultant who is most famous for developing the Gantt chart in the 1910s, developed the ideas that grew into what came to be known as the 'Gantt chart'--a system of recording the planning and controlling of work in progress.

The Gantt chart was based on Gantt's work in the shipbuilding industry. The Gantt chart was used to schedule and monitor large construction projects like the Hoover Dam started in 1931 and the Eisenhower highway network launched in 1956. It has been refined and used ever since and is a powerful graphic tool to illustrate project schedule and progress.

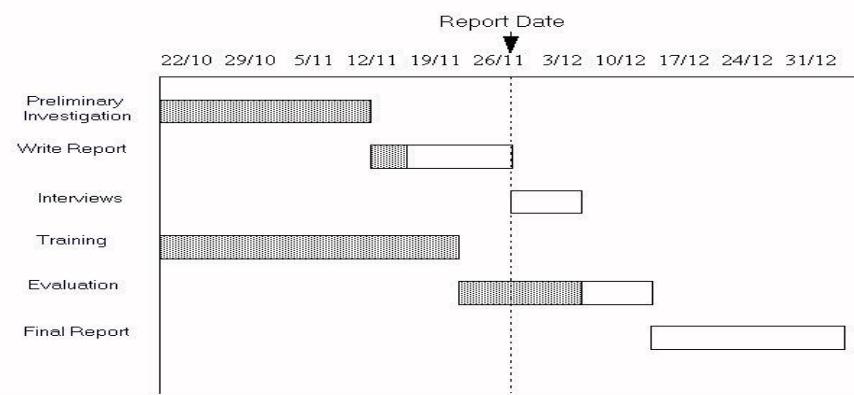


Figure 1: Gantt Chart

Henry L. Gantt also contributed to the concept of *Industrial Efficiency*, by applying scientific analysis to all aspects of the work in progress. The industrial management role is to improve the system by eliminating chance and accidents. His concept of the *Task and Bonus System* linked the bonus paid to managers and employees to how well they improve performance. Henry L.

Gantt also believed that businesses have a social responsibility to promote the welfare of the society in which they operate.

BUREAUCRATIC MANAGEMENT: dealt with the characteristics of an ideal organization, which operates on a rational basis

Contributions of Max Weber

Max Weber is best known as one of the leading scholars and founders of modern sociology. Max Weber was a German Sociologist. He described an ideal type of organization that he called bureaucracy, characterized by division of labour, clearly defined hierarchy, detailed rules and regulations and impersonal relationships. He made a study of different types of business & government organizations & distinguished 3 types of administration in them viz

1. Leader Oriented

It is one in which no delegation of management functions and employees are expected to serve as loyal subjects of a leader

2. Tradition Oriented

In this, management positions are handed down from generation to generation.

3. Bureaucracy

In this delegation of management responsibilities is based on the person's demonstrated ability to hold the position.

The features of bureaucracy are

1. There is insistence on following standard rules
2. There is systematic division of work
3. Principle of hierarchy is followed
4. It is necessary for the individual to have knowledge of and training in the application of rules
5. Administrative acts, decisions and rules are recorded in writing.
6. There is a rational personnel administration.

His theory became the design prototype for many of today's large organizations.

ADMINISTRATIVE MANAGEMENT: explored principles that could be used by managers to coordinate the internal activities of organizations

Contributions of Henry Fayol

Fayol divided total industrial activities into six categories,

1. Technical (Production, Manufacture)
2. Commercial (Buying, selling, Exchange)

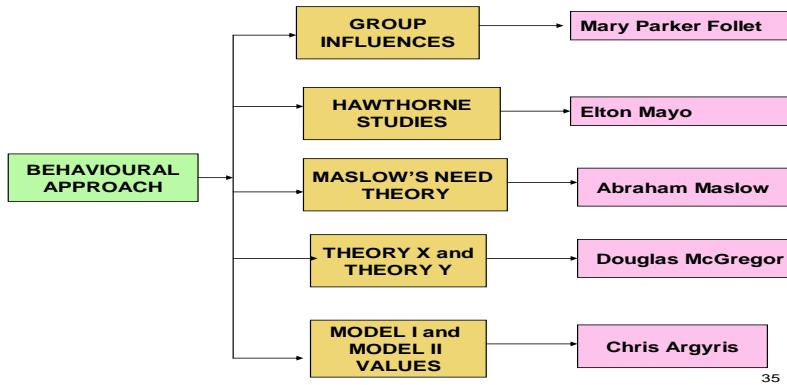
3. Financial (Search for and optimum use of capital)
4. Security (Protection of property and persons)
5. Accounting (Balance Sheets, cost statistics)
6. Management (Planning, Organizing, Co coordinating, Directing and Controlling)

"Fourteen principles" identified as general rules that a successful organizations ought to follow:

1. **Division of work.** This principle is the same as Adam Smith's 'division of labour'. Specialization increases output by making employees more efficient.
2. **Authority.** Managers must be able to give orders. Authority gives them this right. Note that responsibility arises wherever authority is exercised.
3. **Discipline.** Employees must obey and respect the rules that govern the organization. Good discipline is the result of effective leadership, a clear understanding between management and workers regarding the organization's rules, and the judicious use of penalties for infractions of the rules.
4. **Unity of command.** Every employee should receive orders from only one superior.
5. **Unity of direction.** Each group of organizational activities that have the same objective should be directed by one manager using one plan.
6. **Subordination of individual interests to the general interest.** The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration.** Workers must be paid a fair wage for their services.
8. **Centralization.** Centralization refers to the degree to which subordinates are involved in decision making. Whether decision making is centralized (to management) or decentralized (to subordinates) is a question of proper proportion. The task is to find the optimum degree of centralization for each situation.
9. **Scalar chain.** The line of authority from top management to the lowest ranks represents the scalar chain. Communications should follow this chain. However, if following the chain creates delays, cross-communications can be allowed if agreed to by all parties and superiors are kept informed.
10. **Order.** People and materials should be in the right place at the right time.
11. **Equity.** Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel.** High employee turnover is inefficient. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.** Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps.** Promoting team spirit will build harmony and unity within the organization.

1.9.3 III. BEHAVIOURAL APPROACH

The behavioral approach emerged primarily as an outcome of the Hawthorne studies. Mary Parker Follett, Elton Mayo and his associates, Abraham Maslow, Douglas McGregor and Chris Argyris were the major contributors to this school. They emphasized the importance of the human element which was ignored by classical theorists in the management of organizations.



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Contributions of Mary Parker Follett (1868-1933) occupies a very significant place in the development of thinking and practice around adult and informal education.

Mary Parker Follett advocated for a human relations emphasis equal to a mechanical or operational emphasis in management. Her work contrasted with the "scientific management" of Frederick W. Taylor (1856-1915) and evolved by Frank and Lillian Gilbreth, which stressed time and motion studies.

Mary Parker Follett **stressed the interactions of management and workers**. She looks at management and leadership holistically, presaging modern systems approaches; she identifies a leader as "someone who sees the whole rather than the particular." **Follett was one of the first to integrate the idea of organizational conflict into management theory**, and is sometimes considered the "mother of conflict resolution."

Contributions of Elton Mayo

The **Hawthorne effect** is a form of reactivity whereby subjects improve or modify an aspect of their behavior being experimentally measured simply in response to the fact that they are being studied, not in response to any particular experimental manipulation. AT&T's Western Electric Hawthorne plant located in Cicero, Illinois, was chosen as the laboratory.

Illumination Studies, 1924 -1927

Hawthorne Works had commissioned a study to see if its workers would become more productive in higher or lower levels of light. The group examined the relationship between light intensity and worker efficiency.

The hypothesis was that greater illumination would yield higher productivity. Two work groups of female employees were selected for “control” and “experimental” groups. By comparing the changes on worker productivity by manipulating lighting in the experimental group with the production of the control group, the researchers could validate and measure the impact of lighting.

The study, however, failed to find any simple relationship as poor lighting and improved lighting seemed to increase productivity. Indeed, in the final stage, when the group pretended to increase lighting the worker group reported higher satisfaction.

The preliminary findings were that behavior is not merely physiological but also psychological. This was a break with the Scientific Management School that saw work productivity as “mechanical”, and led to the decision to learn more about worker behavior.

Relay assembly experiments

In this phase, the object of the study was broadened. It now aimed at knowing not only the impact of illumination on production but also of such other factors as length of the working day, rest pauses, their frequency and duration and other physical conditions. A group of six women workers, who were friendly to each other, was selected for this experiment. These women workers were told about this experiment and were made work in a very informal atmosphere with a supervisor-researcher in a separate room. The supervisor-researcher acted as their friend, philosopher and guide. During the study, several variations were made in the working conditions to find which combinations of conditions were most ideal for production. Surprisingly, the researchers found that the production of the group had no relation with the working conditions. Even when all the improvements were taken away and the poor pre-test conditions were reintroduced, the production went on increasing. Researcher then attributed this phenomenon to the following reasons :

1. Feeling of importance among the girls
2. Tension –free environment
3. Group Cohesion

Researchers hypothesized that choosing one's own coworkers, working as a group, being treated as special, and having a sympathetic supervisor were the real reasons for the productivity increase. One interpretation, mainly due to Elton Mayo, was that "the six individuals became a

team and the team gave itself wholeheartedly and spontaneously to cooperation in the experiment."

Plant-wide Interview program, 1928-1931

As early findings indicated that concern for workers and willingness to listen impacted productivity, Western Electric implemented a plant-wide survey of employees to record their concerns and grievances.

From 1928 to 1930, 21,000 employees were interviewed. **The aim of the study is to find the basic factors responsible for human behavior.** At first, direct questions were asked relating to the type of supervision, working conditions, living conditions and so on. But since the replies were guarded, the technique was changed to non-directive types of interviewing, in which workers were free to talk about their favourite topics related to their work environment. **This study revealed that the workers social relations inside the organization had an unmistakable influence on their attitude and behaviours.**

Bank Wiring Observation group, 1931-1932

The final Hawthorne experiment was conducted studying 14 male workers assigned to the Bank Wiring factory. The objective was to determine the effect of informal group norms and formal economic incentives on productivity. The finding was that nothing happened! The work group had established a work "norm" – a shared expectation about how much work should be performed in a day and stuck to it, regardless of pay.

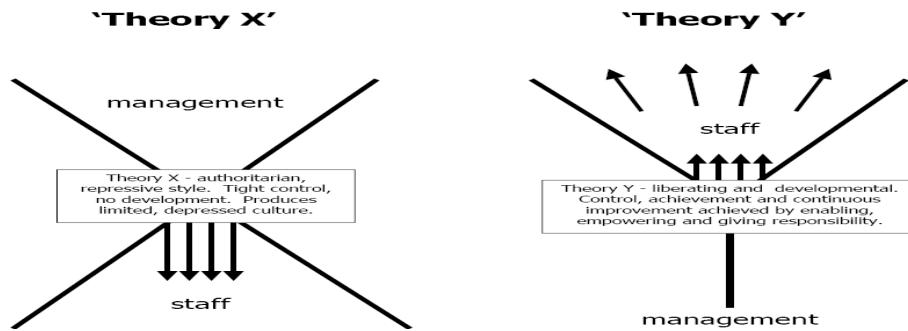
They came to realize the important role played by informal groups in the working of an organization. Research scholars now began to concentrate on human aspects of management and the principle, that when people work together to accomplish group objectives, "people should people."

The conclusion: informal groups operate in the work environment to manage behavior.

Contributions of Douglas McGregor

Douglas McGregor, an American social psychologist, proposed his famous X-Y theory in his 1960 book 'The Human Side of Enterprise'.

THEORY X and THEORY Y - Douglas McGregor



Theory x ('authoritarian management' style)

- The average person dislikes work and will avoid it if he/she can.
- Therefore most people must be forced with the threat of punishment to work towards organisational objectives.
- The average person prefers to be directed;
- To avoid responsibility;
- Is relatively unambitious, and wants security above all else.

Theory y ('participative management' style)

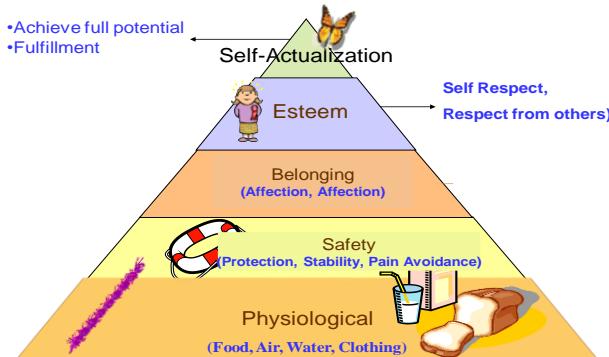
- Effort in work is as natural as work and play.
- People will apply self-control and self-direction in the pursuit of organisational objectives, without external control or the threat of punishment.
- Commitment to objectives is a function of rewards associated with their achievement.
- People usually accept and often seek responsibility.

Contributions of Abraham Maslow's Hierarchy of needs

"We each have a hierarchy of needs that ranges from "lower" to "higher." As lower needs are fulfilled there is a tendency for other, higher needs to emerge."

Maslow's theory maintains that a person does not feel a higher need until the needs of the current level have been satisfied.

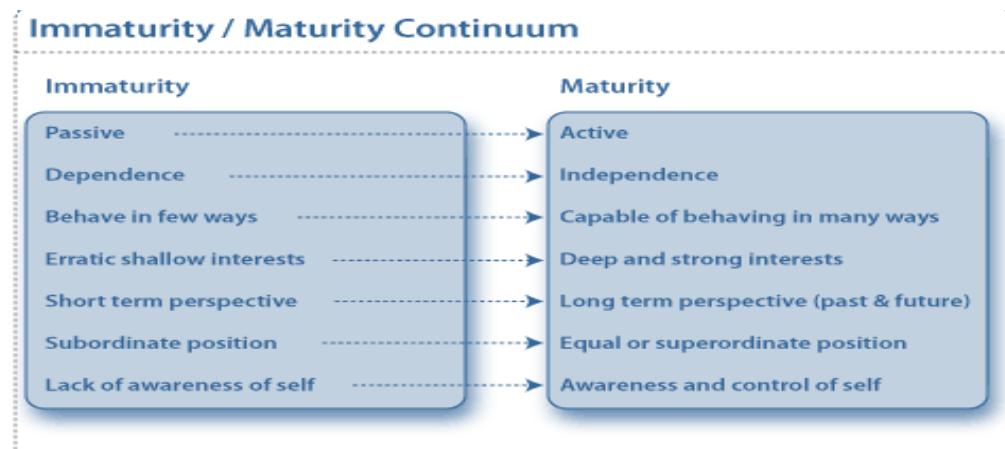
Maslow's basic needs are as follows:



Contributions of Chris Argyris

Maturity-Immaturity Theory

Individuals progress at different rates from the total immaturity of early childhood (being passive, dependent, shallow, limited activity) to maturity (active, independent, deeper thoughts, more varied interests).



Model I

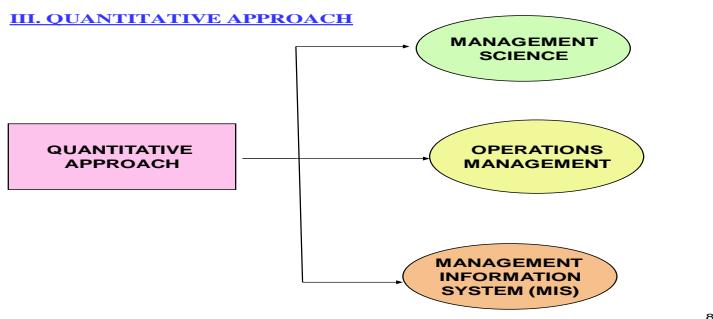
- Argyris has claimed that just about all the participants in his studies operated from theories-in-use or values consistent with Model I (Argyris et al. 1985: 89).
- It involves 'making inferences about another person's behaviour without checking whether they are valid and advocating one's own views abstractly without explaining or illustrating one's reasoning'

Model II

- The significant features of Model II include the ability to call upon good quality data and to make inferences.
- It looks to include the views and experiences of participants rather than seeking to impose a view upon the situation. Theories should be made explicit and tested, positions should be reasoned and open to exploration by others.
- It looks to:
 - Emphasize common goals and mutual influence.
 - Encourage open communication, and to publicly test assumptions and beliefs.

1.9.4 IV. QUANTITATIVE APPROACH

The quantitative approach to management focuses on the use of mathematical tools to support managerial decision-making. The systems theory looks at organizations as a set of interrelated parts.



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Management Science

- Management Science is concerned with developing and applying models and concepts that may prove useful in helping to illuminate management issues and solve managerial problems.
- The models used can often be represented mathematically, but sometimes computer-based, visual or verbal representations are used as well or instead.
- It includes scheduling airlines, both planes and crew, deciding the appropriate place to site new facilities such as a warehouse or factory, managing the flow of water from reservoirs, identifying possible future development paths for parts of the telecommunications industry, establishing the information needs and appropriate systems to supply them within the health service, and identifying and understanding the strategies adopted by companies for their information systems.

Operations Research

- Operations research (O.R.) is the discipline of applying advanced analytical methods to help make better decisions.
- By using techniques such as mathematical modeling to analyze complex situations, operations research gives executives the power to make more effective decisions and build more productive systems.

Management Information System (M.I.S.)

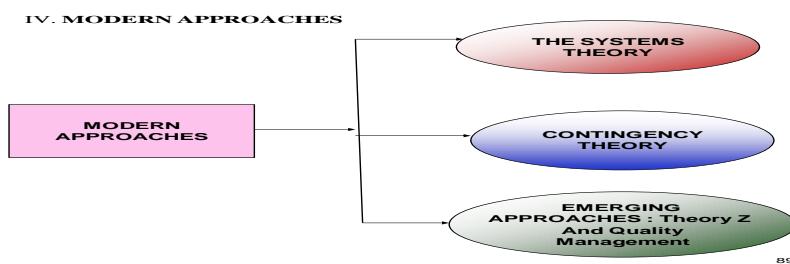
MIS is concerned with processing data into information which is then communicated to the various Departments in an organization for appropriate decision-making.

Data collection involves the use of Information Technology (IT) comprising: computers and telecommunications networks (E-Mail, Voice Mail, Internet, telephone, etc.)

Computers are important for more quantitative, than qualitative, data collection, storage and retrieval; Special features are speed and accuracy, and storage of large amount of data.



1.9.5 IV. MORDERN APPROACHES



System Theory

- System theory was first applied in the field of science and engineering.
- “A system is essentially a set of things interconnected or dependent, so as to form a complex unity”
- Just as a doctor effective manager should collect information about all parts of the organisation in order to diagnose a problem and take necessary corrective action.

Key Concepts

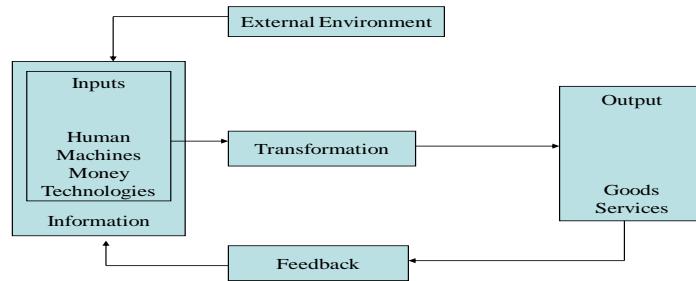
Sub system: While an organisation as a whole is a system, the various components or parts within it are called the subsystem.

Closed system: A system that does not interact with its environment.

Open system: A system which interacts with its environment.

Synergy: Synergy means that departments that interact cooperatively are more productive than would be if they operated in isolation.

Open System Model of an Organisation



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Contingency Theory

Contingency theory is a class of behavioral theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Several contingency approaches were developed concurrently in the late 1960s.

They suggested that previous theories such as Weber's bureaucracy and Taylor's scientific management had failed because they neglected that management style and organizational structure were influenced by various aspects of the environment: the contingency factors. There could not be "one best way" for leadership or organization.

Theory Z

William Ouchi studied management practices in the United States and Japan and developed Theory Z. Theory Z combines elements of both U.S. and Japanese management styles and is sometimes called Japanese Management. It assumes that the best management style involves employees at all levels of the organization. Specific characteristics included in Theory Z are long-term employment, less specialized career paths, informal control, group decision making, and concern for the individual rises above work-related issues. This theory satisfies both lower order and higher order needs.

Total Quality Management

Total Quality Management (TQM) is a management style that integrates of all functions of a business to achieve a high quality of product. The major hall-marks are customer satisfaction, quality as the responsibility of all employees, and teamwork. As an integrated method, it involves every aspect of the company. The entire workforce, from the CEO to the line worker, must be involved in a shared commitment to improving quality.

TQM encourages employees to grow and learn and to participate in improvements, so it exemplifies a participative management style. TQM also encourages an ever-changing or continuous process, and emphasizes the ideas of working constantly toward improved quality.

1.10 ORGANIZATION AND THE ENVIRONMENTAL FACTORS

No business can isolate them from the external economic environment. The term 'business environment' implies those external forces, factors and institutions that are beyond the control of individual business organizations and their management and affect the business enterprise. These forces are customer, creditors, competitors, government, socio-cultural organizations, political parties national and international organizations etc. some of those forces affect the business directly which some others have indirect effect on the business.

1.10.1 Types of Environment

On the basis of the extent of intimacy with the firm, the environmental factors may be classified into two types-internal and external.



Internal Environment

The internal environment is the environment that has a direct impact on the business. The important internal factors are discussed below.

a. Value system

The value system of the founders and those at the controls of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practices.

b. Mission and vision and objectives

Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organization. The mission is the medium through which the objectives are achieved.

c. Management structure and nature

The structure of the organization also influences the business decisions. The organizational structure like the composition of board of directors, influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some other helps in making quick decisions.

d. Internal power relationships

The relationship among the three levels of the organization also influences on the business. The mutual co-ordination among those three is an important need for a business. The relationship among the people working in the three levels of the organization should be cordial.

e. Human resource

The human resource is the important factor for any organization as it contributes to the strength and weakness of any organization. The human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc.

f. Company image and brand equity

The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

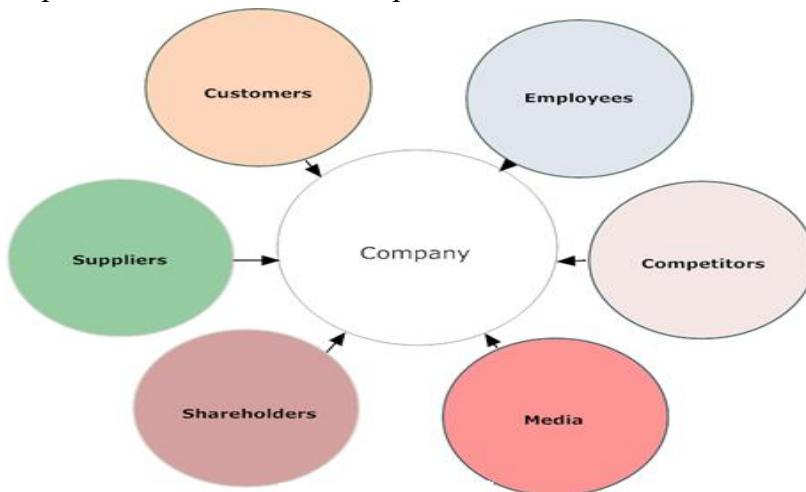
External Environment

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment.

- Micro Environment
- Macro Environment

a. Micro Environment

“The micro environments consist of the actors in the company’s immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public”. It includes:



• **Competitors**

Every business has external peers that perform similar functions within their professional discipline. These peers are considered competitors and they are rival producers of goods or services. These competitors contribute to the overall industry by their ability to deliver goods and services of high caliber at competitive prices. Competition is good from a market perspective as it gives consumers choices and provides the businesses and opportunity to create a niche.

- *Creditors*

Most businesses purchases goods and services much like a consumer. However, they do so to large extent on credit as they are able to get discounts or other incentives to buy in bulk. When businesses buy goods and services on credit the business that holds the note or paper is referred to as a creditor.

- *Customers*

Customers are an essential part of any business, without the customer there would be no need for the business. Regardless of the product or service provided, a business must be able to leverage their marketing and production to ensure they satisfy consumer demand.

Companies that learned to change with their customers will benefit from expanding consumer confidence and increased buying.

- *Marketing Intermediaries*

The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

- *Labor Market*

Just as customers are a key element of business success so are the employees that an organization hires to represent their interests. Having quality human resources is very important. The lack of talented people can cripple a company and foster a negative customer experience, which could potentially lead to customer dissatisfaction.

- *Suppliers*

In the case of the supplier an organization could be procuring parts, services or other tangible goods to create or enhance a product or service for sale. Bargaining power of suppliers affects their ability to raise prices. Suppliers are likely to be powerful if: they have few competitors, each individual purchase represents only a small amount of their company's sales, there are not good substitutes of the product purchased, and the product or service is unique

- *Public*

Public can be said as any group that has an actual or potential interest in or on an organization's ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

b. Macro Environment

Macro environment is also known as General environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. Some of the macro environment factors are

- *Economic*

These refer to government policy such as the degree of intervention in the economy. The economy has a significant impact on the viability of a corporate strategy. For example in retail, if Florida has an ice storm in the winter and all orange crops are destroyed, the price of oranges and

orange juice will increase. This is a small example of how one localized disaster can affect the price of a commodity. On a larger scale, if the business plan is not successful and the firm sustains losses over multiple business cycles, the management may reduce staff as a means to lower expenses.

- ***Political***

The current political climate can influence the types of legislation that can influence corporate spending or tariffs on goods and services. Political factors can be restrictive or beneficial. Restrictive factors are those factors that limit profits; such as constraints placed on enterprise through fair-trade laws, antitrust laws, tax laws, minimum wage legislation or pollution laws.

- ***Social***

Certo (1997, p. 51) defines social responsibility as a managerial obligation to take actions that protects and improves both the welfare of society as whole and the interests of the organization. In recent years there have been multiple corporate ethical issues that have influenced social views on corporate America.

- ***Technological***

Technology factors are the scientific advances, which influence the competitive position of the enterprise. Maintaining awareness of new technologies decreases the probability of becoming obsolete and promotes innovation. Advancements in technology can impact the transformation plan in many ways. New technology can change the demand for a product, render current manufacturing processes obsolete, and reduce costs to undercut competitors, produce new products and a host of other possibilities.

- ***Legal factors***

It includes discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

1.11 TRENDS AND CHALLENGES OF MANAGEMENT IN GLOBAL SCENARIO

The Changing Economy

One of the biggest problems in managing an organization today is failing to adapt to the changing world. Economies throughout the world are going through turbulent change.

Just 25 years ago, no one had fax machine, a cellular phone, or a laptop. The silicon chip and other advances in technology have permanently altered the economies of the world.

Toffler has extensively written about social change. Classifying each period of social history, Toffler has argued that modern civilization has evolved over three “waves.” With each wave came a new way of doing things. Some groups of people gained from the new way; others lost.

The **first wave was driven by agriculture**. Until the late nineteenth century, all economies were agrarian. For instance, in the 1890s, approximately 90 percent of people were employed in

agriculture-related jobs. These individuals were typically their own bosses and were responsible for performing variety of tasks. Their success, or failure, was contingent on how well they produced.

The second wave was industrialization. From the late 1800s until the 1960s, most developed countries moved from agrarian societies to industrial societies. During this period workers were hired into tightly structured and formal workplaces. Mass production, specialized jobs, and authority relationships became the mode of operation.

By the start of the 1870s a new age was gaining momentum. This is **based on information**. Technological advancements were eliminating many low-skilled, blue-collar jobs. Moreover, the information wave was transforming society from a manufacturing focus to one of service. *Knowledge workers* are at the cutting edge of the third wave. Their jobs are designed around the acquisition and application of information. The economy needs people who can fill these jobs—the demand for them is great.

The Changing Economy

S. No	OLD ECONOMY	NEW ECONOMY
1	National borders limit competition	National Borders are nearly meaningless in defining an organisation's operating boundaries.
2	Technology reinforces rigid hierarchies and limits access to information.	Technology changes in the way information is created, stored, used, and shared have made it more accessible.
3	Job opportunities are for blue-collar industrial workers.	Job opportunities are for knowledge workers.
4	Population is relatively homogeneous	Population is characterized by cultural diversity
5	Business is estranged from its environment	Business accepts its social responsibilities.
6	Economy is driven by large corporations	Economy is driven by small entrepreneurial firms
7	Customers get what business chooses to give them	Customers needs drive business.

A Global Marketplace

Global village refers to the concept of a boundryless world; the production and marketing of goods and services worldwide.

E.g. BMW, a German-owned firm, build cars in South Carolina. Similarly McDonald's sells hamburgers in China. General Motors makes cars in Brazil. To be effective in this boundryless world, managers need to adapt to cultures, systems, and techniques that are different from their own.

International Businesses have been with us for a long time. For instance, Siemens, Remington and Singer were selling their products in many countries in the nineteenth century.

Multinational Corporations (MNC) is companies that maintain significant operations in two or more countries simultaneously but are based in one home country.

Today companies such as Gillette, Mobil Oil, Coca-Cola, and Aflac are among a growing number of U.S.-based firms that earn more than 60 percent of their revenues from foreign operations.

Transnational Corporation (TNC) is company that maintains significant operations in more than one country simultaneously and decentralizes decision making in each operation to the local country. E.g. Nestle operates in almost every country on the globe, it is the world's largest food company, yet its managers match their products to their consumers.

Borderless Organization is a management structure in which internal arrangements that impose artificial geographic barriers are broken down. For instance, IBM dropped its organizational structure based on country and reorganized into 14 industry groups. Ford merged its culturally distinct European and North American auto operations and plans to add a Latin America and an Asia-Pacific division in the future.

Globalizations Effect on Organization

An Organization going global typically proceeds through three stages.

