**Unit – 1**

**“MANAGEMENT & PLANNING “**

**PART-1 “MANAGEMENT”**

* **INTRODUCTION**
* Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively.
* Management functions include: Planning, organizing, staffing, leading or directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal.
* Management is the art of getting right work done, from right people at right time in the best and the cheapest manner.
* There are several different resource types within management. Resourcing encompasses the deployment and manipulation of:
  + - Human resources
    - Financial resources
    - Technological resources
    - Natural resources

**DEFINITION OF MANAGEMENT**

According to Mc Farland, “Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort.”

Louis Allan, “Management is what a manager does.”

Henry Fayol, “To manage is to forecast and plan, to organize, to compound, to co-ordinate and toControl.”

Harold Koontz says, “Management is the art of getting things done through and with an informally organized group.”

**FEATURES OR CHARACTERISTICS OF MANAGEMENT**

From a critical analysis of the above definitions, the following features or characteristics of Management evolve:

**1. Art as well as science:** Management is both an art and a science. It is an art in the sense of possessing of managing skill by a person. In another sense, management is the science because of developing certain principles or laws which are applicable in a place where a group of activities are coordinated.

**2. Management is an activity:** Management is the process of activity relating to the effective utilization of available resources for production. The term ‘resources’ includes men, money, materials and machine in the organization.

**3. Management is a continuous process:** The process of management mainly consists of planning, organizing, directing and controlling the resources. The resources (men and money) of an organizationshould be used to the best advantages of the organization and theobjectives to be achieved. The management function of any one alone cannot produce any results in the absence of any other basic functions of Management. So, management is a continuous process.

**4. Management achieving pre-determined objectives:** The objectives of an organization are clearly laid down. Every managerial activity results in the achievement of objectives fixed well in advance.

**5. Organized activities:** Management is a group of organized activities. A group is formed not only in a public limited company but also in an ordinary club. All the organizations have their own objectives. These objectives will be achieved only by a group of persons. These persons’ activities should be organized in a systematic way to achieve the objectives. The objectives cannot be achieved without any organized activities.

**6. Management is a factor of production:** The factors of production includes land, labour, capital and entrepreneurs. Here, land refers to a place where production is carried on. Labour refers to the paid employees of the organization who are working in different levels as skilled, unskilled, semiskilled,manager, supervisor and the like. Capital refers to the working capital as in the form of cash, raw materials and finished goods and fixed capital as in the form of plant facilities and production facilities. These land, labour and capital could not realize the organization’s goals. The organizationgoals are achieved only when these are effectively co-ordinated by the entrepreneur. An individual can do such type of job as in the case of small businesses. In the case of big sized business units, coordination job is done by the management. So, management is also treated as one of the factors of production

**7. Management as a system of activity:** A system may be defined as a set of component parts working as a whole. Authority may be defined as a right to command others for getting a particular course of organizational work done. Individuals are the foundation stones of the management. An individual has some goals as a member of the organization. There may be a conflict between his own goals and the management’s expectations from that individual. Such conflict is resolved by the management by ensuring balance between individual goals and organizational expectations.

Authority is vested with many persons to take decisions and influence thebehavior of the subordinates. The very purpose of using the authority is to check and control thebehavior of the subordinates.

**8. Management is a discipline:** The boundaries of management are not exact as those of any other physical sciences. It may be increased by the continuous discovery of many more aspects of business enterprise. So, the management status as a discipline is also increased in the same manner.

**9. Management is a purposeful activity:** Management is concerned with achievement of objectives of an organization. These objectives are achieved through the functions of planning, organizing, staffing, directing, controlling and decision-making. The organizational objectives are clearly defined and explained to every employee.

**10. Management is a distinct entity:** Management is distinct from its functional activities. Thefunctions have the nature of “to do” but the management has the nature of “how to get things done”. A manager requires some amount of skill and knowledge to get work done.

**11. Management aims at maximizing profit:** The available resources are properly utilized to get desired results. The results should be the maximizing profit or increasing profit by the economic function of a manager.

**12. Decision-making:** There are a number of decisions taken by the management every day. Decision making arises only when there is availability of alternative courses of action. If there is only one course of action, need for decision-making does not arise. The quality of decision taken by the manager determines the organizations’ performance. The success or failure of an organization depends upon the degree of right decision taken by the manager.