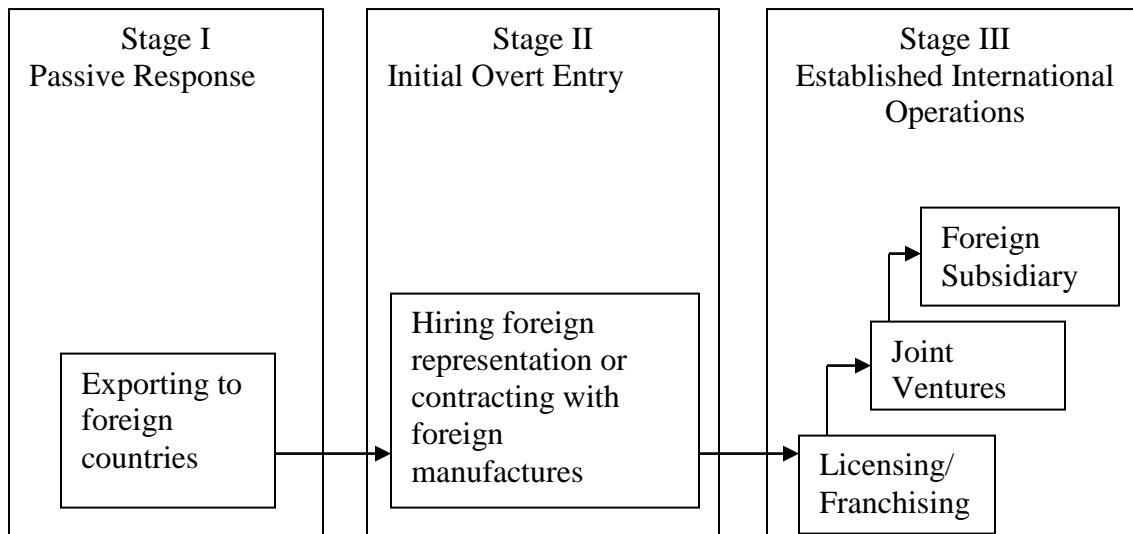
In **stage I**, managers make the first push towards going international merely by exporting the orgainsation's products to foreign countries. This is a passive step towards international involvement.

In **stage II**, managers make an overt commitment to sell products in foreign countries or to have them make in foreign factories. Yet, there is still no physical presence of company employees outside the company's home country.

Stage III represents a strong commitment by managers to pursue international markets aggressively. They can **license or Franchise** to another firm the right to use the organizations brand name, technology, or product specifications. E.g. Fast food chains like Pizza Hut.

Joint ventures involve larger commitments; a domestic and foreign firm shares the cost of developing new products or building production facilities in a foreign country. These are called Strategic Alliances. E.g. British Airways and American Airlines, Nestle and General Mills. Managers make the greatest commitment, and assume the greatest risk, when the organization sets up a **foreign subsidiary**.

Stages of Going Global



Effect of Globalization on Managers

The changing global environment, the spread of capitalism makes the world a smaller place. Business has new markets to conquer. And well-trained and reliable workers. A boundryless world introduces new challenges for managers. One specific challenge is managing in a country where there is a different national culture. One of the first issues to deal with, then, is the perception of “foreigners”

Parochialism refers to a narrow focus in which one sees things solely through one’s own eyes and within one’s own perspective. In essence, parochialism is an **ethnocentric view**.

Ethnocentric view is a parochial view in which one sees one’s own culture as better than any other. Of course, this view cannot succeed in a global village nor is it the dominant view held today.

All countries have different values, morals, customs, political and economic systems, and laws. Managers need to understand societal issues that might affect operations in another country.

Countries also have different laws. For instance, in the United States, laws guard against employers taking action against employees solely on the basis of an employee’s age.

Emphasis on Technology

Technology includes any equipment, tools, or operating methods that are designed to make work more efficient. Technological advances involve the integration of technology into a process for changing inputs into outputs. Technology, however, has made it possible to enhance this production process by replacing human labour with electronic and computer equipment. For

example, assembly operations at General Motors rely heavily on Robots. Technological advancements are also used to provide better, more useful information.

Organizations Socially Responsible Actions

Social Responsibility is a firm obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society.

We can understand social responsibility better if we compare it with two similar concepts: Social obligation and Social responsiveness. **Social obligation** of a business to meet its economic and legal responsibilities and no more. **Social responsiveness** is the ability of a firm to adapt to changing societal conditions.

CHAPTER – 2

PLANNING

2.1 PLANNING- DEFINITION

Planning is a systematic activity which determines when, how and who is going to perform a specific job. It is rightly said “**Well plan is half done**”. Thus, planning logically precedes the execution of all managerial functions. Therefore planning takes into consideration available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment.

According to Urwick, “Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses”. Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.

According to Koontz & O'Donell, “Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur”.

2.2 PURPOSE FOR PLANNING

Managers should engage in planning for several reasons. Four of the more popular reasons are that

- Provides direction
- Reduces uncertainty
- Minimizes waste and redundancy
- Sets the standards for controlling

2.3 SIGNIFICANCE OF PLANNING

The importance and usefulness of planning can be understood with reference to the following benefits.

1. **Minimizes uncertainty**: The future is generally uncertain and things are likely to change with the passage of time. Planning helps in minimizing the uncertainties of the future as it anticipates future events.
2. **Emphasis on objectives**. The first step in planning is to fix the objectives. When the objectives are clearly fixed, the execution of plans will be facilitated towards these objectives.

3. **Promotes coordination.** Planning helps to promote the coordinated effort on account of pre-determined goals.
4. **Facilitates control.** Planning and control are inseparable in the sense that unplanned actions cannot be controlled. Control is nothing but making sure that activities conform to the plans.
5. **Improves competitive strength.** Planning enables an enterprise to discover new opportunities, which give it a competitive edge.
6. **Economical operation.** Since planning involves a lot of mental exercise, it helps in proper utilization of resources and elimination of unnecessary activities. This, in turn, leads to economy in operation.
7. **Encourages innovation.** Many new ideas come to the mind of a manager when he is planning. This creates an innovative and foresighted attitude among the managers.
8. **Tackling complexities of modern business.** With modern business becoming more and more complex, planning helps in getting a clear idea about what is to be done, when it is to be done, where it is to be done and how it is to be done.

2.4 NATURE OF PLANNING

The nature of planning can be highlighted by studying its characteristics. They are as follows:

1. **Planning is a mental activity.** Planning is not a simple process. It is an intellectual exercise and involves thinking and forethought on the part of the manager.
2. **Planning is goal-oriented.** Every plan specifies the goals to be attained in the future and the steps necessary to reach them.
3. **Planning is forward looking.** Planning is in keeping with the adage, “look before you leap”. Thus planning means looking ahead
4. **Planning pervades all managerial activity.** Planning is the basic function of managers at all levels, although the nature and scope of planning will vary at each level.
5. **Planning is the primary function.** Planning logically precedes the execution of all other managerial functions, since managerial activities in organizing; staffing, directing and controlling are designed to support the attainment of organizational goals.
6. **Planning is based on facts.** Planning is a conscious determination and projection of a course of action for the future. It is based on objectives, facts and considered forecasts.
7. **Planning is flexible.** Planning is a dynamic process capable of adjustments in accordance with the needs and requirements of the situations.
8. **Planning is essentially decision making.** Planning is a choice activity as the planning process involves finding the alternatives and the selection of the best. Thus decision making is the cardinal part of planning.

2.5 ADVANTAGES & DISADVANTAGES OF PLANNING

ADVANTAGES OF PLANNING

1. Planning facilitates management by objectives

- a. Planning begins with determination of objectives.
- b. In fact, it makes objectives more clear and specific.
- c. Planning helps in focusing the attention of employees on the objectives or goals of enterprise.
- d. Planning compels manager to prepare a Blue-print of the courses of action to be followed for accomplishment of objectives.

2. Planning minimizes uncertainties

- a. Planning helps in reducing uncertainties of future as it involves anticipation of future events.
- b. Although future cannot be predicted with cent percent accuracy but planning helps management to anticipate future and prepare for risks.
- c. Therefore with the help of planning, uncertainties can be forecasted.

3. Planning facilitates co-ordination

- a. All activities are directed towards common goals.
- b. There is an integrated effort throughout the enterprise in various departments and groups.
- c. It avoids duplication of efforts. In other words, it leads to better co-ordination.

4. Planning improves employee's moral

- a. Planning creates an atmosphere of order and discipline in organization.
- b. Employees know in advance what is expected of them.
- c. Planning creates a healthy attitude towards work environment which helps in boosting employees moral and efficiency.

5. Planning helps in achieving economies

- a. Effective planning secures economy since it leads to orderly allocation of resources.
- b. It also facilitates optimum utilization of resources which brings economy in operations.
- c. It also avoids wastage of resources. For example, raw materials can be purchased in bulk and transportation cost can be minimized.

6. Planning facilitates controlling

- a. It provides basis of controlling.
- b. Planning provides pre-determined goals against which actual performance is compared.
- c. In fact, planning and controlling are the two sides of a same coin. If planning is root, controlling is the fruit.

7. Planning provides competitive edge

- a. Planning provides competitive edge to the enterprise over the others which do not have effective planning.
- b. It helps to estimate the future motives of its competitor which helps in facing future challenges.

8. Planning encourages innovations

- a. In the process of planning, managers have the opportunities of suggesting ways and means of improving performance.
- b. Planning is basically a decision making function which involves creative thinking and imagination that ultimately leads to innovation.

DISADVANTAGES OF PLANNING

1. Planning may create Rigidity

Planning has tendency to make administration inflexible. Planning implies prior determination of policies, procedures and programmes and a strict adherence to them in all circumstances. Planning therefore introduces inelasticity and discourages individual initiative and experimentation.

2. Misdirected Planning

Planning may be used to serve individual interests rather than the interest of the enterprise. Attempts can be made to influence setting of objectives, formulation of plans and programmes to suit one's own requirement rather than that of whole organization. Machinery of planning can never be freed of bias.

3. Time consuming

Planning is a time consuming process because it involves collection of information, its analysis and interpretation thereof. Therefore planning is not suitable during emergency or crisis when quick decisions are required.

4. Probability in planning

Planning is based on forecasts which are mere estimates about future. These estimates may prove to be inexact due to the uncertainty of future. Any change in the anticipated situation may render plans ineffective. Thus, excessive reliance on plans may prove to be fatal.

5. False sense of security

Elaborate planning may create a false sense of security to the effect that everything is taken for granted. Managers assume that as long as they work as per plans, it is satisfactory. Therefore they fail to take up timely actions and an opportunity is lost.

6. Expensive

Collection, analysis and evaluation of different information, facts and alternatives involves a lot of expense in terms of time, effort and money.

2.6 STEPS IN PLANNING FUNCTION

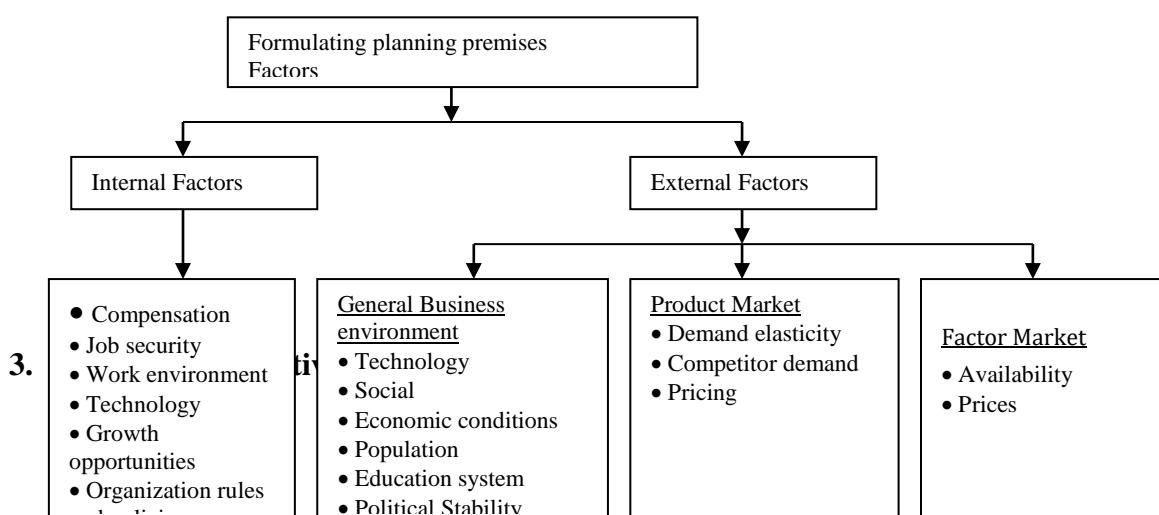
Planning function of management involves following steps:-

1. Establishment of objectives

Planning starts with the setting of goals and objectives to be achieved. Objectives provide a rationale for undertaking various activities, indicate direction and moreover focus the attention of managers on the end results to be achieved. As far as possible, objectives should be stated in **quantitative terms**. For example, Number of men working, wages, and units produced, etc. But items such as performance of quality control manager, effectiveness of personnel manager cannot be said in **quantitative terms**. Such goals should be specified in qualitative terms.

2. Establishment of Planning Premises

Planning premises are the assumptions about the lively shape of events in future. They serve as a basis of planning. It is to find out what obstacles are there in the way of business during the course of operations. Establishment of planning premises is concerned to take such steps that avoid these obstacles to a great extent. Planning premises may be internal or external. Internal premises are controllable whereas external are non- controllable.



When forecasts are available and premises are established, a number of alternative courses of actions have to be considered. For this purpose, each and every alternative will be evaluated by weighing its pros and cons. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made. After objective and scientific evaluation, the best alternative is chosen.

4. Formulation of derivative plans

Derivative plans are the sub plans or secondary plans which help in the achievement of main plan. Secondary plans will flow from the basic plan. These are meant to support and expedite the achievement of basic plans. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.

5. Securing Co-operation

After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.

The purposes behind taking them into confidence are:

- a. Subordinates may feel motivated since they are involved in decision making process.
- b. The organization may be able to get valuable suggestions.
- c. Also the employees will be more interested in the execution of these plans.

6. Follow up/Appraisal of plans

After choosing a particular course of action, it is put into action. After the selected plan is implemented, it is important to appraise its effectiveness. This is done on the basis of feedback or information received from departments or persons concerned. This enables the management to correct deviations or modify the plan.

2.7 TYPES OF PLANNING

Planning is of several kinds depending upon their nature. The various types of plans are as follows:

- a. On the basis of their Breadth
- b. On the basis of Time Frame
- c. On the basis of Specificity
- d. On the basis of frequency of use

On the basis of their Breadth

- a. **Strategic plans** are organization wide, establish overall objectives, and position an organization in terms of its environment.
- b. **Tactical Plans** are plans that specify the details of how an organization's overall objectives are to be achieved.

STRATEGIC PLANNING	TACTICAL PLANNING
1. Decides the major goals & policies of allocation of resources	Decides the detailed use of resources
2. Done at higher levels of management	Lower levels of management
3. It is Long-term	It is short-term
4. Based on long term forecasts about technology, political environment etc and is more uncertain	Based on past performances and is less uncertain
5. Less detailed	More detailed

On the basis of Time Frame

- a. **Short-term plans** relates to a period of less than one year. It is to accomplish objectives in the near future. Medium-term planning covers a period of over one year but less than three years.
- b. **Long-term Plan:** Plans that extend beyond five years is known as long-term planning.

On the basis of Specificity

- a. **Specific plans** are plans that have clearly defined objectives and leave no room for misrepresentation.
- b. **Directional Plans** are flexible plans that set out general guidelines.

On the basis of frequency of use

- a. **Single-use plans** are plan that is used to meet the needs of a particular or unique situation. Eg Programmes, Budgets
- b. **Standard Plan** is a plan that is ongoing and provides guidance for repeatedly performed actions in an organization. Eg: Policies, procedures, methods, Rules.

2.8 TYPES OF PLANS

2.8.1 OBJECTIVES

Objectives are aims which the management wishes the organization to achieve. These are the end-points or pole star towards which all business activities are directed.

Objectives should be distinguished from three other words “vision” “purpose” and “mission”. The vision is the dream that an entrepreneur creates in his waking hours of his preferred future. In fact it is the root of all objectives. The mission of the organization is the unique aim that sets the organization apart from others of its type. Objectives are the specific targets to be reached by an organization.

Characteristics:

1. Objectives are multiple in nature
2. Either tangible or intangible
3. Objectives have priority
4. Objectives are generally arranged in a hierarchy
5. Sometimes clash with each other

CHARACTERISTICS OF OBJECTIVES

1. Objectives are multiple in Numbers
2. Objectives are either tangible or intangible
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REQUIREMENTS OF SOUND OBJECTIVES

- Objectives must be both clear & acceptable
- Must support each other
- It must be precise & measurable
- It should remain valid
- To make objective setting more effective, Drucker used the SMART acronym.
 - Specific
 - Measurable
 - Agreed (relating to the participative management principle)
 - Realistic
 - Time related

MANAGEMENT BY OBJECTIVES

The term "management by objectives" was first popularized by **Peter Drucker in his book 'The Practice of Management' in 1954.**

Management by Objectives (MBO) is a system in which specific performance objectives are jointly determined by subordinates and their supervisors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of that progress.

The **essence of MBO** is participative goal setting, choosing course of actions and decision making. An important part of the MBO is the measurement and the comparison of the employee's actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

COMMON ELEMENTS OF MBO

Four ingredients are common to MBO programs,

- a. Goal Specificity
- b. Participative decision Making
- c. Explicit time period and
- d. Performance Feedback

HOW TO SET OBJECTIVES

1. Identify an employee's key job tasks
2. Establish specific and challenging goals for each key task
3. Allow the employee to actively participate
4. Prioritize Goals
5. Build in feedback mechanisms to access goal progress

FEATURES AND ADVANTAGES

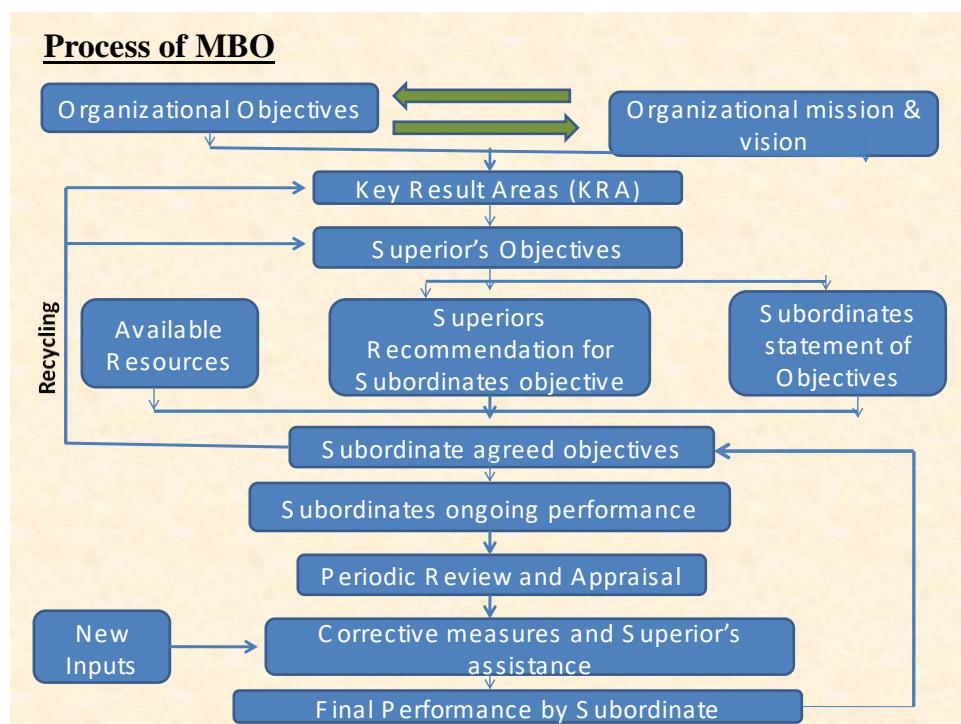
The basic principle behind Management by Objectives (MBO) is for employees to have a clear understanding of the roles and responsibilities expected of them.

Some of the important features and advantages of MBO are:

1. Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.
 2. Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates help to maintain harmonious relationships within the organization and also to solve many problems.
 3. Clarity of goals
 4. Subordinates tend to have a higher commitment to objectives they set for themselves than those imposed on them by another person.
 5. Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

MBO PROCESS

Peter Drucker outlined the five-step process for MBO.



These steps are explained below:

6. **Setting organizational Objective, Vision & Mission:** Vision, mission and overall objectives are defined as the general guide to all departments of the organization. Here, objectives are not SMART (Specific, Measurable, Agreed, Realistic, Time related); they are general but show a very clear direction.
 7. **Key Result area:** Key Result Areas are used to establish standards and objectives, key result areas are the chief tasks of a job identified during the job

evaluation process. In simple Terms may be defined as Primary responsibilities of an Individual, the core area which each person is accountable.

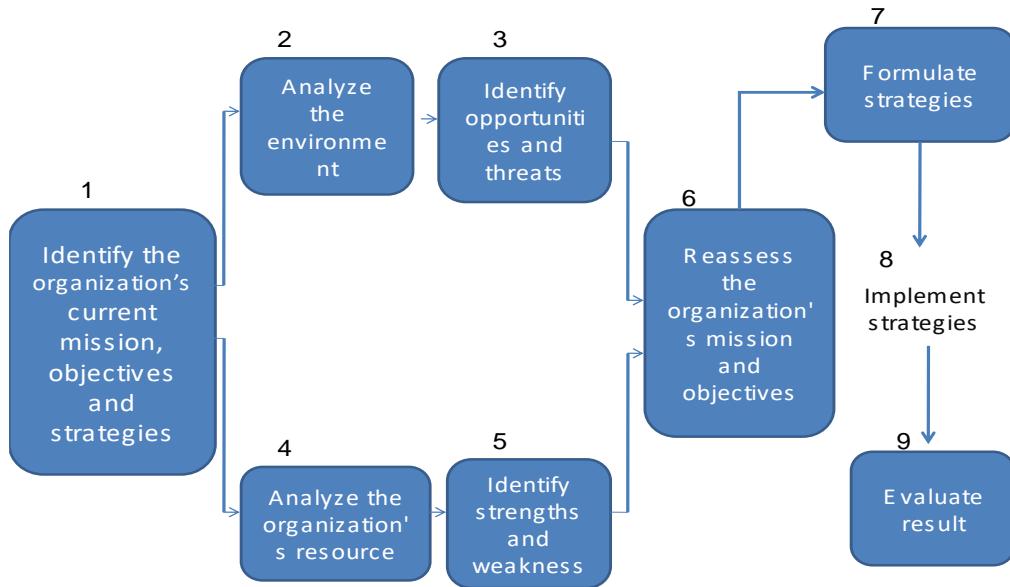
8. **Setting Superiors objective:** Superior and subordinate discuss and review, “what objectives could be specifically derived from the general ones?”
9. **Superiors recommendation for subordinates objective:** Superior and subordinate discuss and reach agreement on key effective components of supervisors and subordinates job through answering the question, “How to accomplish the results and when?” This will be taken in consideration of the available resources and subordinates statement of objectives.
10. **Subordinate agreed objectives:** Superior and subordinate agree on specific measurable performance objectives for the subordinate for a given time period.
11. **Subordinates ongoing Performance:** Superior and subordinate discuss the action plans to accomplish the objectives.
12. **Periodic review and Appraisal:** Superior and subordinate discuss and review the performance indicators that should be compared with actual performance. Superior and subordinate meet periodically to jointly evaluate progress.
13. **Corrective measures and superiors assistance:** Corrective actions taken if any deviations found between the standard and actual performance.

2.8.2 STRATEGIC MANAGEMENT

STRATEGY is “a determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”
-ALFRED CHANDLER

Strategic Management process is a nine-step process that involves strategic planning, implementation, and evaluation.

The Strategic management Process



Step 1: Mission Statement defines the purpose of an organization. Defining the organisation's mission forces management to identify the scope of its products or services carefully

Step 2: Environmental Scanning

Screening large amounts of information to detect emerging trends and create a set of scenarios. The environmental scan includes the following components:

- Internal analysis of the firm
- Analysis of the firm's industry (task environment)
- External macro environment (PEST analysis)

SWOT analysis is a profile of the strengths, weaknesses, opportunities, and threats in order to identify a strategic niche that the organization can exploit.

- Internal resources or things that the organization does well are its **strengths**.

- Resources that an organization lacks or activities that it does not do well are its **weakness**.
- **Opportunities** are the positive external environmental factors.
- **Threats** are the negative external environmental factors.

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

Step 3: Strategy Formulation

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.

To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

Step 4: Strategy Implementation

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood.

Step 5: Evaluation & Control

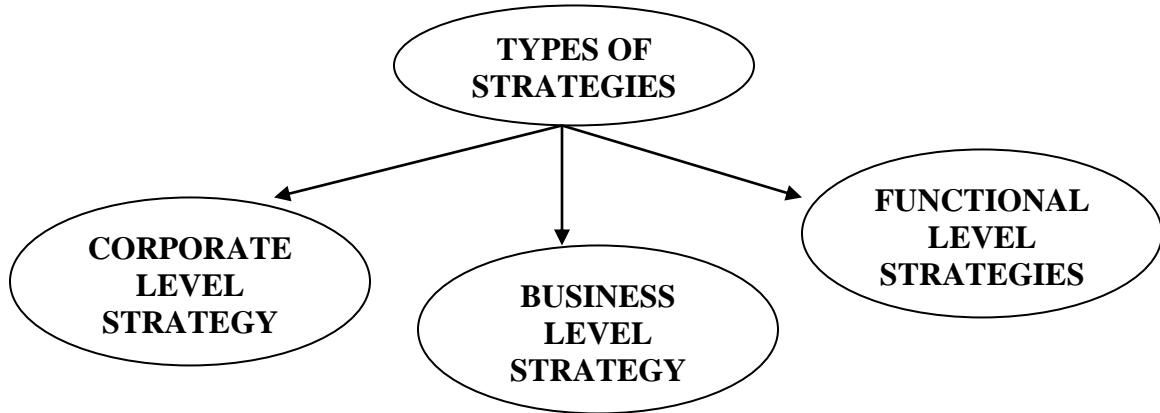
The implementation of the strategy must be monitored and adjustments made as needed.

Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

TYPES OF STRATEGIES

The strategies can be classified into three basic types. They include



For most organizations, four primary strategies are available. Frequently called the Grand Strategies or **CORPORATE LEVEL STRATEGIES**, they are

1. Growth strategy
2. Stability strategy
3. Retrenchment strategy and
4. Combination strategy
5. Competitive Strategy

1. Growth Strategy is a strategy in which an organization attempts to increase the level of its operations; can take the form of increasing sales revenue, number of employees, or market share.

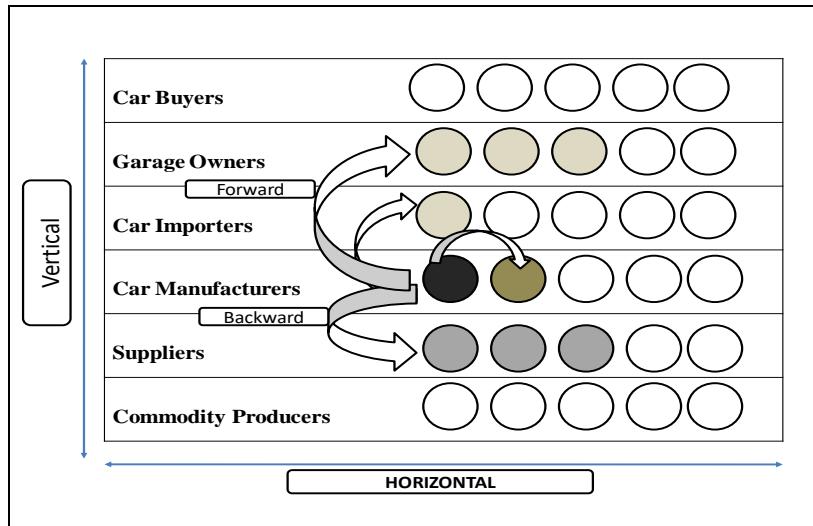
Types of Growth Strategies

a. Concentration Strategy: It is a form of growth strategy, which results in concentration of resources on those product lines, which have growth potential. Concentration strategy is adopted in growing industry by growing firms.

There are two basic concentration strategies namely,

Vertical growth/ Integration: Vertical integration occurs when a company produces its own inputs or disposes of its own output. It may be either backward or forward integration. Backward integration refers to performing a function previously provided by a supplier. Forward integration means performing a function previously provided by a retailer.

Horizontal Growth/ Integration: A firm is said to follow horizontal integration if it acquires another firm that produces the same type of product with similar production process/marketing practices.



b. Diversification Strategy: Where the company will develop or purchase products that are entirely different from the current product or market. Diversification makes addition to the portfolio of businesses. It may be related or Unrelated Diversification

2. Stability Strategy is a strategy that is characterized by an absence of significant change in the company's current activities. When firms are satisfied with their current rate of growth and profits, they may decide to use a stability strategy. E.g., nonetheless, a company such as Bata India does use the stability strategy very well. Bata has not moved far from its footwear emphasis.

3. Retrenchment Strategy: that reduces the level of company's activities. Retrenchment strategies involve a reduction in the scope of a corporation's activities, which also generally necessitates a reduction in number of employees, sale of assets associated with discontinued product or service lines, possible restructuring of debt through bankruptcy proceedings, and in the most extreme cases, liquidation of the firm.

This can be classified into Turnaround, Liquidation, Divestment.

4. Combination Strategy: A combination strategy is the simultaneous pursuit of two or more of the strategies described earlier; that is, one part of the organization may be pursuing a growth strategy while another is retrenching.

That is precisely what happened when L&T sold off its cement division to Kumar Mangalam Birla's Grasim industries. By selling off this division, L&T was better able to concentrate on its growth strategy of its core engineering business.

BUSINESS LEVEL STRATEGY/ COMPETITIVE STRATEGY: A strategy to position an organization in such a way that it will have a distinct advantage over its competition.

Three types are **cost leadership, differentiation, and focus strategies.**

a. Cost-leadership strategy: The strategy an organization follows when it wants to be the lowest cost producer in its industry. E.g. Firms that use this strategy include Wal-Mart, Canadian Tire, and Southwest Airlines.

b. Differentiation Strategy Is a strategy an organization follows when it wants to be unique in its industry within a broad market. It might emphasize high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image.

E.g. Intel (Technology), Maytag(reliability), Mary Kay Cosmetics (Distribution).

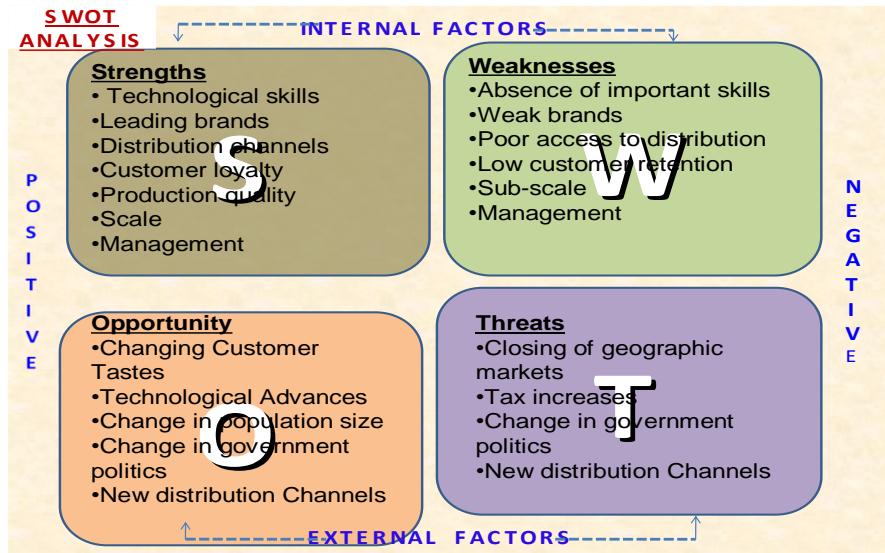
c. Focus Strategy is the strategy an organization follows when it wants to establish an advantage in a narrow market segment. Management will select a segment or group of segments in an industry (such as product variety, type of end buyer, distribution channel, or geographic location of buyers) and tailor the strategy to serve them to the exclusion of others.

E.g. Stouffer's used a cost-focus strategy in its Lean Cuisine line to reach calorie conscious consumers seeking both high-quality products and convenience.

FUNCTIONAL LEVEL STRATEGY: It deals with developing and nurturing a distinctive competence in a functional area in order to maximize resource productivity. It can be classified into Marketing strategy, financial strategy, Operations strategy, Human resource strategy.

TOOLS USED IN STRATEGIC MANAGEMENT

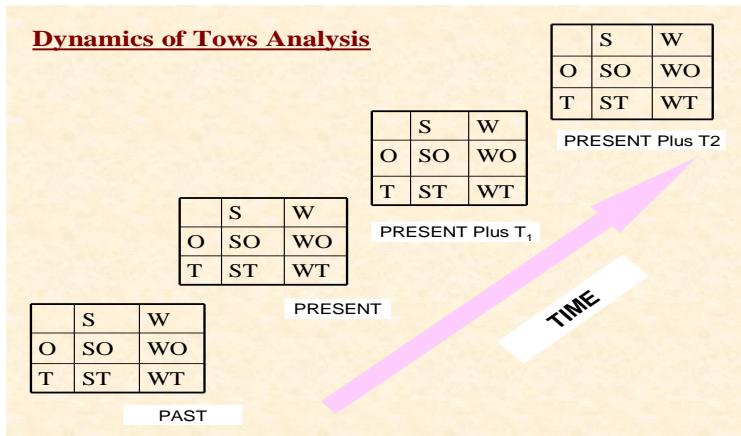
1. SWOT Analysis



2. The TOWS Matrix

- A modern tool for analysis of the situation

Internal Factors External Factors	Internal Strengths (S)	Internal Weaknesses (W)
External Opportunities (O)	SO Strategy (Maxi-Maxi) E.g., Current and future economic conditions , political and social changes, new products, services and technology	WO Strategy (Mini-Maxi) e.g., - developmental strategy to overcome weaknesses in order to take advantage of opportunities
External Threats (T)	ST Strategy (maxi-mini) E.g., lack of energy, competition, and areas similar to those shown in the “opportunities” box above	WT Strategy (Mini-Mini) e.g., use of strengths to cope with threats or to avoid threats



Strength: Internal characteristics that have the potential to improve the organization's competitive situation. R&D, technology, vast distribution network, geographic location. All these, comprise of organizational strength.

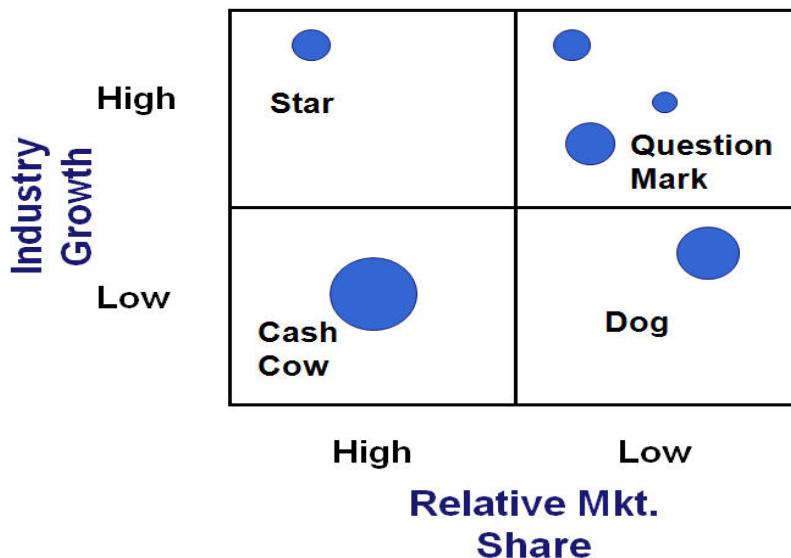
Weakness is an internal characteristic that leaves the organization potentially vulnerable to strategic moves by its competitors. Competition, government regulations etc. comprise organization's weakness.

Opportunity is an environmental condition, that offers significant prospects for improving an organization's situation, in relation to its competitors.

Threat is an environmental condition that can undermine an organization's competitive situation.

3. The Portfolio Matrix (BCG Matrix): A tool for allocating resources

- Developed by the Boston Consulting Group
- Considers market share and industry growth rate
- It is a widely used portfolio management method for evaluating the performance of business units.
- There are four quadrants in a BCG matrix: question marks, stars, cash cows and dogs.
- On the X axis, market growth is measured, which indicates the level of market attractiveness
- On the Y axis, market share is measured, that serves as a measure of the company's strength in the market



Question marks: Question marks are low-share business units, in a high-growth market. They require a lot of cash, for maintaining the market share.

Stars: Stars are high-growth, high-share businesses. Very often, they need heavy investment for financing their rapid growth. Eventually, their growth slows down and they turn into cash cows.

Cash cows: Cash cows are low-growth and high-share businesses. Such established and successful SBU's, require less investment to maintain their market share. They generate a lot of surplus that a company can use to pay its bills, or invest in other businesses.

Dogs: Dogs are low-growth and low-share businesses. They may generate enough surplus to maintain themselves, but do not hold out the promise to be a large source of cash.

2.8.3 POLICIES

In the words of George. R. Terry, “Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial action will take place.” A policy is general guideline for decision-making.

Advantages of policies

- Policies ensure uniformity of action
- It speeds up decisions at lower levels
- Makes delegation of authority easier
- Helps in attaining objectives

TYPES OF POLICIES

1. Classification on the basis of sources

- a. **Originated policies:** These are policies which are usually established formally and deliberately by top managers for the purpose of guiding the actions of their subordinates and also their own.
- b. **Appealed Policies:** Appealed policies are those which arise from the appeal made by a subordinate to his supervisor regarding the manner of handling a given situation.
- c. **Implied Policies:** these are also policies which are stated neither in writing nor verbally.
- d. **Externally imposed policies:** Policies are sometimes imposed on the business by external agencies such as government, trade associations and trade unions.

2. Classification on the basis of Functions

On the basis of functions, policies may be classified into production, sales, finance, personnel policies etc. Every one of these functions will have a number of policies.

3. Classification on the basis of Organizational Level

On this basis, policies range from major company policies through major departmental policies to minor or derivative policies applicable to the smaller segment of the organization.

GUIDELINES FOR EFFECTIVE POLICY-MAKING

- Policies should be in writing and easily understandable
- It should reflect the objectives of the organisation
- Top managers & subordinates must participate in policy making
- Policies should not pull in different directions
- It should not be detrimental to the society
- Policies should be reviewed periodically

2.8.4 PROCEDURES

A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work.

DIFFERENCES BETWEEN POLICIES AND STRATEGIES

POLICIES	STRATEGIES
General statements that guide the thinking process (Decision Making)	Major courses of action or patterns of successful action to achieve objectives
It is a standing plan	It is a standing plan with some discretion allowed.
Situations to be faced by a policy are known	These are used to deal with unknown environments
Certain approach to reach the set objectives.	An approach to meet the competitive situations
Focuses on long term growth	Main focus is to meet a competitive situation hence they have short term and medium term applicability
Implementation of a policy may be delegated to the subordinates	Delegation is not possible
Policies are formulated by all levels of managers	Strategies are formulated by the top level or in rare cases by the middle level managers also.
Eg. Recruitment policy, Credit policy	Eg. Diversification strategy, Psychological pricing strategy

DIFFERENCES BETWEEN POLICY AND PROCEDURE

Policy	Procedure
It is a general guide to both action and thinking at higher levels	It is a general guide to action at lower levels
It helps in fulfilling the objectives of an organization	It shows the way to implement policies
It is generally broad	It is specific
These are established without any study or analysis	These are always established after thorough study and analysis

2.9 DECISION MAKING -MEANING

Decision making is the process of making a choice between a numbers of options and committing to a future course of actions.

2.9.1 IMPORTANCE OF DECISION MAKING

The importance of decision making skills in leadership, business, management and running an organization are explained.

Importance of Decision Making in Leadership

Leadership is perhaps one of the toughest tasks ever because a leader makes decisions for all his followers. He must choose what is best for all his followers and then his own self. The fact that they trust his judgment puts immense responsibility on his shoulders.

Importance of Decision Making in Management

Management is not just about taking care of businesses or corporations. It starts with personal management skills. All of management boils down to two things which are creation of effective strategy and its execution. Every decision made by the management of a business affects employee morale and performance, ultimately influencing the overall business performance.

Importance of Decision Making in Business

Profiting in a business is all about making the most of a window of opportunity that appears in a market place. Timing is of essence in business. Quick decisions on the spot need to be made by business managers to take advantage of opportunities when they present themselves.

Importance of Decision Making in an Organization

The decision making ability of the think tank of any organization, be it the local city council or United Nations, decides how effective a role it will play in the world. An organization without people, who can't make decisions and take them to their logical conclusion, is doomed. Decisions may turn out to be good or bad but none of them are wasted. Bad or good ones both add up to what we call wisdom if they are analyzed in the aftermath.

2.9.2 TYPES OF DECISIONS

Decision is a choice made from available alternatives.

- Programmed & Non- Programmed Decisions
- Major and Minor Decisions

- Routine& strategic Decisions
- Individual & Group Decisions
- Simple & Complex Decisions

Programmed Decisions: These decisions are those that are made in accordance with some policy, rule or procedure so that they do not have to be handled *de novo* each time they occur. They are generally repetitive, routine and obviously the easiest. In programmed decision making there will be no error in the decisions

E.g. pricing ordinary customers' orders, determining salary payments to employees who have been ill.

Non Programmed Decisions: Non-programmed decisions are novel and non-repetitive and made in response to situations that are unique, are poorly defined and largely unstructured. It is a non-routine decision making. Non-programmed decision has more chance of errors.

E.g. To allocate organization's resources, what to do about a failing product line, how community relations should be improved.

Major and Minor Decisions

Some decisions are considerably more important than others. We can measure the relative significance of a decision in four ways.

- Degree of futurity of decision
- Impact of the decision on other Functional areas
- Qualitative factors that enter the decision
- Recurrence of Decisions

Routine& strategic Decisions

Routine, tactical or housekeeping decisions are those which are supportive of, rather than central to company's operations. E.g. Provision of air conditioning, Lighting, parking facilities etc

On the other hand, lowering the price of the product, changing the product line etc are strategic decisions. Usually routine decisions require little deliberation and money and are taken by managers at lower levels, while strategic decisions require lengthy deliberation and large funds and are taken by managers at higher levels.

Individual & Group Decisions

Individual decisions are taken where the problem is of a routine nature. Important and strategic decisions which may result into some change in the organization are generally taken by a group.

Two approaches to group decision-making are:

Nominal Group Technique: This technique proceeds as under:

- a. Members first silently and independently generate their ideas on a problem in writing.
- b. They then present their ideas to the group without discussion. They are then summarized and written on a blackboard.
- c. The recorded ideas are then discussed for the purpose of clarification and evaluation.
- d. Finally, each member silently gives his independent rating about various ideas through a system of voting.

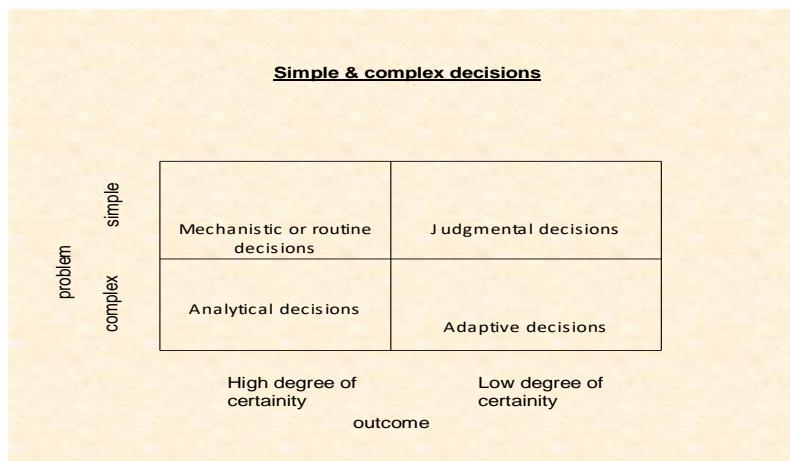
Delphi Technique

In this technique, the group consists of persons who are physically dispersed and are anonymous to one another. They are asked to send their opinion on a topic through mail. For this they are first sent a questionnaire. Their response are then summarized into a feedback report and sent back to them along with a second questionnaire. Generally a final summary is developed on the basis of replies received the second time. Two important limitations of these techniques are:

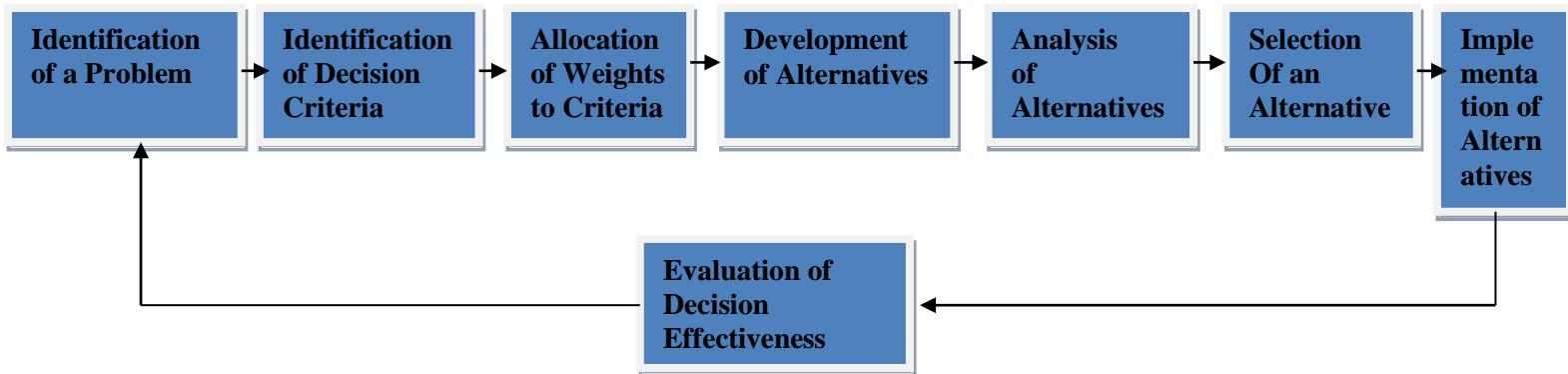
- a. There may be a bias in the way the questions are worded, and
- b. A different group of experts may not reach the same conclusions.

Simple & Complex Decisions

When variables to be considered for solving a problem are few, the decisions are simple; when they are many, the decision is complex.



2.9.3 DECISION MAKING PROCESS



1. Identification of a Problem

The decision making process begins with the identification of a problem. Problem is a discrepancy between an existing and a desired state of affairs.

2. Identification of Decision Criteria

Once a manager has identified a problem that needs attention, the decision criteria that will be important in solving the problem must be identified.

3. Allocation of weights to criteria

The criteria are not all equally important. It is necessary, therefore to allocate weights to the items listed. E.g. In buying a car the following criteria will be considered and weights will be allocated to them.

Criterion	Weight
Price	10
Interior Comfort	8
Durability	5
Repair Record	5
Performance	3
Handling	1

4. Development of Alternatives

Brainstorm to develop alternatives. Coming up with more than one solution enables you to see which one can actually work

5. Analysis of Alternatives

The next step is to list pros and cons of each alternative. With the list of pros and cons, you can eliminate the solutions that have more cons than pros, making your decision easier.

6. Selection of an Alternative

Make the decision. Once you analyze each solution, you should pick the one that has many pros (or the pros that are most significant), and is a solution that everyone can agree with.

7. Implementation of Alternative

This step is concerned with putting the decision into action. **Decision Implementation** includes conveying the decision to those affected and getting their commitment to it. . Once the decision is picked, you should implement it right away.

8. Evaluation of Decision Effectiveness

Learn from, and reflect on the decision making. This step allows you to see what you did right and wrong when coming up, and putting the decision to use.

RATIONAL DECISION MAKING PROCESS

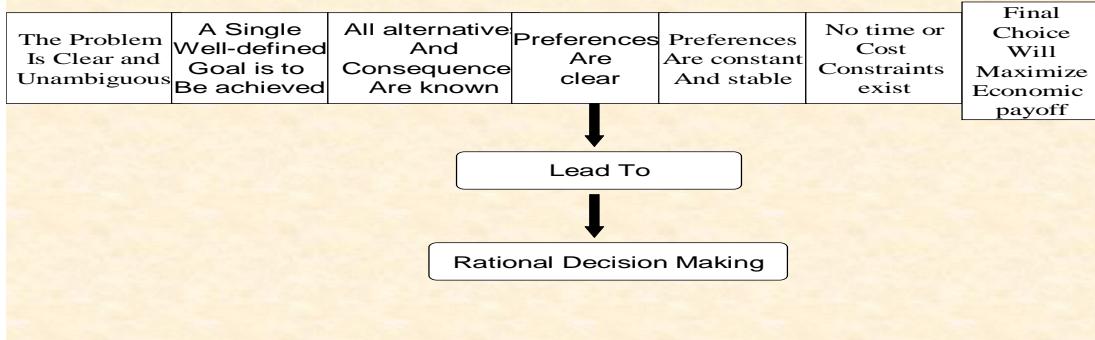
Managerial decision making is assumed to be **rational** in that managers make consistent, value-maximizing choices within specified constraints.

Assumptions of Rational Decision Makers

- Decision makers are perfectly rational, fully objective, and logical
- They have carefully defined the problem and identified all viable alternatives
- Decision makers have a clear and specific goal
- Decision makers will select the alternative that maximizes outcomes in the organization's interests rather than in their personal interests

Rational Decision Making Process

Rational decision Making process



THE REAL WORLD MANAGERIAL DECISION MAKING

People often have limited abilities to process and assimilate massive amounts of information to reach an optimal solution. As a result, they *satisfice*. That is they seek solutions that are satisfactory and sufficient or just good enough.

Bounded rationality is rational within the parameters of a simplified model that captures the essential features of a problem.

- Managers make decisions rationally, but are limited (bounded) by their ability to process information
- Assumes that decision makers
 - Will not seek out or have knowledge of all alternatives
 - Will *satisfice* (satisfy the minimum requirements for achieving a particular result)
 - Can be influenced by escalation of commitment

Role of Intuition

- Intuitive decision making
 - Making decisions on the basis of experience, feelings, and accumulated judgment
 - One-third of managers and other employees said they emphasized “gut feeling” over cognitive problem solving

TYPES OF PROBLEMS

1. Structured Problems

- Straightforward, familiar, easily defined problems.
- Have clear goals
- Are easily and completely defined

2. Ill-Structured Problems or Unstructured Problems

- New problems in which information is ambiguous or incomplete.

DECISION-MAKING CONDITIONS

Certainty: Accurate decisions possible because the outcome of every alternative is known

Risk: Decision maker estimates the likelihood of outcomes that result from the choice of particular alternatives

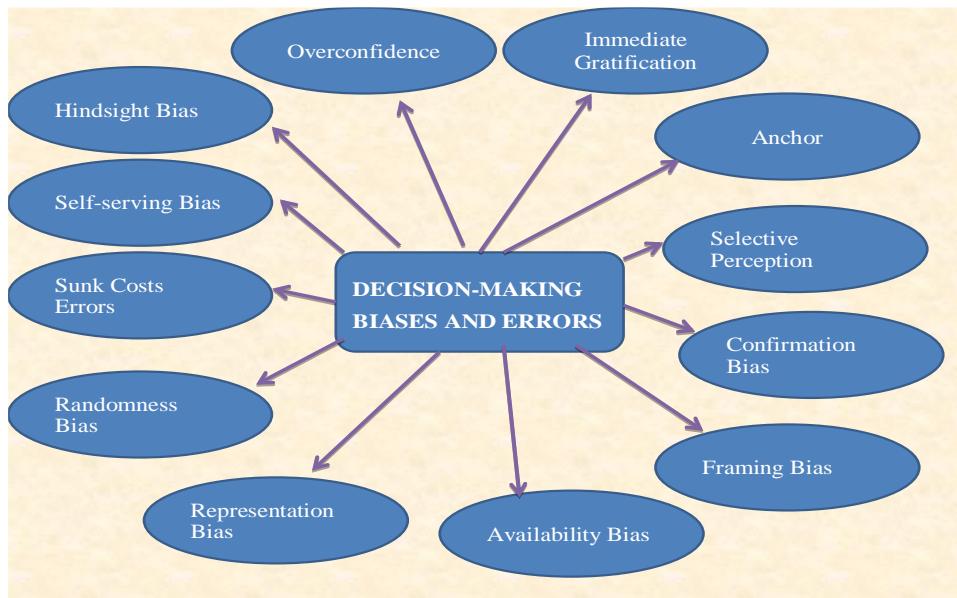
Uncertainty: Limited information prevents estimation of outcome probabilities; may force managers to rely on intuition, hunches, and “gut feelings”

- Maximax: the optimistic manager’s choice to maximize the maximum payoff
- Maximin: the pessimistic manager’s choice to maximize the minimum payoff
- Minimax: the manager’s choice to minimize his maximum regret

DECISION-MAKING BIASES AND ERRORS

- Overconfidence Bias
 - Holding unrealistically positive views of one’s self and one’s performance
- Immediate Gratification Bias
 - Choosing alternatives that offer immediate rewards and avoid immediate costs
- Anchoring Effect
 - Fixating on initial information and ignoring later information
- Selective Perception
 - Selecting, organizing, and interpreting events based on the decision maker’s biased perceptions
- Confirmation Bias

- Seeking out information that reaffirms past choices and discounting contradictory information
- Framing Bias
 - Selecting and highlighting certain aspects of a situation while ignoring other aspects
- Availability Bias
 - Losing decision-making objectivity by focusing on the most recent events
- Representation Bias
 - Drawing analogies and seeing identical situations when none exist
- Randomness Bias
 - Creating unfounded meaning out of random events
- Sunk Costs Errors
 - Forgetting that current actions cannot influence past events and relate only to future consequences
- Self-serving Bias
 - Taking quick credit for successes and blaming outside factors for failures
- Hindsight Bias
 - Mistakenly believing that an event could have been predicted once the actual outcome is known (after-the-fact)



CHAPTER – 3

ORGANIZING

3.1 ORGANIZING - DEFINITION

Allen defines the term as the process of “identifying and grouping of the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing their objectives”

Thus Organizing is

1. The identification and classification of required activities,
2. The grouping of activities necessary to attain objectives,
3. The assignment of each grouping to a manager with the authority necessary to supervise it, and
4. The provision of coordination horizontally and vertically in the organization structure.

3.2 NATURE OF ORGANIZATION

The following are the important characteristics of organization.

Division of work or specialization: The entire philosophy of organization depends on the concept of specialization and division of work. In specialization, various activities are assigned to different people who are specialists in that area.

Orientation towards goals: Every organization has its own purposes and objectives. Organizing is the function employed to achieve the overall goals of the organization.

Composition of individuals and groups: Individuals form a group and the groups form an organization. Individuals are grouped into departments and their work is coordinated and directed towards organizational goals.

Differentiated functions: The organization divides the entire work and assigns the tasks to individuals; each one has to perform a different task and tasks of one individual must be coordinated with the tasks of others.

Continuous process: An organization is a group of people with defined relationship to each other. These relationships do not come to end after completing a task. Organization is a never ending process.

3.2.1 CHARACTERISTICS OF ORGANISATION

An organization needs to posses the following feature:

- a purpose, a goal or goals
- A clear concept of the major activities required to achieve the purpose
- Classification of activities into job
- Establishment of relationships between these jobs

3.2.2 PURPOSE OF ORGANIZING

- Divides work to be done into specific jobs and departments
- Assigns tasks and responsibilities associated with individual jobs
- Coordinates diverse organizational tasks

- Clusters jobs into units
- Establishes relationships among individuals, groups, and departments
- Establishes formal lines of authority
- Allocates and deploys organizational resources

3.2.3 STEPS IN ORGANISING

1. **Identification of activities** - All the activities which have to be performed in a concern have to be identified first. For example, preparation of accounts, making sales, record keeping, quality control, inventory control, etc.
2. **Departmentally organizing the activities** - In this step, the manager tries to combine and group similar and related activities into units or departments. This organization of dividing the whole concern into independent units and departments is called departmentalization.
3. **Classifying the authority** - Once the departments are made, the manager likes to classify the powers and its extent to the managers. This activity of giving a rank in order to the managerial positions is called hierarchy. The top management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen.
4. **Co-ordination between authority and responsibility** - Relationships are established among various groups to enable smooth interaction toward the achievement of the organizational goal.

3.2.4 IMPORTANCE OF ORGANIZING

1. **Specialization** - Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
2. **Well defined jobs** - Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
3. **Clarifies authority** - Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuses of powers do not take place.
4. **Co-ordination** - Organization is a means of creating co- ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensures mutual co- operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.
5. **Effective administration** - The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.

6. **Growth and diversification** - A company's growth is totally dependant on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization.
7. **Sense of security** - Organizational structure clarifies the job positions. The roles assigned to every manager are clear. Co-ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job-satisfaction.
8. **Scope for new changes** - Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.

3.2.5 PRINCIPLES OF ORGANISING

- **Objectives:** The objectives of the enterprise influence the organization structure and hence the objectives of the enterprise should first be clearly defined.
- **Specialisation:** The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.
- **Span of Control:** As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum.
- **Exception:** As the executives at the higher levels have limited time, only exceptionally complex problems should be referred to them and routine matters should be dealt with by the subordinates at the lower levels. This will enable the executives at higher levels to devote time to more important and crucial issues.
- **Scalar Principle:** This principle is sometimes known as "Chain of command". The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.
- **Unity of Command:** Each subordinate should have only one superior whose command he has to obey.
- **Delegation:** Proper authority should be delegated at the lower levels of the organization also.
- **Responsibility:** The superior should be held responsible for the acts of his subordinates.
- **Authority:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined.
- **Efficiency:** The organization structure should enable the enterprise to function effectively and accomplish its objectives with the lowest possible cost.
- **Simplicity:** The organization structure should be as simple as possible and the organization levels should, as far as possible, be minimum.
- **Flexibility:** The organization should be adaptable to changing circumstances.
- **Balance:** There should be a reasonable balance in the size of various departments, between principle of span of control and among all types of factors such as human, technical and financial.

- **Unity of Direction:** There should be one objective and one plan for a group of activities having the same objective.
- **Personal Ability:** As people constitute an organization, there is need for proper selection, placement and training of staff.

3.3 SPAN OF CONTROL

The number of employees who can be effectively and efficiently supervised by a manager is called as **Span of Control**. It is well-known as span of management, span of supervision, span of authority, or span of responsibility. It indicates the number of subordinates who report directly to the managers.

Factors Governing the Span of Management

1. **Ability of the Manager:** Some managers are more capable than others and can, therefore handle a large number of subordinates. In planning as organization, the span of management should be based on a manager of average ability.
2. **Ability of the Employees:** If the employees are competent and possess the necessary skill and motivation to perform the task assigned, less attention from the manager is required and a larger span of management can be used. On the other hand, if the employees are dissatisfied with their jobs or are incompetent or untrained, close supervision by the manager is needed. This will reduce his span of control.
3. **Type of Work:** If employees are doing similar jobs, the span of management can be larger. If their jobs are quite different, a small span may be necessary. Similarly, where the work is machine-paced, the employees will require less supervision.
4. **Well-defined Authority and Responsibility:** If the authority and responsibility of each employee are properly defined and if there are clear policies and procedures, the superior can manage a large number of subordinates.
5. **Geographical Location:** An office manager who has 25 employees, all located in one room may be able to supervise them very well. But a sales manager who has 25 sales people located in 25 different districts would find direct supervision impossible.
6. **Sophisticated Information and control system:** If the company uses sophisticated information and control system and objective standards to detect deviations from established plans, the need for close supervision is obviated.
7. **Levels of Management:** Span of management also varies with each levels in the organization.
8. **Economic Considerations:** Smaller spans mean a larger number of managers with the added salaries and other costs they entail. But wide span also involve extra costs in the inefficiencies that result from diminished managerial leadership.