**13. Management is a profession:** Management is a profession because it possesses the qualities of a profession. A fund of knowledge is imparted and transferred in this profession and the same is followed by management. The established principles of management are applied in practice.

Now-a-days, management is developed as a career focused on certain specialization. Financial Management, Cash Management, Portfolio Management, Marketing Management, Personnel Management, Industrial Management and Business Management are some of the specializations of management. Specialists are appointed in the key posts of top management.

**14. Universal application:** The principles and practices of management are applicable not to any particular industry alone but applicable to every type of industry. The practice of management is different from one organization to another according to their nature.

**15. Management is getting thing done:** A manager does not actually perform the work but he gets things done by others. According to Knootz and O’Donnel, “management is the art of getting Things done through and with people in formally organized groups.”

**16. Management as a class or a team:** A class may be defined as a group of people having homogenous characteristics to achieve common objectives. Engineers and doctors are grouped as a class in a society. Each and every doctor has the same objectives in life. Just like engineers and doctors, the management people have got similar aspirations to achieve corporate objectives.

**17. Direction and control:** A manager can direct his sub-ordinates in the performance of a work and control them whenever necessary. If the available resources are not utilized properly by him, he fails to achieve the corporate objectives in the absence of direction and control. Generally, the direction and control deals with the activities of human effort.

**18. Dynamic:** The management is not static. In the fast developing business world, new techniques are developed and adopted by the management. Management is changed according to the social change.

The social change is the result of the changing business world.

**19. Management is needed at all levels:** The functions of management are common to all levels of organization. The top executives perform the functions of planning, organizing, directing, controlling and decision-making. The same functions are also performed by the lower level supervisor.

**20. Leadership quality:** Leadership quality is developed in the persons who are working in the top level management. According to R.C. Davis, “Management is the function of executive leadership everywhere.”

**FUNCTIONS OF MANAGEMENT**

Scholars in the field of management have their own classification of functions of management. Some scholars add few functions and delete some other functions. The important functions of management are briefly discussed below:

**1. Planning:** Planning is the primary function of management. Nothing can be performed without planning. Writing a book starts with planning. In short, planning refers to deciding in advance that which will be done in the near future. In the business world, the organization should achieve the objectives. In order to achieve objectives, the organization plans what is to be done, when it is to be done, how it is to be done, and by whom it is to be done. Messie says, “Planning Pervades Management”.

George R. Terry has rightly said “Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal. It is deliberate conscious research used to formulate the design and orderly sequence of actions through which it is expected to reach objectives. Planning should take place before doing; most individual or group efforts are made by determining before any operative action takes place, what shall be done, where, how and who shall do it”.

**2. Organizing:** Organizing is the distribution of work in group wise or section wise for effective performance. Organization provides all facilities which are necessary to perform the work. The business Developed, the organization takes responsibility to create some more departments under different managers. Hence, the organization divides the total work and co-ordinates all the activities by authority relationship. Besides, organizing defines the position of each person in the organization and determines the paths through which communication should flow. The manager would determine who should report to whom and how. According to Henry Fayol, “Organization is of two kinds, i.e., organization of the human factor and organization of the material factor. Organization of the human factor covers the distribution of work to those who are best suitable along with authority and responsibility. Organization of the material factor covers utilization of raw materials, plant and machinery etc.” According to Knootz and O’Donnell, “Organizing consists of conscious co-ordination of people towards a desired goal”.

**3. Staffing:** Staffing function comprises the activities of selection and placement of competent personnel. In other words, staffing refers to placement of right persons in the right jobs. Staffing includes selection of right persons, training to those needy persons, promotion of best persons, retirement of old persons, performance appraisal of all the personnel, and adequate remuneration of personnel. The success of any enterprise depends upon the successful performance of staffing function. According to Harold Knootz and Cyril O’Donnell, “the managerial function of staffing involves manning the organizational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure”.

**4. Directing:** The actual performance of a work starts with the function of Direction. Planning,organizing and staffing functions are concerned with the preliminary work for the achievement of Organizational objectives. But the direction deals with making the workers learn techniques to perform the jobs assigned to them. Direction includes guidance, supervision and motivation of employees. According to Joseph Massie, “Directing concerns the total manner in which a manager influences the action of his sub-ordinates. It is the final action of a manager in getting others to act after all preparations have been completed”.