3.4 ORGANIZATIONAL STRUCTURE

Organization Structure is the formal arrangement of jobs within an organization. The framework in which the organization defines how tasks are divided, resources are deployed, and departments are coordinated.

The formal structure of an organisation is two-dimensional

- Horizontal (Departmentalisation)
- Vertical

The horizontal dimension depicts differentiation of the total organizational jobs into different departments. **The vertical dimension** refers to the hierarchy of authority relationship with number of levels from the top to bottom

3.4.1 Organisation Chart

The usual way of depicting a formal organization is by means of an organization chart. It is snapshot of an organisation at a particular point in time which shows the flow of authority, responsibility and communication among various departments which are located at different levels of hierarchy. Forms of organizational chart are: **Vertical, horizontal and circular**

Advantages of Organisation Chart

- Reveals whether span of Management is wide or Narrow
- It reveals deficiencies of the Organisation
- Reveals whether the Organisation is evenly balanced.
- All the individuals are aware of the makeup of the company such as its Size, basis of division of activities, coordination etc.

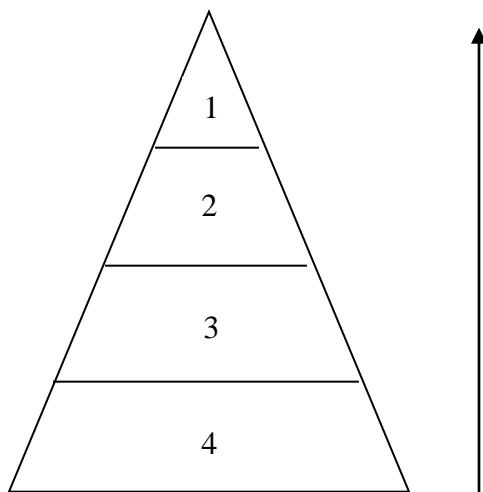
Limitations of Organisation Chart

- It does not indicate who has the greater degree of authority and responsibility at each managerial level
- People often read into the chart meanings which are not intended
- It does not indicate the Organisation's informal relationships and Communication
- It makes them competitive for higher executive positions.

3.4.2 Types of Organization Structures

- Mechanistic or Tall Structure
- Organic or Flat Structure

Mechanistic or Classical Organisation Structure is usually pyramid-shaped.



Tall Organisation Implies

- a. Distance from top to bottom
- b. Extended communication lines
- c. Narrow span of control
- d. Centralization
- e. Impersonality

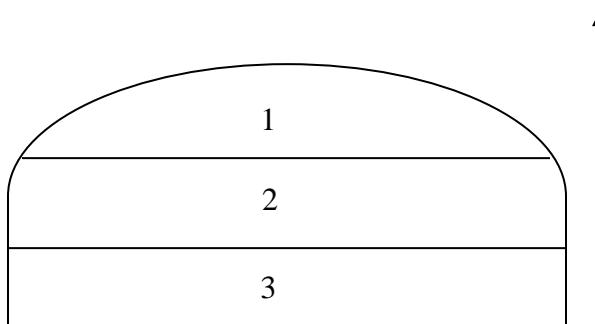
Merits of Tall structure

- Clear and well defined work setting to its employees
- Individual attention to the employees

Demerits of Tall structure:

- Individuals does not dare to know how his job fits into the entire picture
- Task, authority and information are arranged according to their levels. people at lower levels are required to use very little skill and do not experience any sense of accomplishments.
- people at lower levels resist changes
- Communication is mostly downward

Organic or Flat Structure



Flat Organisation Implies

- a. Less Extended communication lines
- b. Wide span of control
- c. Decentralizations

Merits:

- It is Flexible.
- Communication takes place in all directions
- Decision making is not centralized
- Task, authority and information flow to the person who has the greatest expertise to deal with the problem

Demerits:

- Uncertainty in roles as the tasks keep on changing

3.4.3 WHAT TYPE OF ORGANISATION IS BEST?

The type of structure useful for a particular organisation depends on a number of factors described below:

- Environment
- Culture
- Task
- Technology
- Strategy
- Size
- Span of Control
- Form
- Managerial Characteristics
- Employee Characteristics

3.4.4 DEPARTMENTALISATION

Departmentalization refers to the process of grouping activities into departments. Division of labour creates specialists who need coordination. This coordination is facilitated by grouping specialists together in departments.

The process of classifying an organization on the basis of departments or similar activities, to facilitate planning and control.

Benefits of Departmentalization

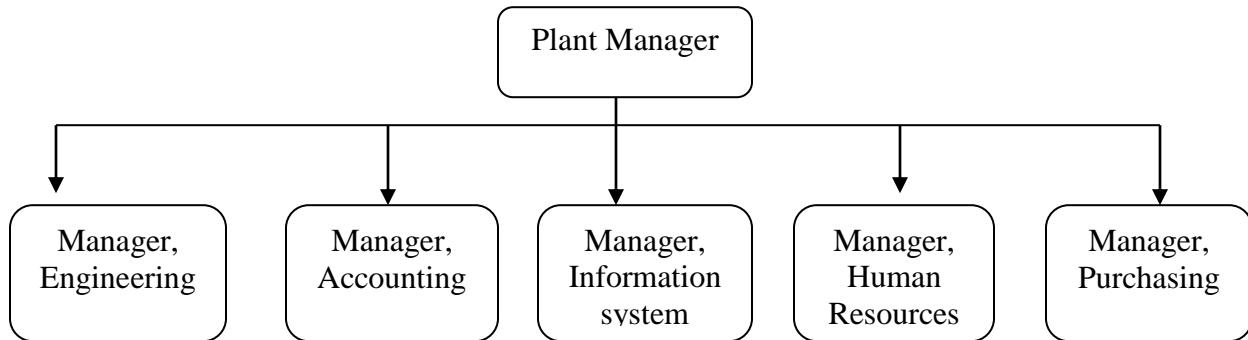
1. It increases the operating efficiency of the employees
2. It makes the executive alert & responsible in his duties
3. It increases the prestige & skill of the departmental heads
4. It helps in better co ordination among the managerial personnel

3.4.5 TYPES/ BASES OF DEPARTMENTALISATION

There are several bases for departmentalization, each of which is suitable for particular corporate sizes, strategies and purpose.

1. Functional Departmentalization

Grouping jobs by functions performed. The activities are grouped on the basis of functions which are to be performed. Each department is headed by one responsible person who is directly responsible to the General Manager



Merits

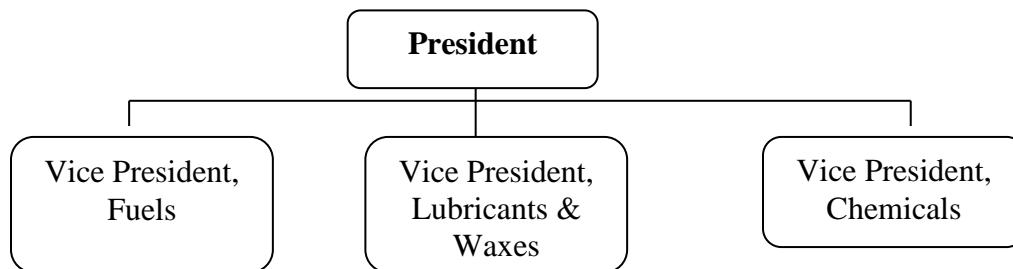
- a. Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- b. Coordination within functional area
- c. In-depth specialization
- d. It follows the principles of specialization & division of labour
- e. It facilitates co ordination of activity within the department .

Demerits

- a. Poor communication across functional areas
- b. Limited view of organizational goals

2. Product Departmentalization

This form is eminently suited for a large organisation manufacturing a variety of products. Under this method, for each major product, a separate semi-autonomous department is created and is put under the charge of a manager who may be responsible for producing a profit of a given magnitude.



Merits

- a. Allows specialization in particular products and services
- b. Managers can become experts in their industry
- c. Closer to customers

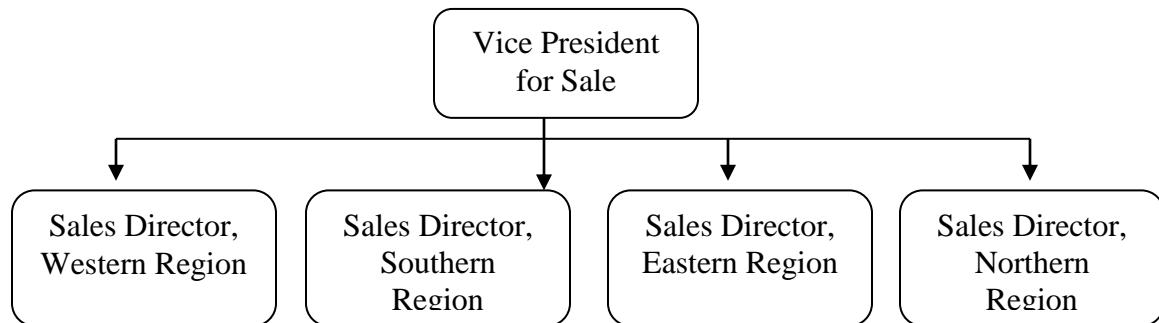
Demerits

- a. Duplication of functions

b. Limited view of organizational goals

3. Geographical Departmentalization

When several production or marketing units of an organisation are geographically dispersed in various locations, it is logical to departmentalize those units on a geographical basis. The Indian Railways are departmentalized on this basis.



Merits

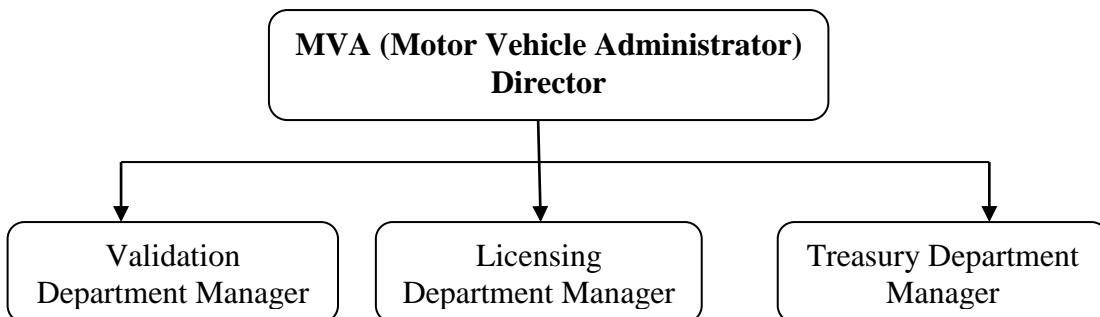
- a. More effective and efficient handling of specific regional issues that arise
- b. Serve needs of unique geographic markets better

Demerits

- a. Duplication of functions
- b. Can feel isolated from other organizational areas

4. Process Departmentalization

Departmentalization is here done on the basis of several stages in the process or technologies involved in the manufacture of a product. Thus a concern engaged in the production of vegetable oil may have separate departments for crushing, refining, and finishing.



Merits

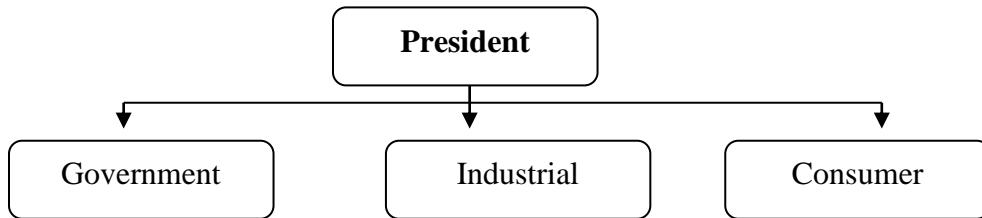
- a. More efficient flow of work activities

Demerits

- a. Can only be used with certain types of products

5. Customer Departmentalization

Grouping jobs by type of customer and needs. An enterprise may be divided into a number of departments on the basis of the customers that it services.



Merits

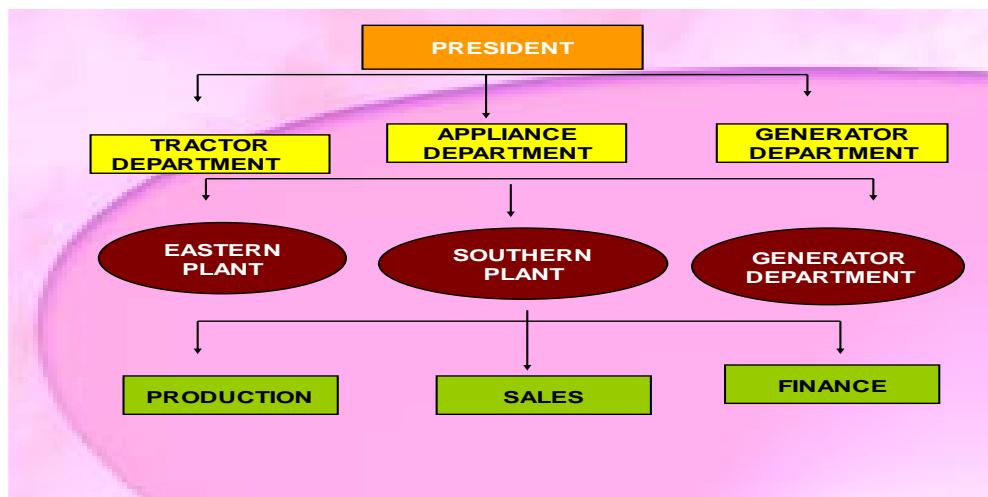
- a. Customers' needs and problems can be met by specialists

Demerits

- a. Duplication of functions
- b. Limited view of organizational goals

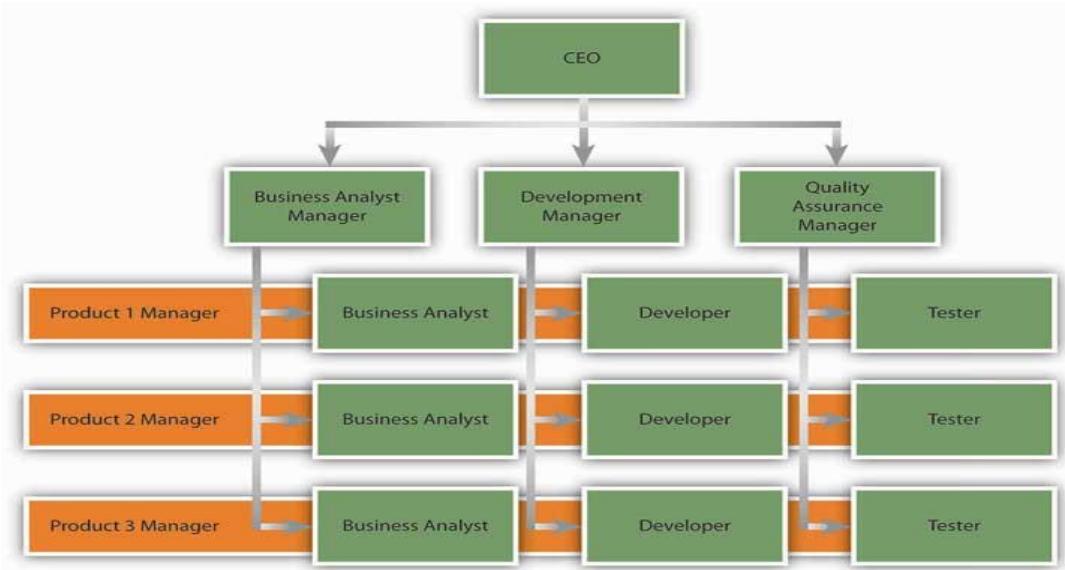
6. Combined Base

It is quite typical to find an organisation following a different base of departmentalization at different organizational levels.



7. Matrix Organisation

In this form of organisation, two types of departmentalization exist simultaneously.



Choice of Departmentalization

1. Specialization
2. Control
3. Coordination
4. Securing Attention
5. Recognition of local Condition
6. Economy

3.5 CLASSIFICATION OF ORGANIZATION

Organizations are basically classified on the basis of relationships. There are two types of organizations formed on the basis of relationships in an organization

1. **Formal Organization** - This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organization is an arbitrary set up in which each person is responsible for his performance. Formal organization has a formal set up to achieve pre-determined goals.

Benefits to the Formal Organization:

1. Blend with formal system
2. Lighten management workload
3. Fill gaps in management abilities
4. Act as a safety valve
5. Encourage improved management practice

2. Informal Organization - It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organizations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organizations. There is no conscious effort made to have informal organization. It emerges from the formal organization and it is not based on any rules and regulations as in case of formal organization.

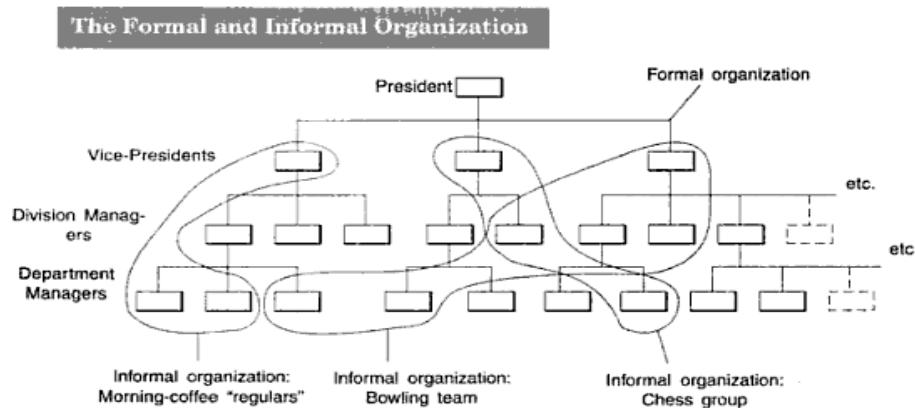
Functions of Informal Organization:

1. They perpetuate the cultural and social values that the group holds dear,
2. They provide social status and satisfaction that may not be obtained from the formal organization,
3. They promote communication among members,
4. They provide social control by influencing and regulating behavior inside and outside the group.

Disadvantage of informal Groups:

1. Resistance to change.
2. Role conflict
3. Rumor
4. Conformity

Formal and Informal organization



Distinction between formal & informal groups	
Formal Groups	Informal groups
1. It is a prescribed structure of roles and relationships consciously Coordinated towards a common objective	1. It is natural and spontaneous structure, arising out of the social tendency of people to associate and interact.
2. Its values, goals and tasks are predominantly oriented towards productivity, profitability, efficiency, growth and so on	2. Its values, goals and tasks predominantly Centre around individual and group satisfaction, esteem, affiliation, friendship ...etc
3. It is well defined in shape	3. It is shapeless.
4. There is a prescribed, mostly written System of reward and punishment.	4. There is an unwritten system of reward and punishments
5. The organisation is usually enduring and may grow to any size	5. The organisation is not usually enduring Being dependent on the sentiments of members which Often change

Relationship between formal and informal organizations

1. **Origin:** Formal organization originates from the set organizational structure and informal organization originates from formal organization.
2. **Dependence:** Formal organization can work independently. But informal organization depends totally upon the formal organization.
3. Informal organization emerges from formal organization

3.6 AUTHORITY AND POWER

Authority: *It is the formal right of the superior to perform certain act. Henry Fayol defines it as “the right to give Orders and power to exact obedience”*

Power: *The ability to influence or to cause a person to perform an act. Types of Power are*

- **Reward Power:** *The reward power of A over B increases as B feels that A can deliver reward to him.*
- **Coercive Power:** *The cohesive power of A increases as B feels that A can deliver punishment if B fails to respond to A's influence attempt.*
- **Reference Power:** *Reference power of A over B increases as B desires more and more to identify with or imitate.*
- **Expert Power:** *B sees that A has some expertise in a given subject.*
- **Legitimate Power:** *Occurs when B perceives that A has the legal right to determine B's behavior.*

Differences between Authority and Power

Authority	Power
<p>1. It is the institutional right of the superior</p> <p>2. With the Change in position the Authority of the individual also changes</p> <p>3. It is delegated to an individual by His superior</p> <p>4. It is mostly well-defined and finite</p> <p>5. It is what exist in eye of law</p> <p>6. It serves as a basis of formal Organisation</p>	<p>1. It is the ability of a person to influence another person</p> <p>2. It rests in the individual, even when the position Is changed, his power Remains with him</p> <p>3. It is earned by an individual through his own efforts</p> <p>4. It is undefined and infinite</p> <p>5. It is what exist in fact</p> <p>6. It serves as a basis of informal Organisation</p>

Differences between Authority and Responsibility

Authority	Responsibility
It is the legal right of a person or a superior to command his subordinates.	It is the obligation of subordinate to perform the work assigned to him.
Authority is attached to the position of a superior in concern.	Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
Authority can be delegated by a superior to a subordinate	Responsibility cannot be shifted and is absolute
It flows from top to bottom.	It flows from bottom to top.

Use of Authority

- It enforces obedience to norms
- It secures expertise in the making of decisions
- It permits centralization of decision-making and co-ordination of activity

Responsibility: Just as authority is the right of a superior to issue commands, responsibility it is the obligation of a subordinate to obey those commands.

3.6.1 LINE & STAFF AUTHORITY

Line organization is the oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization.

Features of Line Organization

1. It is the simplest form of organization.
2. Line of authority flows from top to bottom.
3. Specialized and supportive services do not take place in these organizations.
4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
5. This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.

Merits of Line Organization

1. **Simplest-** It is the most simple and oldest method of administration.
2. **Unity of Command-** In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. **Better discipline-** The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. **Fixed responsibility-** In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. **Flexibility-** There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. **Prompt decision-** Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

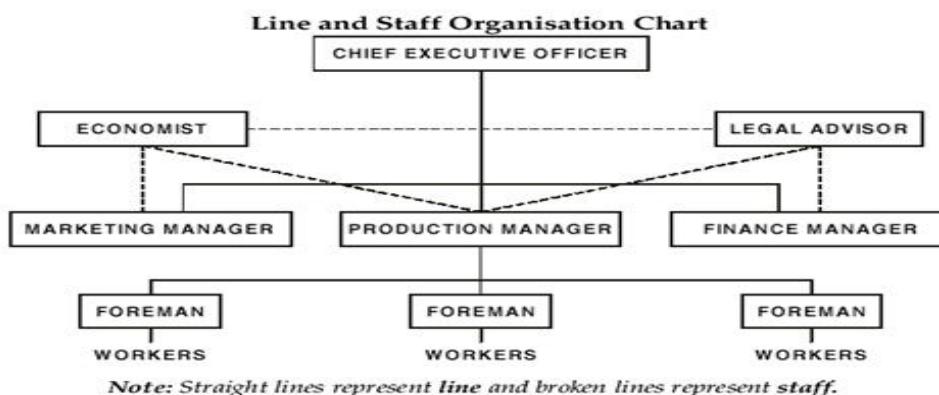
Demerits of Line Organization

1. **Over reliance-** The line executive's decisions are implemented to the bottom. This results in over-relying on the line officials.
2. **Lack of specialization-** A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.

3. **Inadequate communication-** The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.
4. **Lack of Co-ordination-** Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co- ordination is less.
5. **Authority leadership-** The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

3.6.2 Staff organization

Staff organization is a modification of line organization and it is more complex than line organization. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives.



Features of Line and Staff Organization

1. Line and Staff Organization is a compromise of line organization. It is more complex than line concern.
2. Division of work and specialization takes place in line and staff organization.
3. The whole organization is divided into different functional areas to which staff specialists are attached.
4. Efficiency can be achieved through the features of specialization.
5. Power of command remains with the line executive and staff serves only as counselors.

Merits of Staff Organization

1. **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two.
2. **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need.

3. **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands.
5. **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, and the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas.
6. **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials.
7. **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co- ordination. This relationship automatically ends up the line official to take better and balanced decision.
8. **Unity of action-** Unity of action is a result of unified control. Control and its affectivity take place when co- ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions.

3.6.3 Demerits of Line and Staff Organization

1. Lack of understanding
2. Lack of sound advice.
3. Line and staff conflicts.
4. Costly.
5. Assumption of authority.
6. Staff steals the show

3.6.4 Line & Staff Conflict

Line Department Complains that

- The staff people encroach upon their authority
- The advice given by staff people is mostly academic and unhelpful for production goals.
- When project is unsuccessful, it is the line people who are blamed and held responsible for its failures but when it is successful, the staff people receive the Credit
- Staff people fail to see the whole picture

Staff Department complains that

- Line people are generally ignorant and resist new ideas
- Line People distrust and non-cooperate staff plans
- Staff has not enough authority to translate its advice into action
- Line department receive preferential treatment in matters of staff allowances and other facilities

3.7 DELEGATION OF AUTHORITY

The assignment of authority to another person to carry out specific duties is called delegation of Authority.

In the Louis. A .Allen, "if the manager requires his subordinates to perform the work, he must entrust him with part of his rights and powers which he otherwise would have to exercise himself to get that work done"

Elements of Delegation

1. **Authority** - Authority must be well- defined. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority. Delegating the authority to someone else doesn't imply escaping from accountability.
2. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. Responsibility flows from bottom to top. The person held responsible for a job is answerable for it.
3. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated.

Advantages of Effective Delegation

- It relieves the manager of his heavy workload
- It leads to better decision
- It speeds up decision making
- It helps train subordinates and builds morale
- It serves as compensation to those employees who face the prospect of limited advancement.
- It helps create a formal Organisation Structure

Barriers to Effective Delegation

On the Manager's Side

- Fear of loss of Power
- The "I can do it better myself" fallacy
- Lack of confidence in subordinates
- Fear of being exposed
- Difficulty in briefing

On the Subordinate's Side

- Fear of Criticism
- Lack of Adequate information
- Lack of Self-confidence and initiatives
- No positive personal gains

Guidelines for Effective Delegation

- Before delegating, make the nature and task clear
- Assign authority proportionate to task
- Make the subordinates clearly understand the limits of his authority
- Subordinates should be given positive incentives for accepting the responsibility
- Subordinates should be trained Properly
- Create a climate of mutual trust and goodwill
- Do not make the subordinate accountable to more than one superior
- Let there be no overlaps or splits in delegation

3.8 CENTRALIZATION AND DECENTRALIZATION

Centralization

Centralization is the degree to which decision making is concentrated at a single point in the organization. Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders

Advantages of Centralization:

- Coordination of activities of subordinates is better achieved
- No duplication of efforts or resources
- Decisions take into account the interest of the entire organisation
- Strong central leadership develops which may be required in crisis

Factors that Influence the Amount of Centralization

- a. Environment is stable
- b. Lower-level managers are not as capable or experienced at making decisions as upper-level managers
- c. Lower-level managers do not want to have a say in decisions
- e. Decisions are significant
- f. Organization is facing a crisis or the risk of company failure
- g. Company is large
- h. Effective implementation of company strategies depends on managers retaining say over what happens

Decentralization of Authority

The degree to which lower-level employees provide input or actually make decisions is called Decentralization. There will be Employee Empowerment which Increases the decision-making discretion of employees

Distinction Between Delegation and decentralisation	
Delegation	Decentralisation
<p>1. It is a process.</p> <p>2. It mainly refers to the granting of authority and creation of responsibility as between one individual and another</p> <p>3. In delegation, a superior continues to be responsible for the work delegated to his subordinates</p> <p>4. Delegation is vital and essential</p>	<p>1. It is the end result of delegation and dispersal of authority</p> <p>2. It is the situation which exists as a Result of systematic delegation of authority throughout the organisation</p> <p>3. In Decentralisation, the superior is relieved from his responsibility for the work decentralised</p> <p>4. Decentralisation is optional</p>

Advantages of Decentralization

- It reduces problem of communication and Red tape
- It permits quicker and better decision making
- Employees are able to exercise more autonomy
- It leads to competitive climate within the organisation
- It ensures the development of employees
- It facilitates diversification of products, activities and market

Factors determining the amount of Decentralization

- Size of the Organisation
- History and age of the organisation
- Philosophy of Top Management
- Abilities of lower level managers
- Strategy and the Organisation's environment
- Nature of Management Functions
- Available Controls
- Costliness and significance of decisions

3.9 STAFFING

Selecting and training individuals for specific job functions and charging them with the associated responsibilities are called Staffing.

Staffing is defined as “Filling and keeping filled, positions in the organization structure” This process is done by ten concepts.

Sub-functions of Staffing

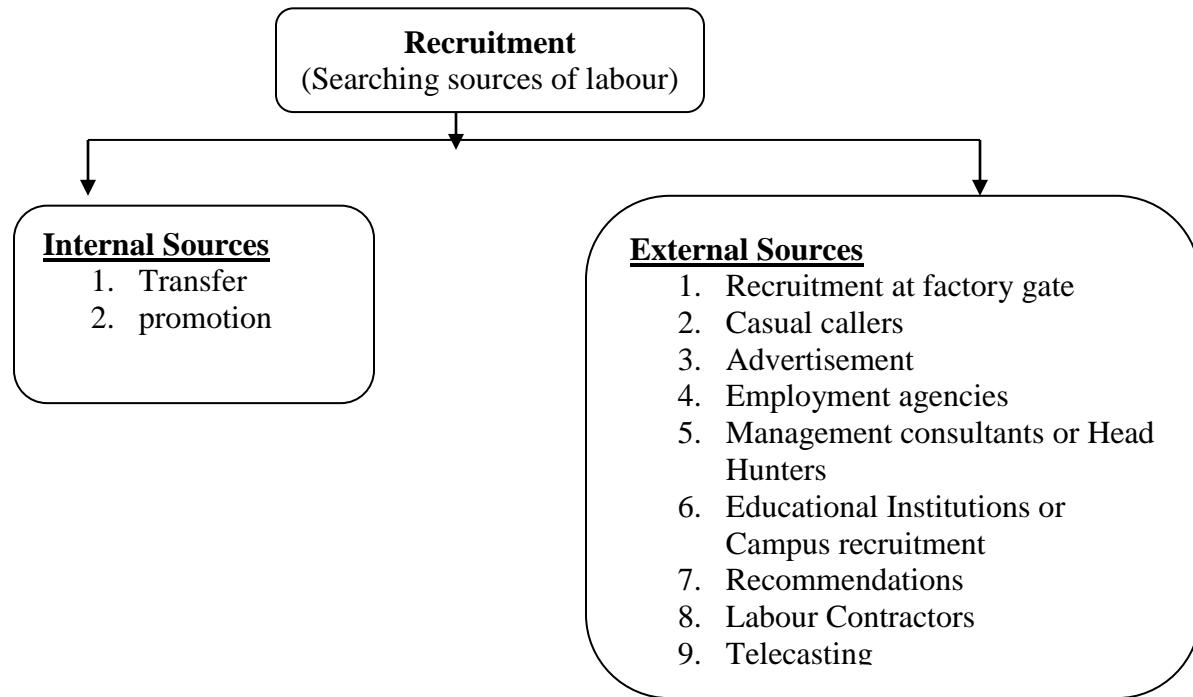
- Recruitment
- Selection
- Training
- Performance appraisal
- Administration of Compensation plans

Importance & Need for Proper Staffing

- Helps in discovering talented & competent workers
- Ensures greater production by putting the right man in the right job
- Helps to avoid sudden disruption of an enterprise 's production
- Helps to prevent under-utilization of personnel
- Helps in Internal succession of managerial personal

3.9.1 RECRUITMENT

According to Edwin B. Flippo “ **Recruitment** is the process of searching the candidates for employment and stimulating them to apply for jobs in the organization”



Internal Sources is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees.

1. **Transfer:** It involves the shifting of an employee from one job to another, one department to another or from one shift to another.
2. **Promotion:** It leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay.

External Recruitment: External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money.

1. **Recruitment at factory gate:** This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. The practice of this recruitment is for filling casual vacancies requiring unskilled workers. Such workers are known as casual or “badli” workers, and they are paid remuneration on daily-wage basis.
2. **Casual Callers or Unsolicited Applicants:** Many job seekers visit the office of well-known companies on their own. Such callers are considered nuisance to the daily work routine of the enterprise. But sometimes, they can help in creating the talent pool or the database of the probable candidates for the organization.
3. **Advertisement:** It is an external source which has got an important place in recruitment procedure. The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Medium used is Newspapers and Television.
4. **Employment Agencies:** There are certain Employment exchanges which are run by government. Most of the government undertakings and concerns employ people through such exchanges. Now-a-days recruitment in government agencies has become compulsory through employment exchange.
5. **Management Consultants or Head Hunters:** Help to recruit technical, professional & managerial personnel for example accountants, engineers. They specialize in middle level & top level executive placements. They maintain data bank of persons with different qualifications & skills & even advertise jobs on behalf their clients to recruit right type of personnel.
6. **Educational Institutions:** School, colleges & professional institutions offer opportunities for recruiting their students. Prospective employers verify credentials of students & conduct interview directly, placement cells have been set up in well known educational institutions to help students in securing suitable jobs.
7. **Recommendations or Referrals:** There are certain people who have experience in a particular area. They enjoy goodwill and a stand in the company. There are certain vacancies which are filled by recommendations of such people. The biggest drawback of this source is that the company has to rely totally on such people which can later on prove to be inefficient.
8. **Labour Contractors:** These are the specialist people who supply manpower to the Factory or Manufacturing plants. Through these contractors, workers are appointed on contract basis, i.e. for a particular time period.

Example – Construction Industry

9. Telecasting: The practice of telecasting of vacant posts over T.V. (Doordarshan & other channels) is gaining importance these days. Special programmes like ‘Job Watch’, ‘Youth Pulse’, ‘Employment News’ etc, over T.V. have become quite popular in recruitment for various types of jobs. The use of T.V. as a source of recruitment is less as compared to other sources because it is an expensive medium.

Internal recruitment	External recruitment
1. It is a quick process, since, it involves search of candidates from within the organization	1. It is a lengthy process, since, it involves search of candidates from outside the organization
2. This process is cheaper	2. This process is costly
3. The existing staff members are motivated to improve their performance	3. The workers feel dissatisfied if external sources are used
4. Choice of candidates is limited	4. This brings new people and new ideas into the enterprise.

ADVANTAGES AND DISADVANTAGES OF INTERNAL RECRUITMENT

Advantages

- a. A sense of security develops among the employees
- b. Employees remain loyal to the organization
- c. People recruited from within the organization do not need induction training
- d. Labour turnover is reduced
- e. People are motivated to become efficient
- f. A better employer-employee relationship is established.

Disadvantages

- a. The method limits the choice of selection to a few candidates
- b. It may encourage favouritism and nepotism
- c. It may lead to “inbreeding”, resulting in promotion of people who have developed a respect for the tradition and who have no new ideas of their own
- d. If a concern is extending its activities into new lines, internal candidates may prove unsuitable for new positions.

ADVANTAGES AND DISADVANTAGES OF EXTERNAL RECRUITMENT

Advantages

- a. Under this method, new blood brings with it a fresh outlook, originality and new ideas.
- b. This field of choice becomes very wide.

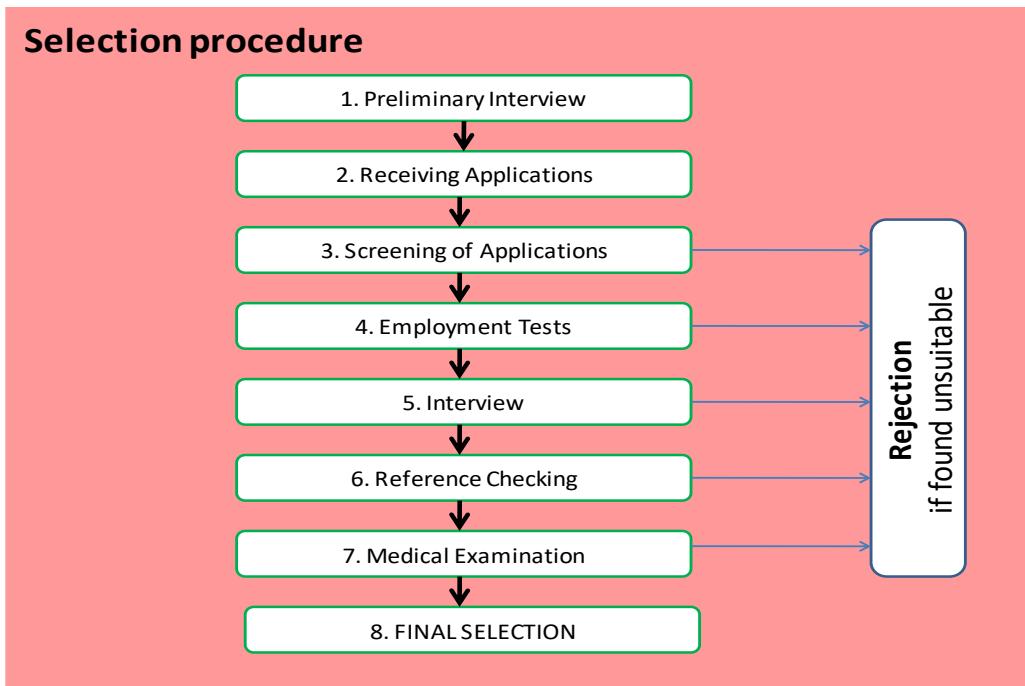
Disadvantages

- a. External Recruitment generally feel frustrated and their morale is adversely affected
- b. The present employees may lose their sense of security and become disloyal to the employer
- c. There is a greater turnover of labour
- d. There is deterioration in the employer-employee relationship.

3.9.2 SELECTION

Selection is the process of choosing from among the candidates, from within the organization or from the outside organization the most suitable person for the current position or for future positions.

Selection involves a series of steps by which the candidates are screened for choosing the most suitable persons for vacant posts.



- 1. Preliminary Interview:** The preliminary interview is generally brief and does the job of eliminating the totally unsuitable candidates. Candidates who pass this crude screening are usually asked to fill in the application blank available with the employment office of the organization.
- 2. Receiving Applications**
 - Applications give a preliminary idea about the candidate to the interviewer and helps in formulating questions to have more information about the candidate.
 - The written information about age, qualifications, experience, etc., may prove to be of greater value to the interviewers.
 - It makes the processing of applications very easy since there is uniformity of filling the data in the application form.
- 3. Screening of Applications**
 - After the applications are received, they are screened by a screening committee and a list is prepared of the candidates to be interviewed.

- The number of candidates to be called for interview is normally five to seven times the number of posts to be filled up.
- The screened applications are then reviewed by the personnel manager and interview letters are dispatched by registered post or under certificate of post.

4. Employment Tests

- Employment tests are widely used for judging the applicant's suitability for the job. They bring out the qualities and weaknesses of individuals which could be analyzed before offering those jobs.
- Intelligence tests, Trade or Proficiency tests, Personality tests, Aptitude tests, and Interests tests.
 - i. **Intelligence tests:** These tests are used to judge the mental capacity of the applicants.
 - ii. **Aptitude tests:** Aptitude tests measure an applicant's capacity and his potential for development.
 - iii. **Trade or Proficiency tests:** Proficiency tests are those which are designed to measure the skills already acquired by the individuals.
 - iv. **Interest's tests:** This test identifies the areas in which the individual shows special concern, fascination and involvement.
 - v. **Personality tests:** Personality tests probe the qualities of the personality as a whole, the combination of aptitude, interest and usual mood and temperament.

5. Interview

According to Jucius Michael, “An interview is a face to face, oral observational and personal appraisal method”.

The main purpose of an employment interview are,

- To find out the suitability of the candidate,
- To seek more information about the candidate, and
- To give him an accurate picture of the job with details of terms and conditions and some idea of organization's policies.

Forms of interviews

- Patterned or structured interview
- Unstructured or Non-directed interview
- Preliminary or background Information interview
- Stress interview
- Group interview

6. Reference Checking

- A referee is potentially an important source of information about a candidate's ability and personality if he holds a responsible position in some organization or has been the boss or employer of the candidate.

- Prior to final selection, the prospective employer normally makes an investigation on the references supplied by the applicant and undertakes more or less a thorough search into the candidate's past employment, education, personal reputation, financial condition, police record, etc.,

7. Medical Examination

A proper medical examination will ensure the rates of accident, labour turnover, and absenteeism.

8. Final Selection

After a candidate has cleared all the hurdles in the selection procedure, he is formally appointed by issuing him an appointment letter or by concluding with him a service agreement.

3.9.3 ORIENTATING AND SOCIALIZING NEW EMPLOYEES

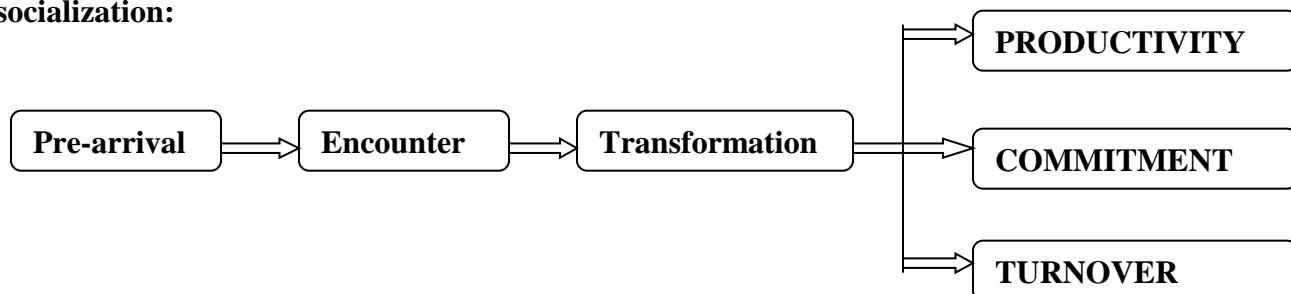
Orientation: Orientation or induction is an important part of the process of socialization of a new organizational member or employee.

Edwin B. Flippo has defined induction or orientation as the welcoming process to make the new employee feel at home and generate in him a feeling of belongingness to the organization.

Socialization: (Familiarization with the organizational culture)

- ❖ Socialization is a process of adaptation by which employees are able to understand the basic values, norms and customs for becoming the accepted members of the organization and assuming organizational values.
- ❖ People who do not learn to adjust with the culture of organization are labelled as 'rebels'. Or 'non-conformists' and may even be turned out of the organization.
- ❖ **Socialization performs two functions,**
 - (i) it creates uniform behavior in members, increases understanding, reduces conflicts, etc., and
 - (ii) it reduces role ambiguity of employees as they will come to know what is expected of them

Socialization Process Maanen and Schein have conceptualized three stages in the process of socialization:



1. Pre-arrival Stage

- It denotes the period of learning in the socialization process that occurs before a new worker joins the organization.
- The new worker has a set of values, beliefs, attitudes and expectations. Such factors must be taken care of at the selection stage.
- Those types of people should be selected who might be able to fit into the organization's culture.
- The candidates must be made aware of the organization's values and expectations during the selection process so that the chances of wrong selection are reduced to the minimum.

2. Encounter Stage

- The new employee enters this stage when he joins the organization. He comes to know what the organization is really like and may find divergence between his expectations and those of the organization.
- If this is so, the new employee must undergo socialization that will detach him from his helpful in many of the cases.
- But if the employee is not able to change his expectations and adapt to the requirements of the organization, he might have to leave the organization.

3. Metamorphosis or Transformation

- Under this stage, the real transformation in the new employee takes place.
- He adjusts to his work-group's values and norms and becomes comfortable with the organization and his job. His internalization of organization's culture wins him acceptability among his colleagues and creates confidence in him.
- This makes him a contended employees and he likes the place of work and enjoys the company of his colleagues. As a result, he will feel committed to the organization and his productivity will increase. His search for job elsewhere will also come to end.
- If in case the employee is not able to adapt himself to the organization culture, the result may be low productivity, lack of commitment and even exit from the organization.

The range of information that may be covered under orientation training is as follows,

1. Company's History
2. Products of the company
3. Company's organization
4. Location of departments
5. Personnel policies
6. Employees' Activities
7. Rules and Regulation
8. Safety
9. Standing Orders
10. Counseling Service
11. Job Routine
12. Special training

3.9.4 CAREER PLANNING AND DEVELOPMENT

Career is the sequence of positions occupied by a person during the course of a lifetime. Twenty years ago, career development programs were designed to assist employees in advancing their work lives, to provide the information and assessment needed to help realize career goals. Today, the individual not the organization is responsible for his or her own career.

Career Planning: It is the process by which one selects career goals and the path to those goals.

Career Development: It denotes the personal actions one undertakes to achieve the career goals.

Career Development involves the following steps:

1. **Challenging Initial Jobs:** Generally employees who receive challenging job assessments early in their careers do a better on later jobs.
2. **Dissemination of career option Information:** As managers identify career paths that successful employees should follow, within the organisation, they should make this information available to the employees.
3. **Job Postings:** To provide information to all employees about job openings, management can use job postings. It lets employees know what jobs are available and, for future reference, what requirements they will have to fulfill to achieve the promotions to which they may aspire.
4. **Assessment Centers:** By putting people through assessment centers, managers can obtain observable evidence of their ability to do certain jobs.
5. **Continuing Education and Training:** The education and training in an effective development program could include on-the-job training, educational or skill courses, etc.
6. **Career Development workshop:** By bringing together groups of employees with their supervisors and managers, problems and misconceptions can be identified and resolved.
7. **Periodic Job Changes:** Job changes can take the form of vertical promotion, lateral transfer of assignment.
8. **Sabbaticals (Leave granted at Intervals):** An extended leave can allow time for attending executive development conferences, uninterrupted reading, accepting a visiting lectureship at a university, or other such activities that may enhance ones career development.

CAREER STAGES

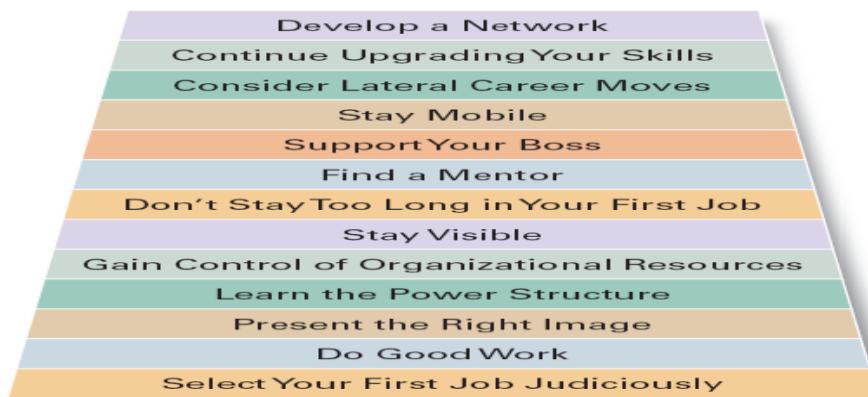
The career stages include:

1. **Assessment:** It is to learn about yourself, your interest and your abilities
2. **Research:** Learn as much as you can about a variety of career; investigate what is available and what preparation is needed.
3. **Career Development Plan:** Develop personal and career objective.

4. **Education and Training:** Investigate option for education and Training, Enroll in complete necessary training
5. **Apply for Jobs:** Learn the skill to seek and keep a job
6. **Career/ Life Planning:** Review periodically where you are and where you want to be and make changes needed.



SUGGESTIONS FOR A SUCCESSFUL MANAGEMENT CAREER



3.9.5 TRAINING

Meaning: In simple words it can be defined as equipping employees with required knowledge and skills for the job.

Definition: According to Edwin B. Flippo, “Training is the act of increasing the knowledge and skills of an employee for doing a particular job”.

WHY TRAINING? / Need for Training

- Dynamic Business Environment

- Quality conscious customers
- Stable workforce
- Increased safety
- Better management
- Technological Advances

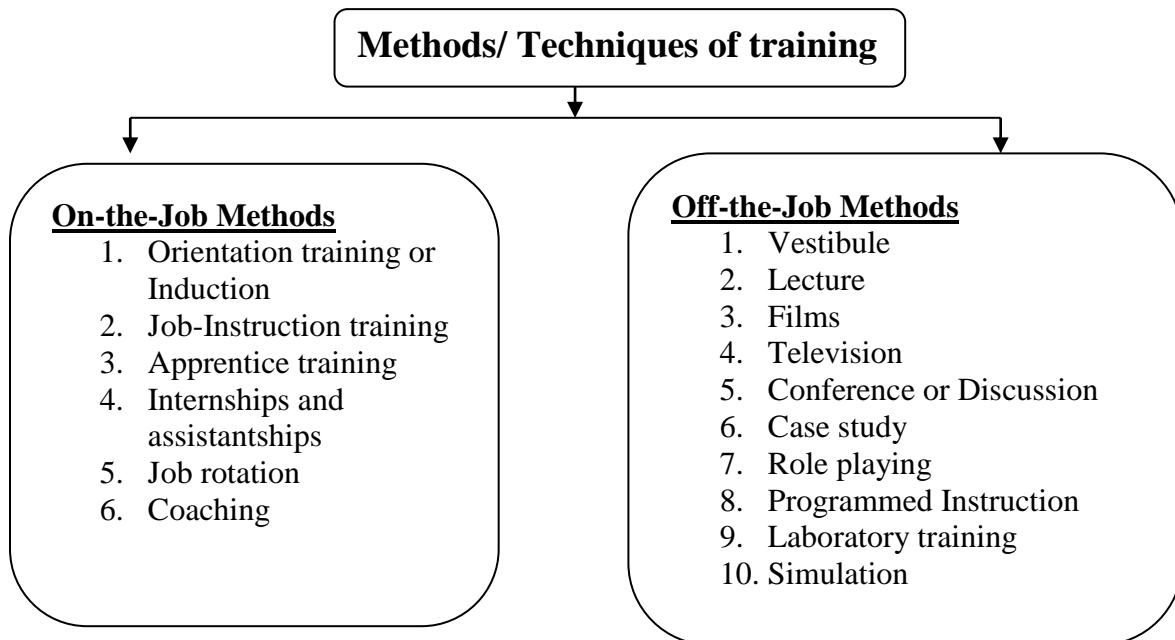
Objectives of Training

- To increase the knowledge of workers in doing specific jobs.
- To impart new skills among the workers systematically so that they learn quickly.
- To bring about change in the attitudes of the workers towards fellow workers, supervisor and the organization.
- To improve the overall performance of the organization
- To make the workers handle materials, machines and equipment efficiently and thus to check wastage of time and resources.
- To reduce the number of accidents by providing safety training to workers.
- To prepare workers for higher jobs by developing advanced skills in them.

Advantages of Training

1. It helps in improving the quality of a workers output
2. It enables the worker to make the most economical and best use of materials and equipment.
3. It develops the worker effective work habits and methods of work
4. It instructs the worker towards better job adjustments
5. It makes the worker committed and loyal to the organization

Methods of Training



ON THE JOB TRAINING

1. Orientation training or Induction

- Induction is concerned with introducing or orienting a new employee to the organization and its procedures, rules and regulations.
- It creates a feeling of involvement in the minds of newly appointed employees.

2. Job-Instruction training

It is a Step by step (structured) training method in which a trainer

- Prepares a trainee with an overview of the job, its purpose, and the results desired,
- Demonstrates the task or the skill to the trainee,
- Allows the trainee to mimic the demonstration on his or her own, and
- Follows up to provide feedback and help.

3. Apprentice training

- Apprenticeship is a system of training a new generation of practitioners of a skill.
- Apprentices or protégés build their careers from apprenticeships. Most of their training is done while working for an employer who helps the apprentices learn their trade, in exchange for their continuing labor for an agreed period after they become skilled.
- Theoretical education may also be involved, informally via the workplace and/or by attending vocational schools while still being paid by the employer.

4. Internships and assistantships

- These are usually a combination of classroom and on-the-job training. They are often used to train prospective managers or marketing personnel.
- Many colleges and universities try to develop agreements with organizations to provide internships opportunities for students.

5. Job rotation

- It is a job design technique in which employees are moved between two or more jobs in a planned manner.
- The objective is to expose the employees to different experiences and wider variety of skills to enhance job satisfaction and to cross-train the

6. Coaching

- Coaching is often considered a responsibility of the immediate boss who has greater experience or expertise and is in the position to offer sage (wise) advice.

- The same is true with a mentor, but this person may be located elsewhere in the organization or even in another firm. The relationship may be established formally or it may develop on an informal basis.

OFF THE JOB TRAINING

1. Vestibule

- Training takes place away from the production area on equipment that closely resembles the actual equipment used on the job.
- Training takes place away from the work environment.
- The trainee is then permitted to learn under simulated conditions, without disrupting ongoing operations.

2. Lecture

- It is traditional method of teaching and is used in many training programs.
- The Lecture is an efficient means of transmitting large amounts of factual information to a relatively large number of people at the same time.
- A skilled lecture can organize material and present it in a clear and understandable way. However a lecture doesn't allow active participation by learners.

3. Films

- Content for the training experience comes primarily from a videotape or computer-based program.
- Interest of the audience can be maintained by showing them audio visuals
- Easy to handle and explain
- Provides a lot of content to talk about

4. Role playing

- Role playing generally focuses on emotional issues rather than actual ones.
- The essence of role playing is to create a realistic situation, as in case study, and then have the trainee assume the parts of specific personalities in the situation.
- For example, a male worker may assume the role of a female supervisor, and the supervisor may assume the role of a male worker. Then, both may be given a typical work situation and asked to respond as they expect others to do.

5. Programmed Instruction

- This is a method where training is offered without the intervention of a trainer. Information is provided to the trainee in blocks, either in a book of thought or a teaching material. After reading each block of material, the learner must answer question about it.
- Feedback in the form of correct answers is provided after each response.

6. Laboratory training

- This is conducted for groups by skilled trainers.
- It is usually conducted at a neutral site and is used by upper- and middle management trainees to develop a spirit of teamwork and an increased ability to deal with management and peers.
- It can be costly and usually is offered by larger small businesses.
- Most of research and development institutes are used this method and this will be the most effective training type to such kind of institutes.

7. Case study

- Under this method, the trainees are given a problem or case which is more or less related to the concepts and principles already taught.
- They analyze the problem and suggest solutions which are discussed in the class.
- This method gives the trainee an opportunity to apply his knowledge to the solution of realistic problem.

8. Television

- These can be used to provide a wide range of realistic examples of job conditions and situations in the condensed period of time.
- The quality of the presentation can be controlled and will remain equal for all training groups.
- It is a one-way system of communication with no scope for the audience to raise doubts for clarification.

9. Conference or Discussion

- Conference implies sharing some information with an audience of a large number of people.
- It is conducted in a big hall where the participants are allowed to exchange their views and raise queries.
- The proceedings of the conference are conducted by the chairman who is also responsible for summing up the proceeding of the conference.

10. Simulation

- Simulated training is a method in which trainees learn on the actual or simulated equipment they will use in the job, but are actually trained off the job
- Trainees participate in a reality-based, interactive activity where they imitate actions required on the job.
- It is necessary when it is too costly or dangerous to train employees on-the-job such as in airplane pilot training

PROCESS/PROCEDURE OF TRAINING

1. Determining training needs of employee: In the very 1st step of training procedure, the HR department, identifies the number of people required training, specific area in which they need training, the age group of employee, the level in organization etc. in some cases the employee may be totally new to the organization.

2. Selecting target group: Based on information collected in step 1 the HR department divides employee into groups based on the following.

- i. Age group
- ii. The area of training
- iii. Level in the organization
- iv. The intensity of training etc.

3. Preparing trainers: Once the employees have been divided into groups, the HR department arranges for trainers. Trainers can be in house trainers or specialized trainers from outside.

4. Preparing training packages: Based on the information provided by trainers, he prepares entire training schedule i.e. number of days, number of sessions each day, topics to be handled each day, depth of which the subject should be covered, the methodology for each session, the test to be given for each session, handout/printed material to be given in each session.

5. Presentation: On the first day of training program the trainer introduces himself and specifies the need and objective of the program and then actually starts the program. The performance of each employee is tracked by the trainer and necessary feedback is provided.

6. Performance:

- At the end of training program the participants report back to their office or branches.
- They prepare report on the entire training program and what they have learned. They start using whatever they have learned during their training.
- Their progress and performance is constantly tracked and suitable incentives are given if the participant is able to use whatever he has learned in training.

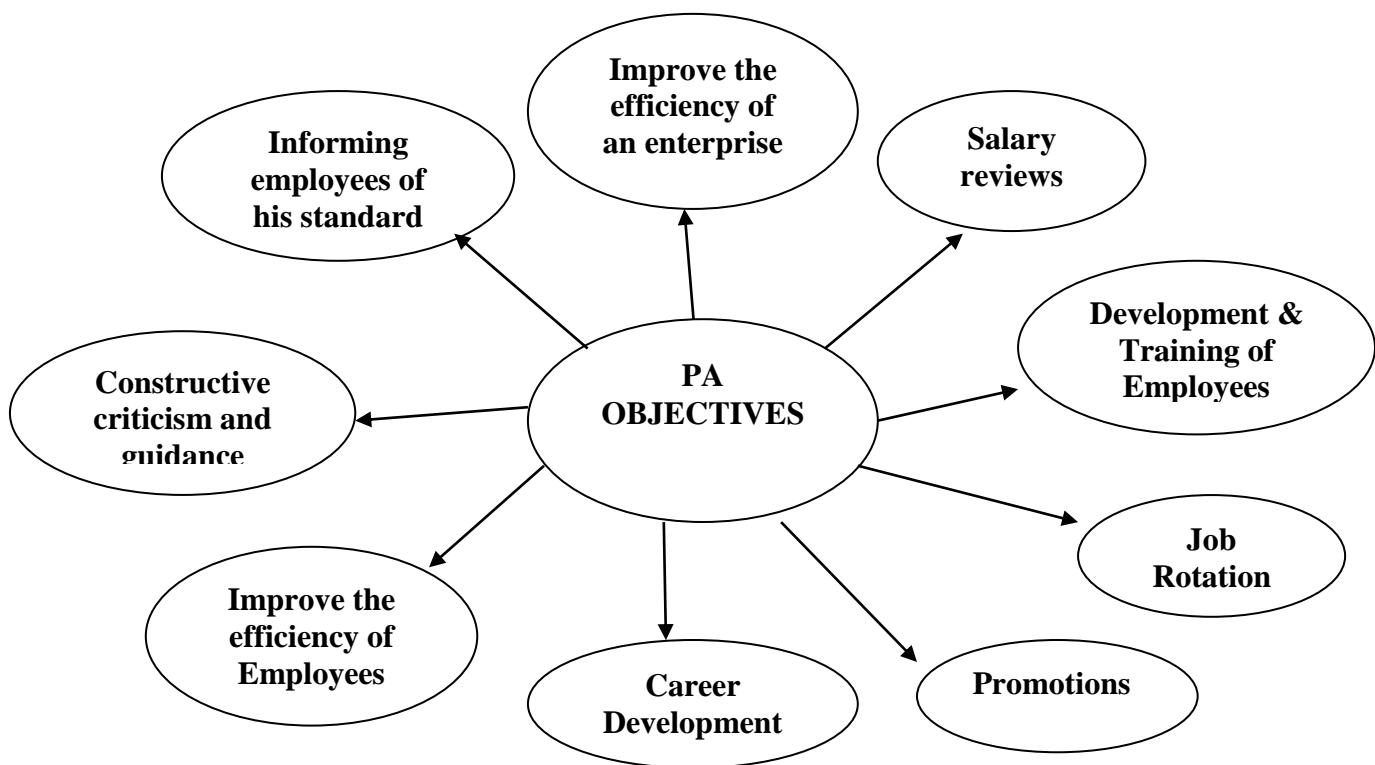
7. Follow up: Based on the employee performance, after training, the HR department is able to identify what is exactly wrong with training program and suitable correction is made.