**5. Co-coordinating:** All the activities are divided group wise or section wise under organizing function. Now, such grouped activities are co-ordinated towards the accomplishment of objectives of an organization. The difficulty of co-ordination depends upon the size of organization. The difficulty of Co-ordination is increased with the increasing of the size of the organization. According to Knootz and O’Donnell, “the last co-ordination occurs when individuals see how their jobs contribute to the dominant goals of the enterprise. This implies knowledge and understanding of enterprise objectives”.

**6. Motivating or actuating:** The goals are achieved with the help of motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers. This is done by a resourceful leader. The workers expect favorable climate conditions to

Work, fair treatment, monetary or non-monetary incentive, effective communication and gentleman approach. According to Earl P. Strong, “Motivating is the process of indoctrinating personnel with unity of purpose and the need to maintain a continuous, harmonious relationship”.

**7. Controlling:** Controlling function ensures that the achieved objectives conform to pre-planned objectives. Necessary corrective action may be taken if there is any deviation. The control is very easy whenever the organization has a fixed standard. A good system of control has the characteristics of economy, flexibility, understanding and adequacy to organizational needs. Prof. Theo Haimann defines, “Control is the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting, if necessary, to correct any deviation.” According to Henry Fayol, “control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles issued”.

**8. Innovation:** Innovation refers to the preparation of personnel and organization to face thechanges made in the business world. Continuous changes are being made in the business. Consumers are satisfied through innovation. Innovation includes developing new material, new products, and new techniques in production, new package, and new design of a product and cost reduction.

**9. Representation:** A manager has to act as a representative of a company. He has dealings with customers, suppliers, government officials, banks, financial institutions, trade unions and the like. It is the duty of every manager to have good relations with others.

**10. Decision-making:** Every employee of an organization has to take a number of decisions every day. Decision-making helps in the smooth functioning of an organization.

**11. Communication:** Communication is the transmission of human thoughts, views or opinions from one person to another person. Workers are informed about what should be done, where it is to be done, how it is to be done and when it is to be done. Communication helps the regulation of job and coordinate the activities. Planning, organizing, staffing, directing, coordinating, motivating or actuating and controlling are the main functions of management. Innovation, representation, decision-making and communication are the subsidiary functions of management.

**IMPORTANCE OF MANAGEMENT**

**1. Management meet the challenge of change:** In the modern business world, there are frequent changes. The changes place the business in a dangerous position. Only an efficient management can save the business from the dangers brought in by the challenges.

**2. Accomplishment of group goals:** The achievement of objectives of a business depends upon three factors. The proper planning of available resources, adjusting possibility of business unit with existing business environment and the quality of decision taken and control made by the business unit are the factors responsible for achieving objectives.

**3. Effective utilization of business:** There are eight ‘M’s in the business. These are said to be man, money, materials, machines, methods, motivation, markets and management. Management is the topmost of all other ‘M’s. Management has control over other remaining ‘M’s.

**4. Effective functioning of business:** Ability, experience, mutual understanding, co-ordination,motivation and supervision are some of the factors responsible for the effective functioning of business. Management makes sure that the abilities of workers are properly used and co-operation is obtained with the help of mutual understanding. Besides, management can know the expectation of workers and the expectation is fulfilled through motivation techniques.

**5. Resource development:** Efficient management is the life boat of any developed business. The resources of the business may be identified and developed by the management. The term ‘resources’ includes men, money, material and machines.

**6. Sound organization structure:** Management lays down the foundation for sound organizationstructure. Sound organization structure clearly defines the authority and responsibility relationship — who is responsible to whom, who will command whom and who is responsible for what. Care is taken in appointing qualified persons to the right job by the management.

**7. Management directs the organization:** The human mind directs and controls the functioning of human body. Similarly, the management directs and controls the functioning of an organization.

**8. Integrates various interests:** Each person has his own interests. These interests are different in nature. Management takes steps to integrate various interests to achieve the objectives of an organization.

**9. Stability:** The fluctuations of business are stabilized by the management. The fluctuations of business are caused by the changing policy of the government, pressures on the part of competitors and changing preferences of customers. The efficient management can run the business as per the policy framed by the government, face the competitors in the market and produce the articles as per the preferences of customers.

**10. Innovation:** New ideas are developed by the management and implemented in the organization. Better performance is achieved through new ideas.

**11. Co-ordination and team-spirit:** All the activities of business are grouped department-wise. Management co-ordinates the activities of different departments and establishes team-spirit to achieve the objectives.