3.9.6 PERFORMANCE APPRAISAL

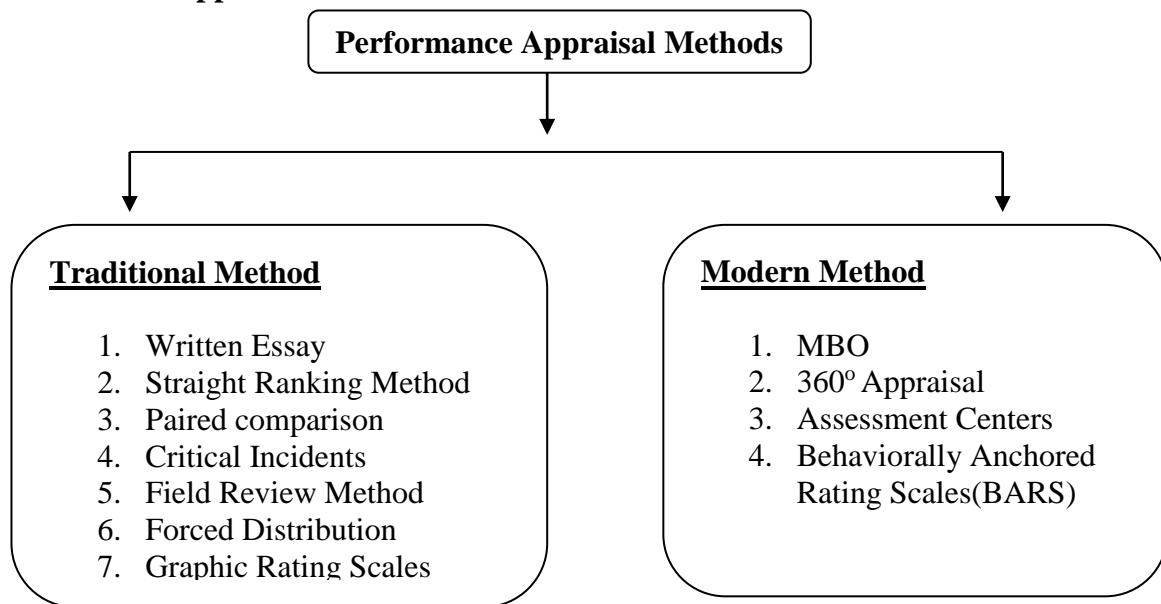
Performance management system is a process of establishing performance standards and evaluating performance in order to arrive at objective human resource decisions and to provide documentation to support personnel actions.

“Any system of determining how well an individual employee has performed during a period of time, frequently used as a basis for determining merit increases.”

Objectives of Performance Appraisal



Performance Appraisal Methods



Traditional Methods

1. **Written Essay:** It requires no complex forms or extensive training to complete. However, a good or bad appraisal may be determined as much by the evaluators writing skill as by the employee's actual level of performance.
2. **Straight Ranking Method:** The oldest and simple method of performance appraisal is to compare one man with all other men and place him in a simple rank order.
3. **Paired comparison:** In this method the rater compares each man in his group with every other man, with the final ranking of each worker determined by the number of times he was judged better than the others.

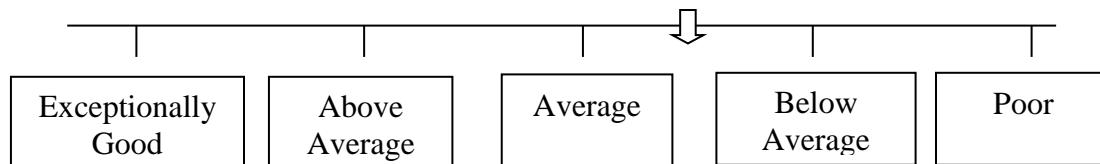
Number of Comparison= $(N(N-1))/2$, (Where, N stands for the number of men to be rated.)

4. **Critical Incidents:** It focuses on the evaluator's attention on those critical or key behaviors that separate effective from ineffective job performance. The key here is that only specific behaviors are cited, not vaguely defined personality traits.
5. **Field Review Method:** Appraisal of work is done by the personnel officer by collecting oral ratings about them from the supervisor at the place of work. The personnel officer later writes his notes and invites the supervisors to make additions or corrections.
6. **Forced Distribution:** A forced choice rating form consists of a number of statements which describe an individual being rated. These statements are grouped in twos, threes, or fours. The rater makes two checks in each group, one for the statement which best describes the individual and one for the statement which is least descriptive. The rater is compelled to check a "most" and a "least" in each group, hence the term "forced choice".
7. **Graphic Rating Scales:** One of the oldest and most popular methods of appraisal is by graphic rating scales. This method lists a set of performance factors such as quality and quantity of work, job knowledge, cooperation, loyalty, attendance, honesty, and initiative. The evaluator then goes down the list and rates each factor on an incremental scale.

It can be Discrete or Continuous

Discrete- In rating the characteristic, "**Job Knowledge**" the option can be "Exceptionally Good", "Above average", "Average", "Below Average" and "Poor". And the rater has to check any of these.

Continuous- In this the rater can tick at any point along its length as shown below



Modern Method

1. **MBO:** the basic ingredient in the MBO process is a meeting between an individual manager and his boss, at the start of the appraisal period, during which the objectives are set. They decide:

- a. The task to be accomplished by the manager
- b. The period of time that will be allowed, and
- c. The basis on which progress will be judged.

When the established time period is up, they meet again. In the second meeting they review accomplishments and set further objectives for the future, thereby starting the process all over again.

2. **Behaviorally anchored rating scales (BARS):** This approach has received renewed attention. These scales combine major elements from the critical incident and graphic rating scale approaches. The appraiser rates an employee according to items along a numerical scale, but the items are examples of actual behavior on a given job rather than general description or traits.
3. **360^o Appraisal:** It is an appraisal device that seeks performance feedback from such sources as the person being rated, bosses, peers, team members, customers, and suppliers. It's behind used in approximately 90 percent of the Fortune 1000 firms, which include such companies as General Electric, UPS, DuPont, etc.

Research studies into the effectiveness of 360^o performance appraisals are reporting positive results from more accurate feedback, empowering employees, reducing the subjective factors in the evaluation process, and developing leadership in an organization.

S. No	Methods	Advantage	Disadvantage
1	Written Essay	Simple to use	More a measure of evaluators writing ability than of employees actual performance
2	Critical Incidents	Rich examples behaviorally based	Time-consuming; lack quantification
3	Graphic Rating Scales	Provide quantitative data; less time consuming than others	Do not provide depth of job behavior assessed
4	BARS	Focus on specific and measurable job behaviors	Time-consuming; difficult to develop measures
6	MBO	Focuses on end goals; result oriented	Time-consuming
7	360^o Appraisal	More thorough	Time-Consuming

Performance Appraisal Process

1. Establish Performance Standards
2. Communicate Expectations to Employees
3. Measure Actual Performance
4. Compare actual with standards
5. Discuss the appraisal with the employee
6. Initiate Corrective Action

CHAPTER – 4

DIRECTING

4.1 DIRECTING - BASIC CONCEPTS

4.1.1 DEFINITION

Directing is a vital managerial function. Planning, organizing and staffing are concerned only with the preparation for work performance and it is the direction which alone stimulates the organization and its staff to execute the plans. Hence it is also called **management-in-action**. According to Haimann, “Directing consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned.” According to Koontz and O’Donnell, “Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives”.

The function of direction thus breaks down into two major activities:

- a. Giving orders to employees, and
- b. Leading and motivating them.

4.1.2 CHARACTERISTICS OF DIRECTING

- a) It consists of *HUMAN FACTORS*
- b) *INSEPARABLE* from other functions
- c) Performed at *ALL LEVELS*
- d) *RESULT* oriented
- e) Follows *CHAIN OF COMMAND*
- f) It is a *CONTINUOUS PROCESS*
- g) It includes *PLANNING, ORGANIZING, STAFFING etc*
- h) It aims at *GETTING WORK DONE* by the subordinates
- i) *MOTIVATION, LEADERSHIP & COMMUNICATION* are the elements in directing
- j) Directing motivates individuals to *BRING CHANGES*
- k) Directing combines the employee's individual efforts to *MAKE IT EFFECTIVE*
- l) It Provides *STABILITY*
- m) Efficient *UTILIZATION OF RESOURCE*

4.1.3 REQUIREMENTS OF EFFECTIVE DIRECTION

Some important principles or requirements of effective direction may be outlined as under.

- a. **Harmony of Objectives:** An organization functions best when the goals of its members are in complete harmony with and complementary to the goals of the organization. For E.g., if employees are told to work hard so that the company’s profits may increase, they

probably will not. But if they are told to do so in their own interest (e.g., to receive additional bonus or promotion) they are more likely to work hard.

- b. **Unity of Command:** This principle implies that the subordinates should receive orders and instructions from one superior only. The violation of this principle may lead to conflicting orders, divided loyalties and decreased personal responsibility for results.
- c. **Direct Supervision:** Every superior must maintain face-to-face direct contact with his subordinates. Direct supervision boosts the morale of employees, increases their loyalty and provides them with immediate feedback on how well they are doing.
- d. **Efficient Communication:** Communication is an instrument of direction. It is through communication that the superior gives orders, allocates jobs, explains duties and ensures performance. Efficient communication is two-way process. It not only enables the superior to know how his subordinates feel but also helps the subordinates to know how the company feels on a number of issues concerning them.
- e. **Follow-through:** Direction is not telling subordinates what they should do but also seeing that they do it in the desired way. The manager should therefore, follow through the whole performance of his subordinates.

4.1.4 Importance of Directing

- a) Improves **Relationships**
- b) Provides **Guidance**
- c) Motivates **Employees**
- d) Effective **Control**
- e) Promotes **Efficiency**
- f) Improves **human Relationships**
- g) Adapts **Changes**
- h) Ensures **Growth and stability**

4.2 CREATIVITY AND INNOVATION

Creativity: The ability to combine ideas in a unique way or to make an unusual association

Innovation: It is the process of taking a creative idea and turning it into useful products, services, or work methods of operation.

Systems View of Innovation

Inputs	Transformation	Outputs
Creative individuals, groups, organizations	Creative environment, process, situation	Innovative product(s), work methods

Creativity as Four Fold Process

Some people believe that creativity is inborn; others believe that with training anyone can be creative. The latter group views creativity as a fourfold process consisting of perception, incubation, inspiration, and innovation.

Perception involves the way you see things. Being creative means seeing things from a unique perspective

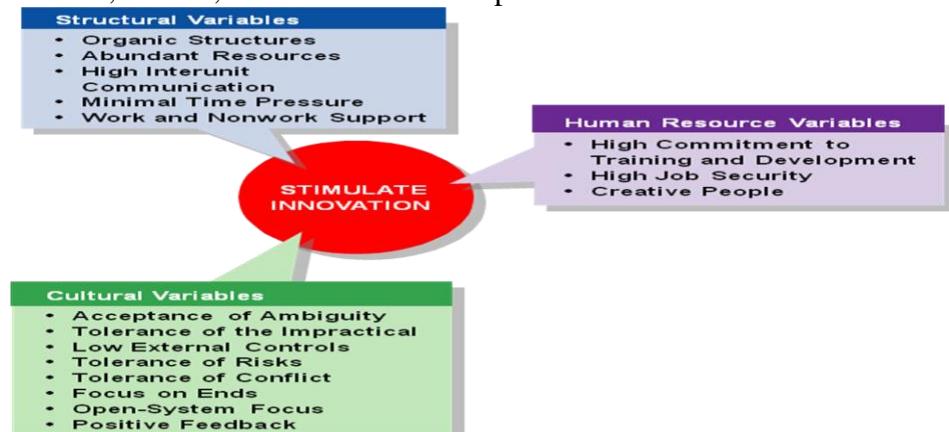
The movement from perception to reality, however, doesn't occur instantaneously. Instead, ideas go through a process of *incubation*. During this incubation period, employees should collect massive amounts of data that are stored, retrieved, studied, reshaped, and finally molded into something new.

Inspiration is the moment when all your efforts successfully come together.

Although inspiration leads to euphoria, the creative work is not complete. It requires an innovative effort. *Innovation* involves taking that inspiration and turning it into useful product, service, or way of doing things.

Variables That Stimulate Innovation

Three sets of variables have been found to stimulate innovation. They pertain to the organizations structure, culture, and human resource practices.



a. Structural Variables

- ✓ Adopt an organic structure
- ✓ Make available plentiful resources
- ✓ Engage in frequent inter unit communication
- ✓ Minimize extreme time pressures on creative activities
- ✓ Provide explicit support for creativity

b. Cultural Variables

- ✓ Accept ambiguity
- ✓ Tolerate the impractical
- ✓ Have low external controls

- ✓ Tolerate risk taking
- ✓ Tolerate conflict
- ✓ Focus on ends rather than means
- ✓ Develop an open-system focus
- ✓ Provide positive feedback

c. Human Resource Variables

- ✓ Actively promote training and development to keep employees' skills current
- ✓ Offer high job security to encourage risk taking
- ✓ Encourage individuals to be "champions" of change

Characteristics of Creative People

- Self confidence
- Curiosity (*interest*)
- Approach to many ideas
- Personal attitudes

4.3 MOTIVATION AND SATISFACTION

Relationship between motive, Motivating and Motivation

Definition of Motive

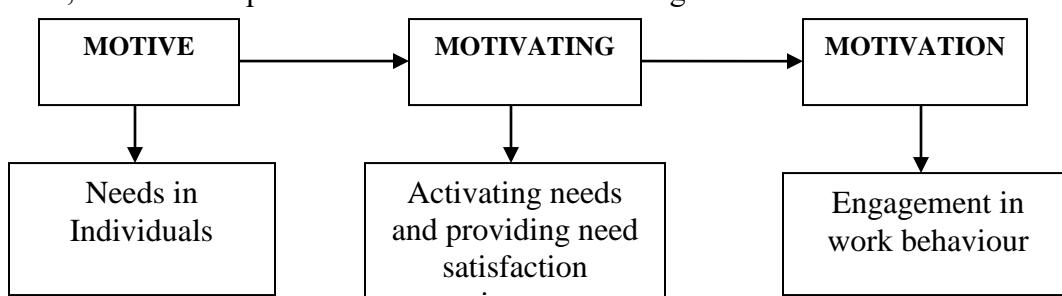
"A motive is an inner state that energises, activates or moves and that directs behaviour towards goals"

Definition of Motivating

It implies that one person, in the organizational context, induces another, say employee, to engage in action by ensuring that a channel to satisfy the motive becomes available and accessible to the individual.

Definition of Motivation

Mc Farland defines" Motivation refers to the way in which urges, drives, aspirations, strivings or needs direct, control or explain the behavior of human beings"



Motivation is the willingness to exert high levels of effort to reach organizational goals, conditioned by the effort's ability to satisfy some individual need

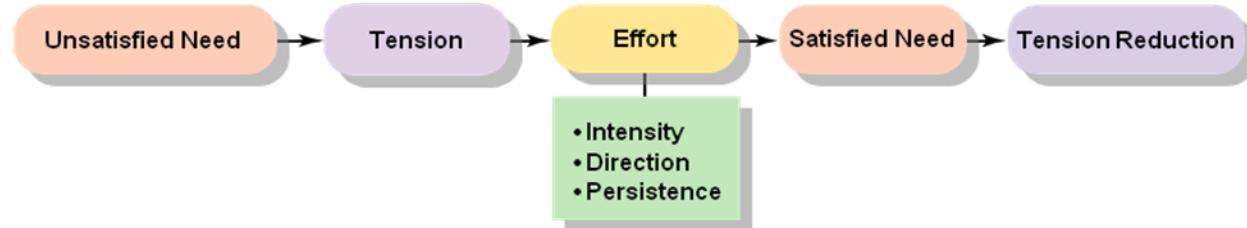
- Effort: a measure of intensity or drive
- Direction: toward organizational goals
- Need: personalized reason to exert effort

Motivation works best when individual needs are compatible with organizational goals

4.3.1 Nature of Motivation

- **Based on motives:** Motivation is based on individuals motives which are internal to the individual. These motives are in the form of feelings that the individual lacks something.
- **Affected by motivating:** Motivation is affected by way the individual is motivated. The act of motivating channelizes need satisfaction.
- **Goal-directed behavior:** Motivation leads to goal directed behavior. A goal directed behavior is one which satisfies the causes for which behavior takes place.
- **Related to satisfaction:** Motivation is related to satisfaction. Satisfaction refers to the contentment experiences of an individual which he derives out of need fulfillment.
- **Person motivated in totality:** A person is motivated in totality and not in part.
- **Complex Process:** Motivation is a complex process; complexity emerges because of the nature of needs and the type of behavior that is attempted to satisfy those needs.

4.3.2 Motivation Process/ the Motivational Framework



4.3.3 Types of motivation

- a. **Extrinsic – ‘tangible rewards’:** (eg. salary, benefits, security, contracts etc) – largely outside of manager’s direct control
- b. **Intrinsic – ‘psychological’ rewards** (can be heavily influenced by manager’s behaviour and actions) (eg. being appreciated, doing challenging work, positive recognition, using one’s ability etc)
- c. **Positive motivation** – participating in GD, pride, power
- d. **Negative motivation** – lay off, pay cut etc

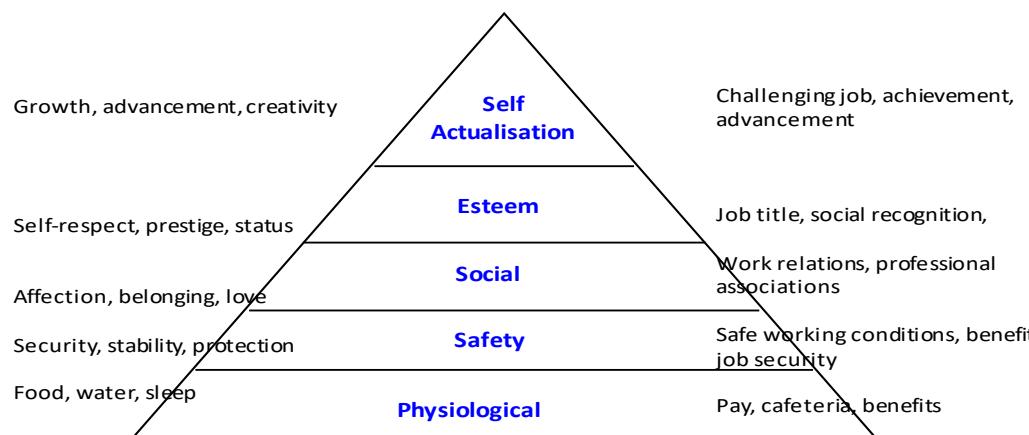
4.4 EARLY THEORIES OF MOTIVATION

4.4.1 Maslow's Hierarchy of Needs Theory

The best known theory of motivation is probably psychologist Abraham Maslow’s hierarchy of needs theory. He stated that within every human being exists a hierarchy of five types of needs:

- a. *Physiological needs*: Food, drink, shelter, sexual satisfaction, and other bodily requirements
- b. *Safety needs*: Security and protection from physical and emotional harm
- c. *Social needs*: Affection, belongingness, acceptance, and friendship
- d. *Esteem needs*: Internal esteem factors such as self-respect, autonomy, and achievement and external esteem factors such as status, recognition, and attention.
- e. *Self-actualization needs*: Growth, achieving one's potential, and self-fulfillment; the drive to become what one is capable of becoming.

Maslow's hierarchy of needs



Assumptions of Maslow theory

- a. Individuals must satisfy lower-order needs before they can satisfy higher order needs
- b. Satisfied needs will no longer motivate
- c. Motivating a person depends on knowing at what level that person is on the hierarchy

Criticisms of Maslow theory

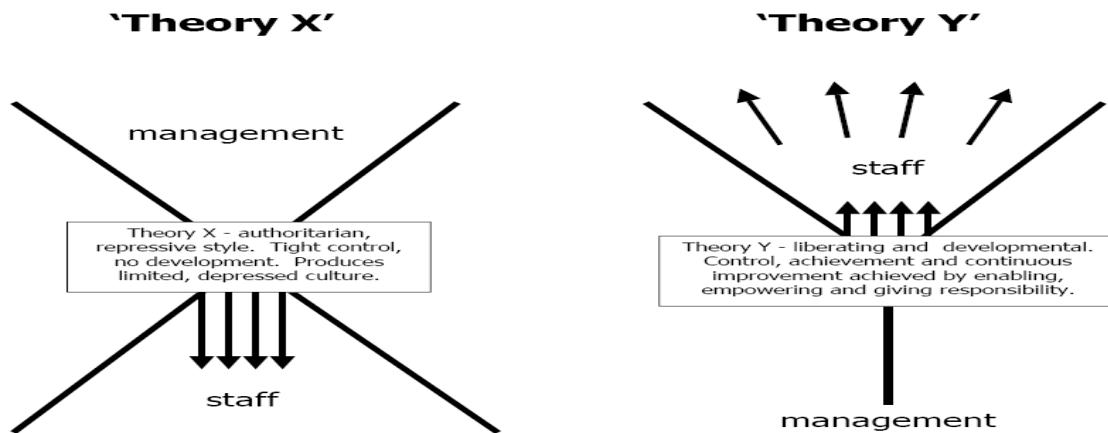
- a. Lack of hierarchical structure of needs as every individual has some ordering of his need satisfaction.
- b. Lack of direct cause-effect relationship between need and behavior.
- c. A person tries for higher- level need when his lower-order need is reasonably satisfied.

4.4.2 McGregor's Theory X and Theory Y

- ✓ Theory X
 - a. Employees have little ambition, dislike work, avoid responsibility, and require close supervision
- ✓ Theory Y

- a. Employees can exercise self-direction, desire responsibility, and like to work

Motivation is maximized by participative decision making, interesting jobs, and good group relations



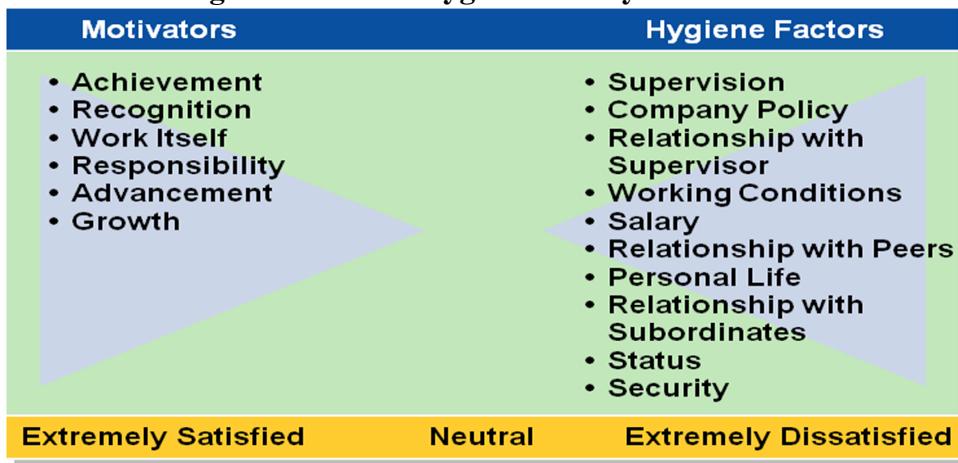
4.4.3 Herzberg's Motivation-hygiene Theory

Job satisfaction and job dissatisfaction are created by different factors

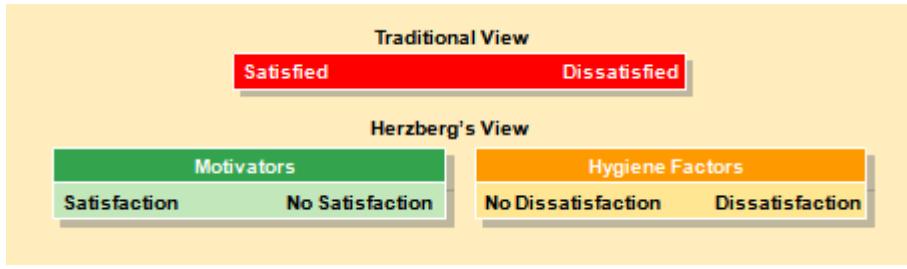
Motivators Factors: intrinsic (psychological) factors like achievement, recognition etc that their presence builds strong motivation and high job satisfaction, but their absence rarely proves strongly dissatisfying. Thus they are called as *dissatisfiers*.

Hygiene factors: extrinsic (environmental) factors that create job dissatisfaction. Herzberg's term for factors, such as working conditions and salary, that when adequate, may eliminate job dissatisfaction but do not necessarily increase job satisfaction. These factors create dissatisfaction when they are absent, however, their presence does not motivate them in strong ways. Thus they are called '*satisfiers*'.

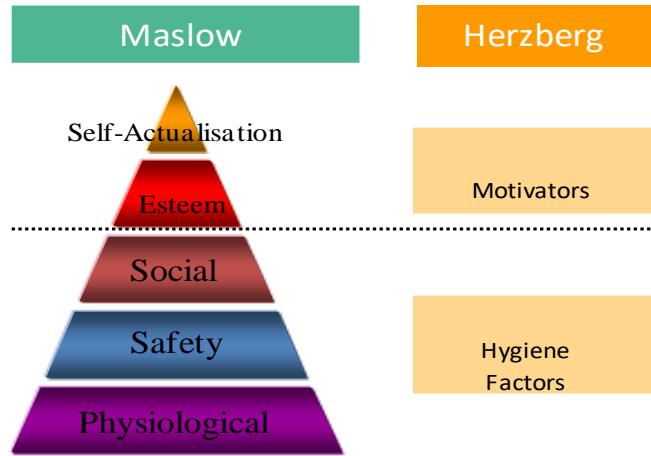
Herzberg's Motivation-Hygiene Theory



Contrasting Views of Satisfaction–Dissatisfaction



COMPARISON OF MASLOW'S AND HERZBERG'S THEORIES



CONTEMPORARY THEORIES OF MOTIVATION

4.4.4 McClelland's Three-Needs Theory

David McClelland and others have proposed the three-need theory, which maintains that there are three major relevant motives or needs in work situation.

- Need for Achievement (nAch):** The drive to excel, to achieve in relation to a set of standards, to strive to succeed.
- Need for Power (nPow):** The need to make others behave in a way that they would not have behaved otherwise.
- Need for affiliation (nAff):** The desire for friendly and close interpersonal relationships.

McClelland's Needs Theory of Motivation



4.4.5 Job Characteristics Model (JCM)

It was developed by J. Richard Hackman and Greg R. Oldham. This is a framework for designing motivating jobs. According to Hackman and Oldham, any job can be described in terms of the following five core job dimensions:

- a. **Skill variety:** The degree to which the job requires a variety of activities so the worker can use a number of different skills and talents.
- b. **Task identity:** The degree to which the job requires completion of a whole and identifiable piece of work.
- c. **Task significance:** The degree to which the job affects the lives or work of other people.
- d. **Autonomy:** The degree to which the job provides freedom, independence, and discretion to the individual in scheduling the work and in determining the procedures to be used in carrying it out.
- e. **Feedback:** The degree to which carrying out work activities required by the job results in the individual's obtaining direct and clear information about the effectiveness of his or her performance.

The job Characteristics Model



The core dimensions can be combined into a single index called the **Motivating Potential Score (MPS)**. The MPS is calculated as follows:

$$\frac{\{ \text{Skill variety} + \text{Task identity} + \text{Task significance} \}}{3} * \text{Autonomy} * \text{feedback}$$

4.4.6 Equity Theory (Motivation and Perception)

Adams theory proposes that employees perceive what they get from a job situation (outcomes) in relation to what they put in (inputs) and then compare their inputs-outcomes ratio with the inputs-outcomes ratios of relevant others

In equity theory, the other persons, the systems, or the personal experiences against which individual compare themselves to access equity.

Equity Theory Relationship

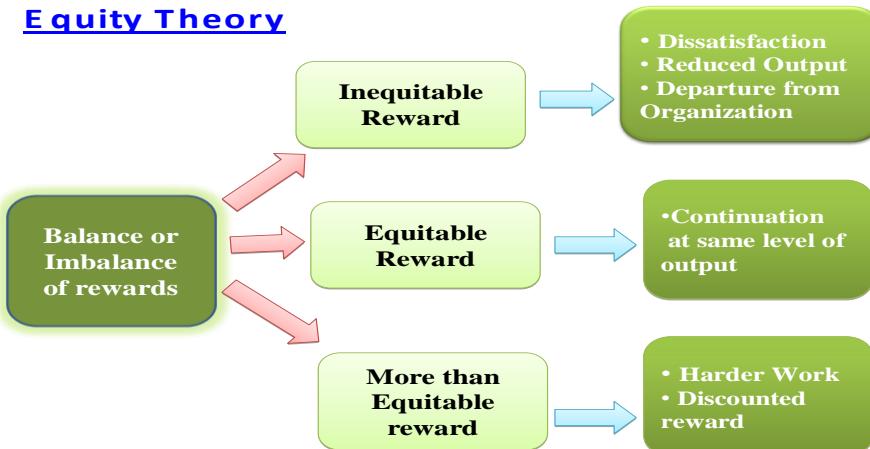
Perceived Ratio Comparison		Employee's Assessment
Outcome A Input A	< <hr/> Outcomes B Input B	Inequity (Underrewarded)
Outcome A Input A	== <hr/> Outcomes B Input B	Equity
Outcome A Input A	> <hr/> Outcomes B Input B	Inequity (Overrewarded)

- 4.4.6 If the ratios are perceived as equal then a state of equity (fairness) exists
- 4.4.7 If the ratios are perceived as unequal, inequity exists and the person feels under- or over-rewarded
- 4.4.8 When inequities occur, employees will attempt to do something to rebalance the ratios (seek justice)

Employee responses to perceived inequities:

- 4.4.9 Distort own or others' ratios
- 4.4.10 Induce others to change their own inputs or outcomes
- 4.4.11 Change own inputs (increase or decrease efforts) or outcomes (seek greater rewards)
- 4.4.12 Choose a different comparison (referent) other (person, systems, or self)
- 4.4.13 Quit their job

4.4.7 Equity Theory



4.4.8 Expectancy Theory(Motivation, Perception, and Behaviour)

Vroom's theory states that individuals tend to act in a certain way in the expectation that the act will follow by a given outcome and according to the attractiveness of that outcome. It includes three variables or relationships:

- a. **Effort-performance linkage:** The probability perceived by the individual that exerting a given amount of effort will lead to performance.
- b. **Performance-reward linkage:** The degree to which the individual believes that performing at a particular level will lead to the attainment of a desired outcome.
- c. **Attractiveness:** the importance that the individual places on the potential outcome or reward that can be achieved on the job. This variable considers the goals and needs of the individual.



Expectancy Relationships

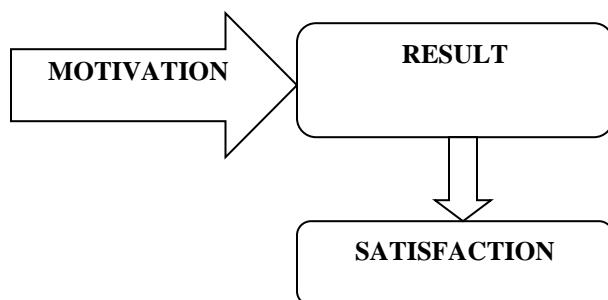
Expectancy (effort-performance linkage): The perceived probability that an individual's effort will result in a certain level of performance

Instrumentality: The perception that a particular level of performance will result in attaining a desired outcome (reward)

Valence: The attractiveness/importance of the performance reward (outcome) to the individual



DIFFERENCES BETWEEN MOTIVATION AND SATISFACTION



4.5 LEADERSHIP

4.5.1 Definition:

“Leadership is the process of influencing and supporting others to work enthusiastically towards achieving objectives”

4.5.2 Features of Leadership

- It is a Continuous process
- Leadership may be seen in terms of relationship between a leader and his followers which arises out of their functioning for common goals
- By exercising his leadership, the leader tries to influence the behaviour of individuals and group of individuals around him to achieve common goals
- Leadership gives an experience of help to followers to attain common goals
- Leadership is exercised in a particular situation, at a given point of time and under specific set of circumstances.

4.5.3 Importance of Leadership

- Motivating Employees
- Creating Confidence
- Building Morale

4.6 LEADERSHIP THEORIES

4.6.1 EARLY LEADERSHIP THEORIES

1. Charismatic Leadership Theory

It is also called **great man Theory**. Charisma is a Greek word meaning Gift. Thus, charisma is a God-gifted attribute in a person which makes him a leader irrespective of the situation in which he works. Charismatic leaders are those who inspire followers and have a major impact on their organizations through their personal vision and energy. The charismatic leader has extremely high levels of self-confidence, dominance, and a strong conviction in the normal righteousness of his belief, or atleast the ability to convince the followers.

2. Trait Theories (1920s–30s)

Research that focused on identifying personal characteristics that differentiated leaders from nonleaders was unsuccessful.

Later research on the leadership process identified seven traits associated with successful leadership:

- a. **Drive:** Leaders exhibit a high effort level. They have relatively high desire for achievement.
- b. **Desire to lead:** Leaders have a strong desire to influence and lead others.
- c. **Honesty and integrity:** Leaders build trusting relationship between themselves and followers by being truthful.
- d. **Self-confidence:** Followers look to leaders for an absence of self-doubt.

- e. **Intelligence:** Leaders need to be intelligent enough to gather, synthesize, and interpret large amount of information.
- f. **Job-relevant knowledge:** Effective leaders have a high degree of knowledge about the company, industry, and technical matters.

4.6.2 Behavioural Theories

Behavioral theories are those that isolate behaviors that differentiate effective leaders from ineffective leaders.

i. University of Iowa Studies (Kurt Lewin and his associates)

In their studies, the researcher explored three leadership styles or behaviors:

- a. **Autocratic style:** leader who typically tends to centralized authority, dictate work methods, make unilateral decisions, and limit employee participation.
- b. **Democratic style:** leader who tends to involve employees in decision making, delegates authority, encourages participation in deciding work methods and goals, and uses feedback as an opportunity to coach employees.
- c. **Laissez-faire style or Free Rein:** This type of leader generally gives his or her employees complete freedom to make decisions and to complete their work in whatever way they see fit.

Research findings: mixed results

- ✓ No specific style was consistently better for producing better performance
- ✓ Employees were more satisfied under a democratic leader than an autocratic leader

ii. Ohio State Studies (1940's)

Beginning with over 1000 dimensions, the researcher narrowed the list down to two categories that accounted for most of the leadership behavior described by employees.

Initiating structure: It is the extent to which a leader defines and structures his or her role and the roles of group members to attain goals.

Consideration: It is the extent to which a leader has job relationships characterized by mutual trust, respect for employees ideas and regard for their feelings

Research findings: mixed results

- ✓ High-high leaders generally, but not always, achieved high group task performance and satisfaction
- ✓ Evidence indicated that situational factors appeared to strongly influence leadership effectiveness

iii. University of Michigan Studies

The Michigan group also came up with two dimensions of leader behavior

Employee oriented: The term used to describe a leader who emphasizes interpersonal relations, takes a personal interest in the needs of employees, and accept individual differences.

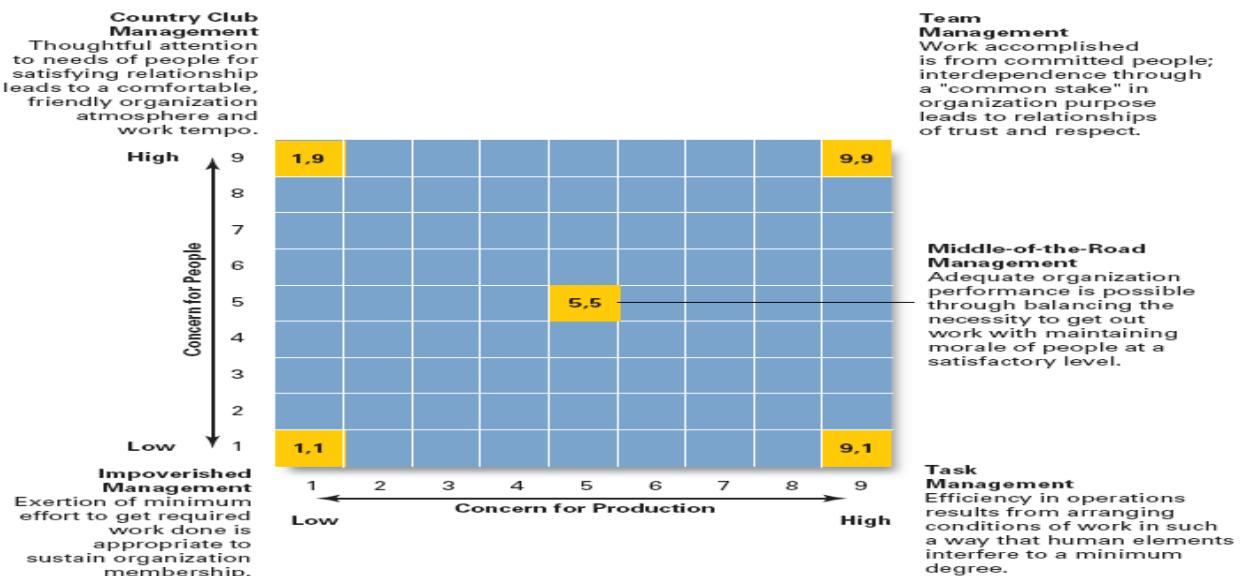
Production oriented: The term used to describe a leader who emphasizes the technical or task aspects of a job, is concerned mainly with accomplishing tasks, and regards group members as a means to accomplishing goals.

Research findings:

Leaders who are employee oriented are strongly associated with high group productivity and high job satisfaction

iv. Managerial Grid

The two dimensional view of leadership style that is based on concern for people versus concern for production which essentially represents the Ohio State dimensions of consideration and intuiting structure and the Michigan dimensions of employee orientation and production orientation.



4.6 3. Contingency Theories of Leadership or Situational Theory

a. The Fiedler Model

This theory states that effective group performance depends upon the proper match between the leader's style of interacting with employees and the degree to which the situation gives control and influence to the leader. Thus Fiedler's model consists of three elements: **Leadership style, situational variables and their interrelationship.**

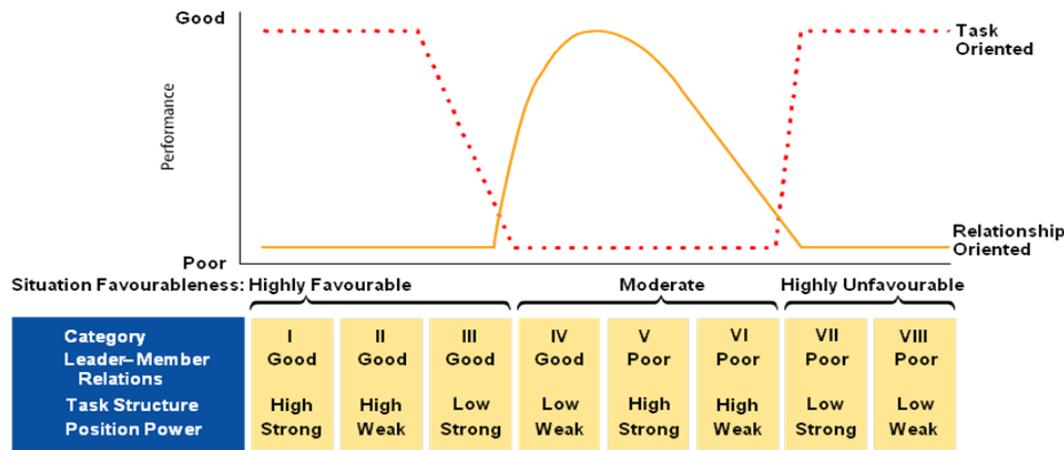
Leadership style: Fiedler has identified leadership styles on two dimensions: Task-directed and Human relations oriented. **Task-directed style** is primarily concerned with the achievement of task performance. The leader derives satisfaction out of the task performance. **Human relations style** is concerned with achieving good interpersonal relations and achieving a position of personal prominence.

Three situational factors or contingency dimensions identified by Fiedler

- **Leader-member relations:** The degree of confidence, trust, and respect subordinates has in their leader
- **Task structure:** The degree to which the job assignments of subordinates are structured or unstructured.
- **Position power:** The degree of influence a leader has over power variables such as hiring, firing, discipline, promotions, and salary increases.

Interrelationship (Relation between Style and Situation)

- a. Task-directed Leadership style tends to be better in group situations that are either very favourable or very unfavourable to the leader.
- b. Human relations- oriented leadership style tends to be in group situations that are intermediate in favourableness.



Assumptions

- ✓ Different situations require different leadership styles
- ✓ Leaders do not readily change leadership styles. Matching the leader to the situation or changing the situation to make it favourable to the leader is required

b. Hersey and Blanchard's Situational Leadership Theory (SLT)

It is a model of leadership behavior that reflects how a leader should adjust his or her leadership style in accordance with the readiness of followers.

Successful leadership is achieved by selecting a leadership style that matches the level of the followers' readiness

It creates four specific leadership styles incorporating Fiedler's two leadership dimensions:



- Telling: Where the subordinates have low maturity, that is neither they have ability nor they are willing to do, they require telling leadership style.

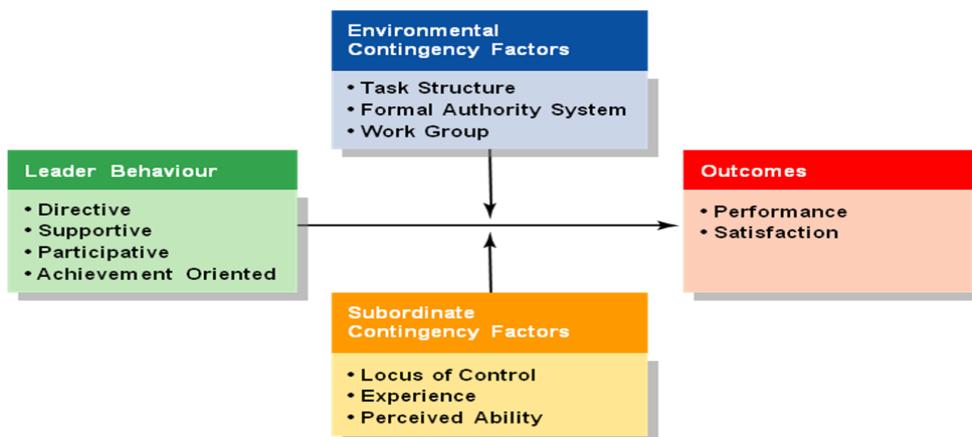
- Selling: Where the subordinates have moderate maturity that they have high willingness but lack ability, selling leadership style is appropriate.
- Participating: Where the subordinates have moderate to high maturity that, they lack willingness but have ability to do, selling leadership style is appropriate.
- Delegating: Where the subordinates have high maturity that, they have willingness and ability to do, hardly require any leadership support.

c. Path-Goal Model

The theory that it is a leader's job to assist following in attaining their goals and to provide the necessary direction and support.

Leader's style depends on the situation:

- Directive
- Supportive
- Participative
- Achievement-oriented



CUTTING-EDGE APPROACHES TO LEADERSHIP

1. **Transactional Leadership:** Leaders who guide or motivate their followers in the direction of established goals by clarifying role and task requirements
2. **Transformational Leadership:** Leaders who inspire followers to go beyond their own self-interests for the good of the organization and Leaders who have a profound and extraordinary effect on their followers
3. **Charismatic Leadership:** An enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways
4. **Visionary Leadership:** A leader who creates and articulates a realistic, credible, and attractive vision of the future that improves upon the present situation

Visionary leaders have the ability to:

- Explain the vision to others
- Express the vision not just verbally but through behaviour

- Extend or apply the vision to different leadership contexts

DISTINGUISHING MANAGERSHIP FROM LEADERSHIP

Managership	Leadership
<ol style="list-style-type: none"> 1. Engages in day-to-day caretaker activities: Maintains and allocates resources 2. Exhibits supervisory behaviour: Acts to make others maintain standard job behaviour 3. Administers subsystems within organizations 4. Asks how and when to engage in standard practice 5. Acts within established culture of the organization 6. Uses transactional influence: Induces compliance in manifest behaviour using rewards, sanctions, and formal authority 7. Relies on control strategies to get things done by subordinates 8. Status quo supporter and stabilizer 	<p>Formulates long-term objectives for reforming the system: Plans strategy and tactics</p> <p>Exhibits leading behaviour: Acts to bring about change in others congruent with long-term objectives</p> <p>Innovates for the entire organization</p> <p>Asks what and why to change standard practice</p> <p>Creates vision and meaning for the organization</p> <p>Uses transformational influence: Induces change in values, attitudes, and behaviour using personal examples and expertise</p> <p>Uses empowering strategies to make followers internalize values</p> <p>Status quo challenger and change creator</p>

Source: R. N. Kanungo, "Leadership in Organizations: Looking Ahead to the 21st Century," *Canadian Psychology* 39, nos. 1–2 (1998), p. 77.

4.7 COMMUNICATION

According to Newman & Summer it is an exchange of facts, ideas, opinions or emotions by two or more persons.

Allen Louis defines it as the sum of all the things one person does when he wants to create understanding in the minds of another.

Simply stated, Communication is the process of passing information and understanding from one person to another.

4.7.1 PURPOSE/IMPORTANCE OF COMMUNICATION

- Recruitment
- Orientation
- To perform the function effectively
- Evaluation of contribution of the subordinates
- to train employees
- for projecting the image of the company
- for decision process
- to achieve coordination
- to promote cooperation and industrial peace

- to increase managerial efficiency

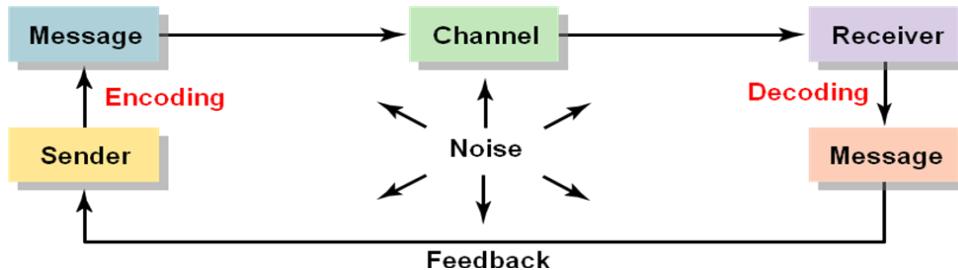
4.7.2 FUNCTIONS OF COMMUNICATION

- Control
- Motivation
- Emotional Expression
- Information

4.7.3 THE INTERPERSONAL COMMUNICATION PROCESS

The model of communication process is made up of seven parts

1. **The Communication source:** sender's intended meaning
2. **Encoding:** The message converted to symbolic form. Four conditions affect the encoded message: Skill, attitude, knowledge, and the social-cultural system.
3. **The Message:** It is the purpose to be conveyed.
4. **The Channel:** The medium through which the message travels
5. **Decoding:** A receiver's translation of a sender's message.
6. **The Receiver:** The person to whom the message is intended to be communicated.
7. **Feedback:** The degree to which carrying out the work activities required by a job results in the individual obtaining direct and clear information about the effectiveness of his or her performance.



Evaluating Communication Methods/ Fitting Communication with Circumstances

Managers can use 12 questions to help them evaluate appropriate communication methods for different circumstances.

1. *Feedback.* How quickly can the receiver respond to the message?
2. *Complexity capacity.* Can the method effectively process complex messages?
3. *Breadth potential.* How many different messages can be transmitted using this method?
4. *Confidentiality.* Can communicators be reasonably sure their messages are received only by those for whom they're intended?
5. *Encoding ease.* Can the sender easily and quickly use this channel?
6. *Decoding ease.* Can the receiver easily and quickly decode messages?

7. *Time-space constraint*. Do senders and receivers need to communicate at the same time and in the same space?
8. *Cost*. How much does it cost to use this method?
9. *Interpersonal warmth*. How well does this method convey interpersonal warmth?
10. *Formality*. Does this method have the needed amount of formality?
11. *Scanability*. Does this method allow the message to be easily browsed or scanned for relevant information?
12. *Time of consumption*. Does the sender or receiver exercise the most control over when the message is dealt with?

Interpersonal Communication Methods

- Face-to-face
- Telephone
- Group meetings
- Formal presentations
- Memos
- Postal mail
- Fax
- Publications
- Bulletin boards
- Audio-/videotapes
- Hot lines
- Email
- Computer conference
- Voice mail
- Teleconference
- Videoconference

4.7.4 TYPES OF COMMUNICATION

1. Formal Communication
2. Informal Communication

Formal Communication: Communication that follows the official chain of command or is part of the communication required to do one's job

- a. Downward communication
- b. Upward communication
- c. Horizontal (Lateral) communication
- d. External communication

Downward communication: Communication which flow from superior to the subordinates is known as downward communication.

- Defines the goal of the organisation and the sub-group.
- Administers reward and punishment

Upward Communication: Communication which flow from the subordinates to the superior is known as downward communication. These communications generally act as a feedback.

Horizontal (Lateral) communication: These are also known as lateral or cross-wise communications. They refer to communications among the subordinates who are working on the same level of the organisation.

External Communication: These are communications with external agencies, like current and potential customers, government departments, competitors, trade unions, etc.

Forms of communication

Oral Communication: In oral or verbal communication, information is given directly, either face to face or through a telephone or intercom system. Generally, in meetings, lectures, interviews, conferences, etc. the communication is oral.

Merits:

- It is a time and money saving device.
- As there is an element of personal touch, it is comparatively more effective.
- Doubts can be clarified on the spot.
- Important points can be emphasized through body language.
- The effects of communication can be easily measured
- It provides greater flexibility.

Demerits

- It is not useful where the parties are far from each other.
- Not suitable for lengthy communications
- There is no permanent record for communication
- Sometimes oral communication is not taken seriously by the receiver.

Written Communication: Written communication, which is always in black and white can take the form of a report, statement, circular, note, manual, handbook, letter, memo, etc.

Merits:

- Suitable for lengthy communication
- If the parties are far from each other, written communication is the only way out.
- It can be kept as a permanent record.
- There are a fewer chances for missing out a point.

Demerits

- There are greater chances of the communication being misunderstood
- Time consuming
- There is no scope for face to face discussion
- Difficult to maintain secrecy
- Lack of flexibility

Non-Verbal Communication: Oral communication transmitted without the use of words is known as non-verbal communication. Non-verbal signals transmit the implied meaning. According to Ray Birdwhistell, in face-to-face communication, spoken words account to only 35% of the total meaning, while 65% is obtained through non-verbal clues. Eg, Sounds, Images, Clothing, and Body language(Kinesics)

Kinesics

Kinesics is the study of body language. E.g. when a person says “glad to meet you”, his face glows with warmth and his voice vibrates with joy. Body language is suitable for expressing feelings and emotions like joy, anger, fear, nervousness, anxiety, tension, frustration etc. Expression of these feelings is mostly unconscious. Body language includes:

1. Facial Expressions

Face is the index of the mind. Face would give clues about a person's mental state. Facial expressions convey acceptance, rejection, satisfaction, dissatisfaction, friendship, hostility, interest, indifference, confidence, nervousness, determination, optimism, ease, discomfort, pain, pleasure, joy, surprise, shock, boredom etc. e.g. smile expresses

satisfaction and approval; Wrinkles on face suggests worry; raised eye brows, wide open eyes and gaping mouth show surprise or shock.

2. Gestures

A gesture is a movement of head, hands or legs to express an idea, feeling or emotion. Gestures may either accompany spoken words or stand alone. E.g. Head-nod suggests ‘yes’; shaking of the head sideways suggests ‘no’; thumbs up suggests ‘approval’; hands crammed into trouser pockets suggests superior status; both hands folded on chest or toes tapping the floor indicate speakers attitude.

3. Body Movement

Body movement refers to positioning or movement of the body when one is engaged in inter-personal communication. When people are interested and involved, they tend to lean towards the speaker and when they are not interested, they hold themselves back.

4. Posture

Posture means the way in which someone usually stands or sits or holds his shoulders, neck and back. Posture can suggest whether one is:

- Relaxed or tensed
- Enthused or feeling low
- Confident or dejected

One’s degree of involvement can also be indicated by one’s posture. According to Myers and Myers, posture suggests our perception of a person’s status. E.g. One tends to relax around people of equal or lower status and tense up around people of higher status.

5. Eye Contact

Eye contact is a subtle part o body language. It regulates interaction. When the topic of discussion is pleasant, we maintain eye contact with the speaker. On contrary, in unpleasant situations we lower our eyes or look sideways. Eye contact indicates our willingness to interact, while its absence suggests the desire to withdraw. Starring or glaring look suggests defiance or threat.

6. Touch (Haptics)

Touching is also one of the traditional methods of communication. How a person touches, sends message about their relationship and the situation in which they are placed. It can reveal whether someone is caring, friendly or intruding into others personal space. Gentle pat on back or a warm hand shake or simply holding hands can express more than a lengthy speech.

Informal Communication/ Grapevine Communication: Communication that is not defined by the organization’s hierarchy. Informal Communication,

- Permits employees to satisfy their need for social interaction
- Can improve an organization’s performance by creating faster and more effective channels of communication

Characteristics of Grapevine Communication

- It is mostly oral
- It operates long chain
- Three-fourths of the information are accurate
- It is an outcome of situation rather than a person
- It has remarkable speed
- It helps the management in interpreting the policies

Verbal intonation (paralinguistic): emphasis that a speaker gives to certain words or phrases that conveys meaning

4.7.5 BARRIERS TO EFFECTIVE INTERPERSONAL COMMUNICATION



- **Filtering:** The deliberate manipulation of information to make it appear more favourable to the receiver
- **Emotions:** Disregarding rational and objective thinking processes and substituting emotional judgments when interpreting messages
- **Information Overload:** Being confronted with a quantity of information that exceeds an individual's capacity to process it
- **Selective Perception:** Individuals interpret "reality" based on their own needs, motivations, experience, background, and other personal characteristics
- **Defensiveness:** When threatened, reacting in a way that reduces the ability to achieve mutual understanding
- **Language:** The different meanings of and specialized ways (jargon) in which senders use words can cause receivers to misinterpret their messages
- **National Culture:** Culture influences the form, formality, openness, patterns, and use of information in communications

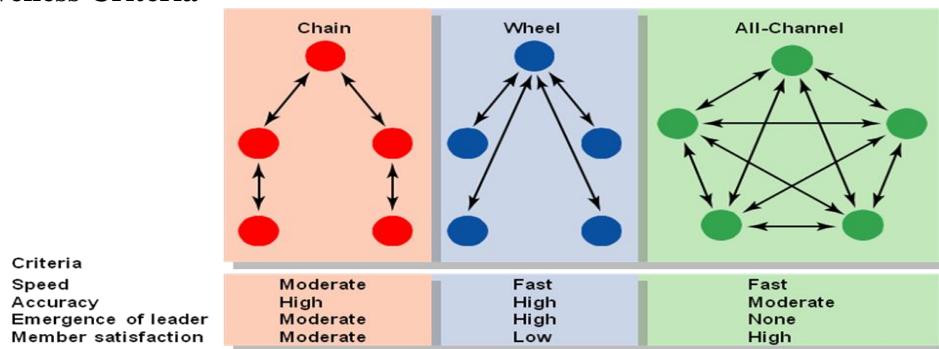
4.7.6 OVERCOMING THE BARRIERS TO COMMUNICATIONS

- Use Feedback: Check the accuracy of what has been communicated or what you think you heard.
- Simplify Language: Use words that the intended audience understands.
- Listen Actively: Listen for the full meaning of the message without making premature judgments or interpretations or thinking about what you are going to say in response.
- Constrain Emotions: Recognize when your emotions are running high. When they are, don't communicate until you have calmed down.
- Watch Nonverbal Cues: Be aware that your actions speak louder than your words. Keep the two consistent.

Types of Communication Networks

1. **Chain Network:** Communication flows according to the formal chain of command, both upward and downward
2. **Wheel Network:** All communication flows in and out through the group leader (hub) to others in the group
3. **All-Channel Network:** Communication flows freely among all members of the work team

Three Common Organizational Communication Networks and How They Rate on Effectiveness Criteria



4.7.7 THE ORGANIZATION'S CULTURE

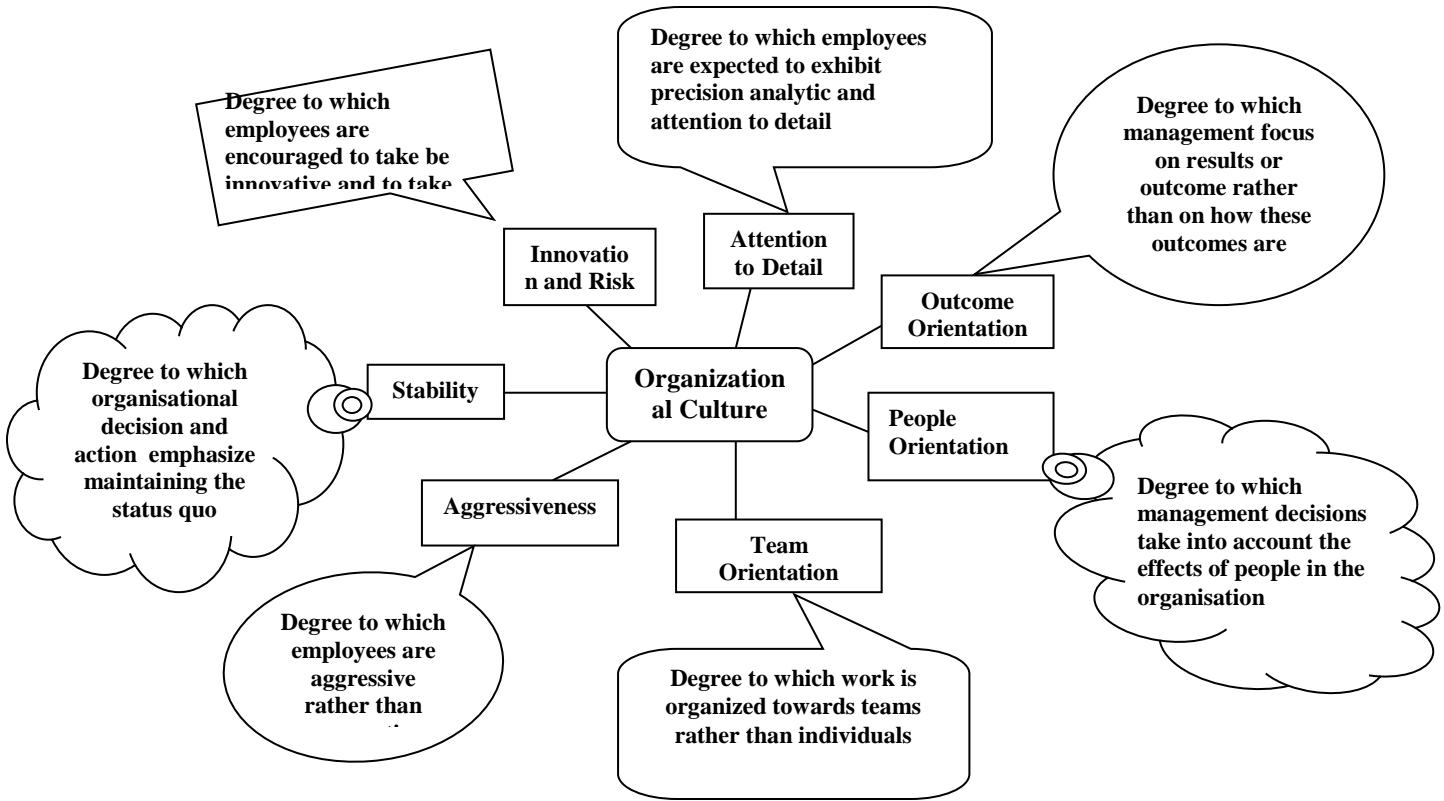
Organizational Culture is a system of shared meaning and beliefs held by organizational members that determines, large degree, how employees act. It is “The way we do things around here” i.e. Values, symbols, rituals, myths, and practices

Implications of Culture

- *Culture* is a perception
- *Culture* is shared

- *Culture* is a descriptive term

Dimensions of Organizational Culture



Strong vs. Weak Cultures

Strong Cultures

- Key values are deeply held and widely held
- Have strong influence on organizational members

Factors Influencing the Strength of Culture

- Size of the organization
- Age of the organization
- Rate of employee turnover
- Strength of the original culture
- Clarity of cultural values and beliefs

Benefits of a Strong Culture

- Creates a stronger employee commitment to the organization
- Aids in the recruitment and socialization of new employees
- Fosters higher organizational performance by instilling and promoting employee initiative

SUBCULTURES

- Organizations have dominant cultures and subcultures
- Subcultures are likely to be defined by department designations and geographical separation
- Subcultures include the core values of the dominant culture, plus additional values unique to members of the subculture

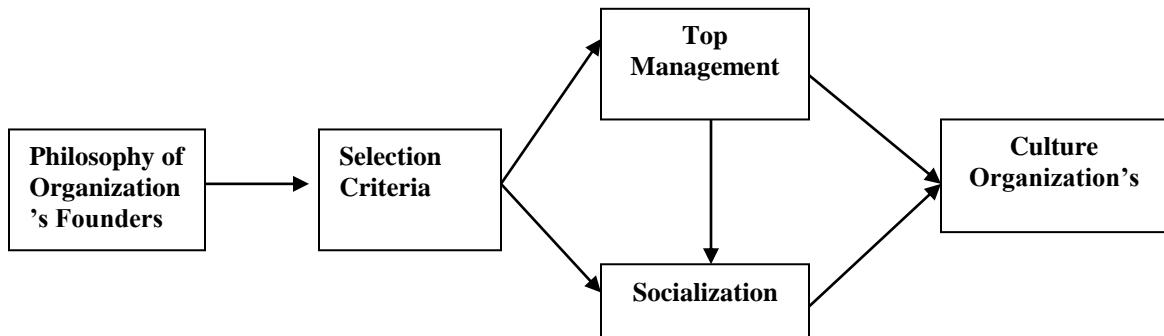
Sources of Organizational Culture

- Past practices of the organization
- The organization's founder

Continuation of the Organizational Culture

- Recruitment of employees who “fit”
- Behaviour of top management
- Socialization of new employees to help them adapt to the culture

Establishment of Organization's Culture



How Employees Learn Culture

- Stories:** Narratives of significant events or actions of people that convey the spirit of the organization
- Rituals:** Repetitive sequences of activities that express and reinforce the values of the organization
- Material Symbols:** Physical assets distinguishing the organization
- Language:** Acronyms and jargon of terms, phrases, and word meanings specific to an organization

How Culture Affects Managers

Cultural Constraints on Managers

- Whatever managerial actions the organization recognizes as proper or improper on its behalf
- Whatever organizational activities the organization values and encourages
- The overall strength or weakness of the organizational culture

Simple rule for getting ahead in an organization: “*Find out what the organization rewards and do those things*”

CURRENT ORGANIZATIONAL CULTURE ISSUES FACING MANAGERS

Creating an Ethical Culture

- High in risk tolerance
- Low to moderate aggressiveness
- Focus on means as well as outcomes

Tips for Managers for Creating a More Ethical Culture

- Be a *visible role model*.
- Communicate *ethical expectations*.
- Provide *ethics training*.
- Visibly reward *ethical acts and punish unethical ones*.
- Provide *protective mechanisms* so employees can discuss ethical dilemmas and report unethical behaviour without fear.

Creating an Innovative Culture

- Challenge and involvement
- Freedom
- Trust and openness
- Idea time
- Playfulness/humour
- Conflict resolution
- Debates

- Risk-taking

Creating a Customer-Responsive Culture

- Hire the right type of employees
- Have few rigid rules, procedures, and regulations
- Use widespread empowerment of employees
- Encourage good listening skills
- Provide role clarity to employees
- Have conscientious, caring employees

CHAPTER 5

CONTROLLING

5.1 CONTROL- CONCEPTS

5.1.1 DEFINITION

Control is the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.

According to George.R.Terry, “Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans”.

5.1.2 APPROACHES TO DESIGNING CONTROL SYSTEM

1. Market Control
2. Bureaucratic control
3. Clan Control

Market Control: It emphasizes the use of external market mechanisms such as price competition and market share.

Bureaucratic control: An approach to control that emphasizes authority and relies on administrative rules, regulations, procedures, and policies.

Clan Control: An approach to designing control system in which employee behaviors are regulated by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization’s culture.

5.1.3 NEED FOR CONTROL

A control system is needed for three purposes:

- a. To measure progress
- b. To uncover deviations
- c. To indicate corrective action

To measure Progress: There is a close link between planning and controlling the organization’s operations. The control process measures progress towards goals. As Fayol so clearly recognized decades ago, “In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established”.

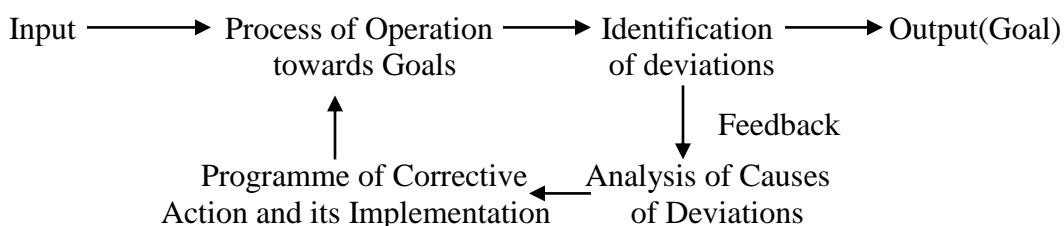
To Uncover Deviations: Once the organization is set into motion towards its specific objectives, events occur that tend to pull it “off target”. A successful control process is one that effects corrections to the organization before the deviations become serious.

Major events which tend to pull an organization “off target” are as follows:

- ✓ Change: Market shift, new products emerge, new materials are discovered and new regulations are passed.

- ✓ Complexity: Today's vast and complex organizations, with geographically separated plants and decentralized operations make control a necessity.
- ✓ Mistakes: Managers and their subordinates very often commit mistakes. E.g wrong parts are ordered, wrong price decisions are made. A control system enables managers to catch these mistakes before they become serious.
- ✓ Delegation: When managers delegate authority to subordinates, their responsibility to their own superiors is not reduced. The only way managers can determine if their subordinates are accomplishing the tasks that have been delegated to them is by implementing a system of control.

To indicate Corrective action: Controls are needed to indicate corrective actions. When the corrective action indicated by the control system is implemented, the loop in the system closes as in the operating principle of the thermostat.



5.1.4 IMPORTANCE OF CONTROL

Planning: Controls let managers know whether their goals and plans are on target and what future actions to take

Empowering employees: Control systems provide managers with information and feedback on employee performance

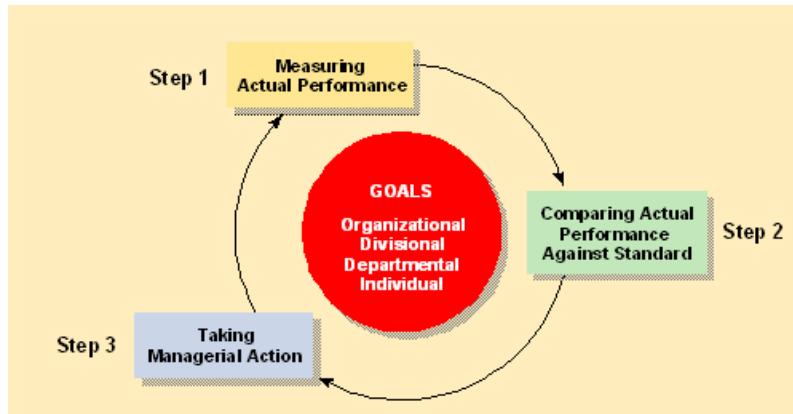
Protecting the workplace: Controls enhance physical security and help minimize workplace disruptions

Thus the final link in management functions is control.



5.2 THE CONTROL PROCESS

- Measuring actual performance
- Comparing actual performance against a standard
- Taking action to correct deviations or inadequate standards



1. Establishing Standard

Standards are by definition simply criteria of performance. Standards are the selected points in a planning performance at which performance is measured, so that managers can receive signals about how things are going. There are many kinds of standard.

(1) Physical Standard (2) cost Standard (3) capital Standard (4) revenue Standard (5) program Standard (6) intangible Standard (7) goals/ objectives Standard (8) Strategic plans as control point strategic control.

2. Measurement of Performance

It is the second step of control process. Although such measurement is not always predictable, but if standards are appropriately drawn and if means are available for determining exactly what subordinates are doing then measurement of performance is fairly easy. But there are many activities for which it is difficult to develop accurate standards and there are many activities that are hard to measure. Technical kind of work is hard to measure performance.

3. Correction of Deviations

It is third and last step of control process. If performance is measured accurately, it is easier to correct deviations manage know exactly where the corrective measure must be applied correction of deviations is the point at which contact can be related to the other managerial factions. Managers may correct deviations by redrawing their plans or by modifying their goals or they may correct deviations by clarification of duties.

CRITICAL CONTROL POINTS & STANDARDS

Standards are yardsticks against which expected performance is measured. In simple operation a manager may control through careful observations. But, in most operations this is not possible because of the complexity of the operations. Manager must choose points for special attention and then watch them to be sure that the whole operation is proceeding as planned.

The points selected for control should be critical. Points control states “effective control requires attention to these factors critical to evaluating performance against plans.”

Types of Critical Point Standards

There are many types of standards

1. Physical Standards

Physical standards are non monetary measurements and common at operating level where material is used, labor is employed, services are rendered and goods- are produced-they may-reflect quantities such as labor hours per unit of output, unit of production per machine hour etc. physical standards may also reflect quality such as hardness of bearing, durability of fabric, fastness of color etc.

2. Cost Standards

Cost standards are monetary measurements and common at the operating level. Cost standards are widely used to measure direct and indirect costs per unit produced, labor cost per unit or per hour material cost per unit, machine cost per hour etc.

3. Capital Standards

There are varieties of capital standards. These standards are primarily related to the balance sheet rather than to the income statements. Capital standards range from monetary measurements to physical items. These standards may be indifferent ratios such as the ratio of current assets to current liabilities etc.

4. Revenue Standards

Revenue standards arise from attaching monetary values to sales. They may include such standards as average sales per customer etc.

5. Program Standards

Such standards are determined for installing a variable budget program, for example program for improving the quality of a sale fore.

6. Intangible Standards

Sometime it is difficult to establish standards for quantitative and qualitative measurement, especially when human relationships count in performance. It is very difficult to measure human attitudes, in connection with individual's loyalty, efficiency, etc. All this need to be based on intangible standards

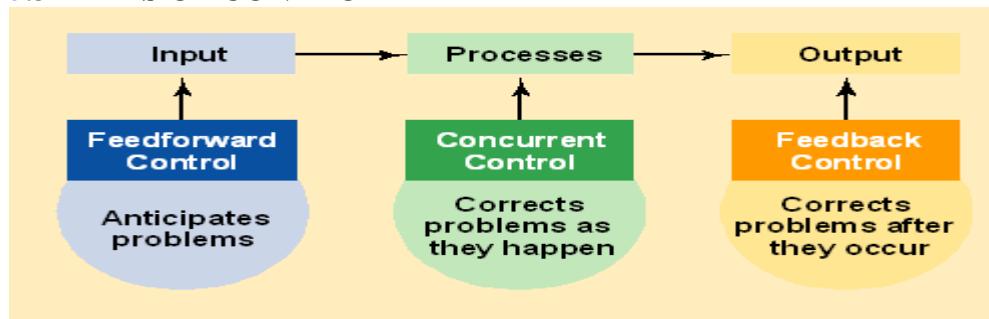
7. Goals as Standards

Goal can be used as performance standards. Both in simple in complex operations quantitative and qualitative Goals represents an important development in the area of standards.

COMMON SOURCES OF INFORMATION FOR MEASURING PERFORMANCE

	Advantages	Drawbacks
Personal Observations	<ul style="list-style-type: none"> Get firsthand knowledge Information isn't filtered Intensive coverage of work activities 	<ul style="list-style-type: none"> Subject to personal biases Time-consuming Obtrusive
Statistical Reports	<ul style="list-style-type: none"> Easy to visualize Effective for showing relationships 	<ul style="list-style-type: none"> Provide limited information Ignore subjective factors
Oral Reports	<ul style="list-style-type: none"> Fast way to get information Allow for verbal and nonverbal feedback 	<ul style="list-style-type: none"> Information is filtered Information can't be documented
Written Reports	<ul style="list-style-type: none"> Comprehensive Formal Easy to file and retrieve 	<ul style="list-style-type: none"> Take more time to prepare

5.3 TYPES OF CONTROL



- a. **Feedforward Control:** Prevents anticipated problems before they occur
 - Building in quality through design
 - Requiring suppliers conform to ISO 9002
- b. **Concurrent Control:** Monitoring while activity is in progress
 - Direct supervision: management by walking around
- c. **Feedback Control:** Takes place after an activity is done
 - i. Corrective action is after-the-fact, when the problem has already occurred

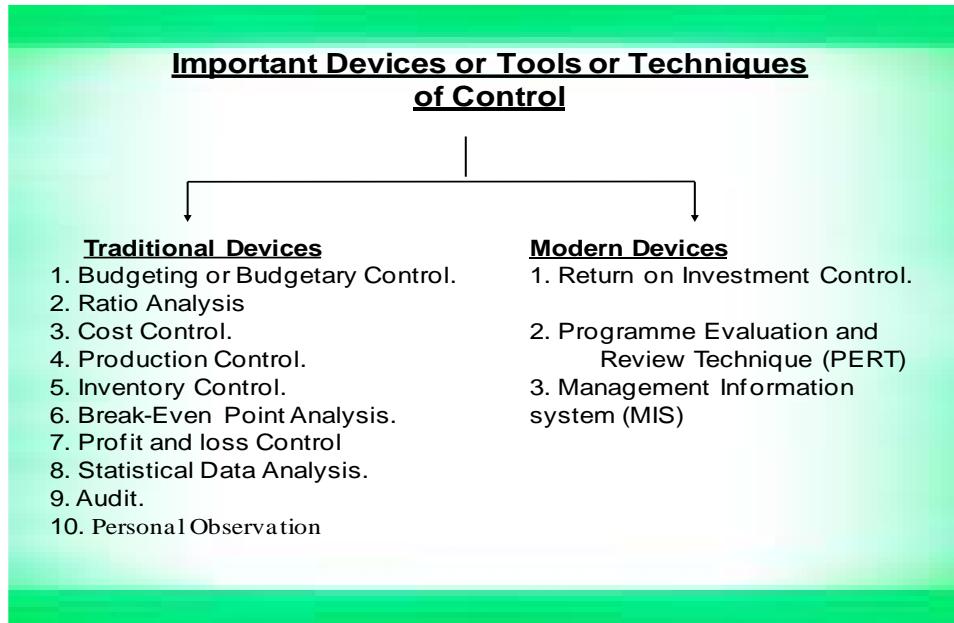
Advantages

- ii. Feedback provides managers with information on the effectiveness of their planning efforts
- iii. Feedback enhances employee motivation by providing them with information on how well they are doing

5.4 CONTROL TECHNIQUES

1. **Traditional Devices**
 - ✓ **Budgetary Control**
 - ✓ **Non Budgetary Control**

2. Modern Devices



TRADITIONAL DEVICES

THE BUDGET

A widely used device for managerial control is the budget. Budgeting is the device for accomplishing control. Budgeting is the formulation of plans for a given future period in numerical terms.

The Purpose of Budgeting

Starting plans in terms of numbers and breaking into parts parallel the parts of an organization. Budgets enables managers to see clearly what capital will be spent by whom and where, and what expense, revenue the plans will involve. A budget must reflect the organizational pattern. When plans are completed, co-coordinated and developed a departmental budget can be used as an instrument of control.

Types of Budgets

Budgets may be classified in to several basic types

1. Revenue and Expense Budgets

Revenue and expense budgets are most common budget which is used to make plans for revenue and expenses in dollar terms.

2. Time, Space, Material &Product Budgets

Many budgets are better expressed in quantities rather then in numerical terms or monetary terms. Although such budgets are usually translated into monitory terms but if they are expressed in terms of quantities, they are must significant at certain stage of planning and control. I.e. machine hours, etc.

3. Capital Expenditure Budgets

Capital expenditure budgets shows capital expenditure for plant, machinery, equipment, inventories etc.

4. Cash Budgets

The cash budget is a forecast of cash receipts. Cash budgeting shows the availability of excess cash etc.

EFFECTIVE BUDGETARY CONTROL

If budgetary controls are to work well managers have limitations and they must be tailored to each job. There are many effective budgetary controls.

1. Top-Management Support

To make most effective budget, administration must receive the whole hearted support of top-management.

2. Participation

Real participation in budget making is necessary for success.

3. Standards

One of the key to successful budgeting is to develop and make available standards by which programs and work can be translated into need for labor, operating expenses, capital expenditures, space and other resources. Many budgets fail for lack of such standards.

4. Information

Finally if budgetary control is to work managers need ready information about actual and forecast performance under budgets by their departments. This information must be designed to show them how well they are doing.

5.4.1 TRADITIONAL NON BUDGETARY CONTROL TECHNIQUES

There are also many traditional non-budgetary control techniques used for budgetary control. The more important are

1. Ratio analysis

- a. Liquidity
- b. Leverage
- c. Activity
- d. Profitability
- e. Other Financial Measures
 - i. Economic value added (EVA)
 - ii. Market value added (MVA)

Popular Financial Ratios

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how far profits can decline before the organization is unable to meet its interest expenses
Objective	Ratio	Calculation	Meaning
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used.
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that various products are generating
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

Cost Control

Control through costing involves the control over costs in the light of certain predetermined costs usually known as standard costs. Standard costs are predetermined operation costs computed to reflect quantities, prices and level of operations.

Production Control

Operating control is closely linked to concurrent control, that is, excise of control during operating process itself. Operating control tries to ensure that:

- a. Products and services are produced of **good quality**.
- b. Products and services are produced with **minimum possible costs**.
- c. Products and services are produced at the **required time**.

Inventory Control

Inventory consists of raw materials, work in progress, and finished products. Inventory is kept at a particular level to meet future needs of the organisation. Inventory control tries to specify the optimum level of inventory than an organisation should keep. The determining factor of inventory is the demand for product, length of processing cycle, degree of ease in procuring raw material, effect of seasonal variation on prices, and so on.

Break- Even Point analysis

The break-even analysis is the point where there is no profit and no loss. The break-even analysis is basically concerned with the cost-volume-profit relationship. It magnifies a set

of relationships of fixed cost, variable costs, price level of output and sales mix to the profitability of the organisation.

Statistical Data

Statistical analysis of an operation and the clear presentation of statistical data are important to control. Most managers understand statistical data are best when the data are presented in chart or graphic form. In chart or graphic trends and relationship are easier to see. Moreover, if data are meaningful, when presented on chart then data should be formulated in such a way that comparison with some standard can be made.

Special Reports and Analysis

Special reports and analyses help in problems for control purposes. Although accounting and statistical reports give necessary information's but there are some problems in which they are inadequate. One successful manager of a completed operation hired a small staff of trained analysts and gives them no assignment other than investigating and analyzing activities under his control. This group developed of a surprising sense for situations in which things did not seem just right. Almost invariably, their investigation disclosed opportunities for cost improvement.

Operational Audit

Another effective tool of managerial control is the internal audit or operational audit. Operational auditing is the regular and independent appraisal of the accounting, financial and other operations of an enterprise by a staff of internal auditors. The operational auditors reflect the fact, appraise policies procedure, use of authority, quality of management, effectiveness of methods, special problems and other phases of operations.

Personal Observation

One should never over-look the importance of control through personal observation. Budgets, charts, reports, ratios, auditors, recommendations and other devices are essential to control. But the manager who depends wholly on these devices and sits cannot make effective control. Managers should have task of seeing the enterprise objectives are accomplished by people. A manager can get information and experience from personal observation.

5.4.2. MODERN CONTROL TECHNIQUES

Return on Investment Control

The efficiency of an organisation is judged by the amount of profit it earns in relation to the size of its investment, popularly known as 'return on investment' (ROI).

PERT (Programme Evaluation and Review Technique)

In PERT, uncertainty in the duration of activities is allowed and is measured by three parameters- most optimistic, most likely duration, and most pessimistic duration. PERT/ CPM is used either to minimize total time, minimize total cost, minimize cost for a given total time, minimize time for a given cost, or minimize idle resources.

MIS (Management Information System)

Information is the life-blood of an organisation, particularly in case of system approach management. With increasing use of electronic devices, particularly computers, a great

deal of attention has been given to the development of information system which provide relevant information to the managers concerned of decision making and control.

5.5 MANAGING PRODUCTIVITY

Production management responsibilities include the traditional “five M's”: men and women, machines, methods, materials, and money. Managers are expected to maintain an efficient production process with a workforce that can readily adapt to new equipment and schedules.

Productivity is a measure of how much input is required to produce a given output

$$\text{Productivity} = \text{Output} / \text{input}$$

Factors affecting Productivity

- Technology
- Human resources
- Government policy
- Machinery & Equipment
- Skill of the workers
- Materials
- Plant Equipment
- Land & Buildings
- Capital
- Research & Development

Role of Productivity

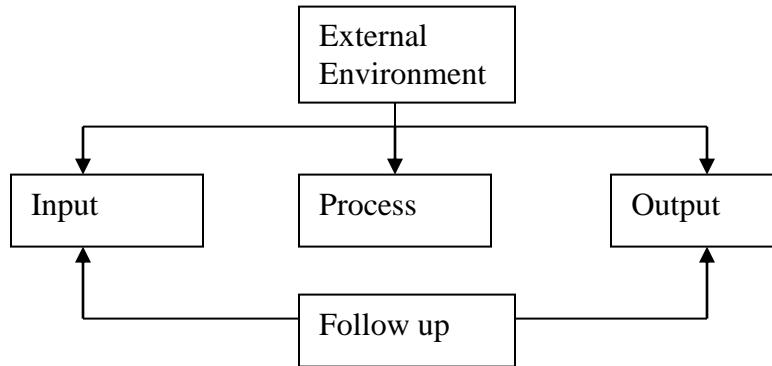
- a. For Management
 - To get high profit
 - To improve the resources
 - To increase the sales
- b. For Workers
 - Job satisfaction and Job security
 - Promotion
 - Higher salary
 - Better working conditions
- c. For Customers
 - To get quality products
 - Reduced prices
 - Easily available

Production and Operation Management

Production is defined as the step-by-step conversion of raw material into finished products through chemical or mechanical process to create the product.

Operation refers too activities necessary to produce and deliver a service or physical products.

OPERATION MANAGEMENT SYSTEM



Objectives of Operation Management

1. Right quality
2. Right Quantity
3. Right Cost
4. Right Schedule
5. Right Control

5.6 COST CONTROL

Application of (1) investigative procedures to detect variances of actual costs from budgeted costs, (2) diagnostic procedures to ascertain the cause(s) of variance, and (3) corrective procedures to effect realignment between actual and budgeted costs

The term, cost control, implies the usage of policies and internal rules that help you to reduce the cost of a particular management process. Cost control methods target the reduction of cost and maintenance of quality and quantity of a particular production process or service generation.

Cost Control Methods

Any business or corporation has to encounter difficulties, which are practical, financial as well as technical. The ones that survive these difficulties live to tell their stories of success. The following are some simple successful cost control methods.

Review and Modify Business Model: There is a great, economically and commercially successful business model, that is used to lay down the foundations of any company. The business model must be however subject to small and big changes. It means as a manger, you should subject the business model to changes according to your competitors actions and markets status. By the term change, I also mean that you should be upgrading and improving all possible business operations. You need to come up with new process and procedures to reduce costs.

Daily Updates: One of the best ways to start controlling costs is to have daily updates of production, all possible long and short term expenditures. Divide all these expenditures, even the ones such as cost of machinery or insurance, and sales, by the number of working days. This will give you a concrete figure of the total amount that has been spent.

Similarly after sales of your goods or services, you may also divide the total amount of sales by the number of working days. This will give you a micro figure about the daily expenditure and sales. It will definitely help you to zero down on all possible cost problems that you incur.

Uniformity: Cost control management is all about deriving the best outputs in a least cost. Hence, set up a highly efficient and specialized stores department which will oversee all purchases. You may also take a risk and make long term agreements regarding the quality and quantity of materials that are being supplied to your manufacturing process. This uniformity will ensure a timely, cheap and assured supply of raw materials.

Time Planning: Time is money! Well divide the amount of wages that you give out with the number of work hours per month. Explain to the employees per hour expenditures that you incur, and hence the necessity for time management. You may also install good cost control systems, in order to help your employees to manage their work hours well. A cost control software will also work wonders in the finance and accounts department.

5.7 PURCHASE CONTROL

The purchase control system is used to manage the purchasing activity of a company. It provides a link between the inventory control system and the accounts payable system. This system provides a means of recording purchase orders placed with your vendors, and tracking the orders through the different phases of receiving the product, backordering, and invoicing.

Objectives of Purchase Department

- i. Better purchase can save a firm's financial resources
- ii. The effectiveness of the purchasing function will have an impact in other operating results.
- iii. By using scientific methods, purchasing cost would be reduced.

Responsibilities of Purchase Department

- i. Selecting the right supplier
- ii. Obtaining materials at the best prices
- iii. Placing purchase orders with the suppliers

Types of Special Purchase system

- i. Forward Buying
- ii. Tender Buying
- iii. Blanket Order
- iv. Zero Stock

- v. Rate contract

Forward Buying: In forward buying, the purchasing decision for a period will be taken in advance and the organization will commit accordingly in terms of order quantity, rate and delivery schedule, by taking into consideration the availability of funds and the requirements

Tender Buying: In tender buying, the steps are preparing bidders list, advertising tenders, receiving bids, evaluating bids and placing order with the bidder with the lowest cost.

Blanket Ordering System: In this the organization will enter into an agreement with its suppliers to receive items for a required quantity at a particular rate over a period of time.

Zero Stock purchase system: It is in line with using the just in time manufacturing system. The main idea of the system is to operate the plant with near zero inventories.

Rate contract: It is more used in public sector and government departments.

Purchasing Procedure

- i. Processing the requisition
- ii. Location and choice of suppliers
- iii. Placing of orders
- iv. Follow up and expediting
- v. Invoice checkup and clearance
- vi. Maintenance of Records

5.8 MAINTENANCE MANAGEMENT

Maintenance is the process of keeping the machine and equipment in good working condition so that the efficiency of machine is retained and its life is increased.

Functions of Plant Maintenance

- a. Inspection
- b. Repair
- c. Overhaul
- d. Lubrication
- e. Salvage

Types of Maintenance

Maintenance practices can be broadly classified into following two types.

- i. Breakdown maintenance
- ii. Preventive Maintenance

Breakdown Maintenance: In the case of breakdown maintenance, the equipment is generally attended only when it breaks down. Only when it becomes out of order it is repaired and set right.

Preventive Maintenance: It is based on the old adage “Prevention is better than cure”. Preventive maintenance is a systematic maintenance procedure where in the condition of the plant is constantly watched through a systematic and preventive action is taken to reduce the incidence of breakdown.

Advantages of good Maintenance Control

- a. Life of machinery and equipments increases
- b. Production takes place as per the schedule
- c. Machines are in good condition.
- d. No production loss
- e. Machinery is not damaged
- f. No idle time of men and machines

Disadvantages of Poor maintenance Control

- a. Machines may be damaged
- b. More wastage of materials
- c. Poorly maintained machines will produce poor quality products
- d. Poor maintenance causes accidents
- e. Due to poor maintenance, lose of machine is reduced

5.9 QUALITY CONTROL

Quality is defined as the degree to which a set of inherent characteristics fulfills requirements.

According to Deming, “it is the predictable degree of uniformity at low cost and suited to the market”

Quality Control

Quality control is the procedure that is followed to achieve and maintain the required quality. Quality control aims at prevention of producing defective products. For this, statistical methods like sampling plans and control charts are used.

Dimensions of Quality

1. Performance
2. Features
3. Conformance
4. Reliability
5. Durability
6. Service
7. Response
8. Reputation

Steps in Quality Control

- a. Fixing the quality standards
- b. Evaluation of measurement of quality
- c. Comparing the measured quality with the standard quality
- d. Finding out the deviation
- e. Reasons for variation
- f. Taking corrective action

STATISTICAL QUALITY CONTROL

Statistical quality control means controlling the quality characteristics of a product or process using statistical method.

Types of Control Charts

- a. Control charts for variables
- b. Control charts for attributes

Control charts for variables: It is used when the parameter under control is some measurement of a variable such as dimension of a part, the time for work performance and so forth.

Control charts for attributes: It is used when the parameter under control is the proportion or fraction of defectives

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