**12. Tackling problems:** Good Management acts as a friend or a guide of workers while tackling problems. When workers get over confidence of solving the problems for effective performance of a job, they fail in tackling the problems efficiently.

**13. A tool for personality development:** Management gives direction to workers for effective performance of a job. Besides, new methods or techniques are taught to workers. The training facilities are arranged by the management. In this way, management is a tool to develop the personality of workers to raise their efficiency and productivity ability.

* **MANAGEMENT AS AN ART**
* Art consists different components like knowledge and skill that are applied to achieve some specific goals. The skills should be practiced regularly by the artist. Management also consists different components that are reelected top art. Therefore it is also regarded as an art.
* Marry Porker has defined, "Management as an art of getting things done through other people,”.
* Management consists following things components of art.

1. Management is creative.
2. Based on three factors (judgment, feeling, intuition).
3. Regularity
4. Result oriented
5. Improvement through continuous practice.
6. Use of skills, knowledge and intelligence
7. Management is innovative
8. Individual approach

* **MANAGEMENT AS A SCIENCE**
* Science is a systematic body of knowledge developed by research, experiences, experiments; observation etc. science is valued and verifiable.
* According to J.M. Keynes,” Science can be defined as a systematized body of knowledge which established the relationship between cause and effect.”
* Management can also be considered as a science because it also consists fundamental characters or feature of science. Followings are a major components of management, such component prove management as a science.

1. Body of knowledge
2. Scientific method for decision-making
3. Universal application
4. Cause and effect relationship
5. Validity and verifiable.

* All such characters and components are found in management, therefore, it is science. We can say that management is not a pure and natural science but it is a behavioral or social science.
* **MANAGEMENT AS A PROFESSION**
* Management is also regarded as a profession because the concept and component of the activities behavior and nature of professionals.
* According to A.S. Horn by,” Profession can be defined as an occupation specially required advance education and special training.”
* Followings component are included in profession.

1. Formal and advance education
2. Specialized knowledge.
3. Formation of professional association (registration, fees).
4. Service oriented or priority to service.
5. Code of conduct or ethics
6. Discipline
7. Social responsibility

* **MANAGEMENT PROCESS OR FUNCTIONS**
* Some writer classifies these functions into four types, some into five and some into six and seven.
* Newman and summer recognize only four functions, namely, organizing, planning, leading and controlling.
* Henri fayol identifies five functions of management, viz, planning, organizing, commanding, coordinating and controlling.
* Luther gulick states seven such functions under the catch word “POSDCORB” which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting.
* **Planning:-**
* Planning is the starting point of management process and all other functions of management are related to and dependent on planning function.
* Planning is the key to success, stability and prosperity in business. Planning is the function that determines in advance what should be done. It is looking ahead and preparing for the future. In other words, it is the determination of what is to be done, how and where it is to be done, which is to do it and how result are to be evaluated.
* **Organizing:-**
* Organizing is next to planning. It means to bring the resources (men, materials, machines, etc.) together and use them properly for achieving the objectives. To organize a business is to provide it with everything useful to its functioning; personnel, raw materials, tools, capital. All this may be divided into two main sections, the human organization and the material organization.
* The process of organizing include the following steps:
  + Determine objectives
  + Decision of authorities
  + Fitting individuals into job
  + Developing relationship in terms of authorities and responsibility
* **Staffing:**
* Staffing refers to manpower required for the execution of a business plan. Staffing, as managerial function, involves recruitment, selection, appraisal, remuneration and development of managerial personnel.
* Every business unit needs efficient, stable and cooperative staff for the management of business activities. Manpower is the most important asset of a business unit.
* **Directing (Leading):**
* After plans have been made and the organization has been established and staffed, the next step is to move towards its defined objectives. This function can be called by various names: “leading”, “directing”, “motivating”, and so on.
* Directing/leading is the responsibility of managers at all levels. They have to work as leaders of their subordinates. Leadership is essential on the part of managers for achieving organizational objectives.
  + **Communicating:**
* Communication (written or oral) is necessary for the exchange of facts, opinions, ideas and information between individual’s and departments. In an organization, communication is useful for giving information, guidance and instructions.
  + **Motivating:**
* Motivating is one managerial function in which a manager motivates his men to give their best to the Organization. It means to encourage people to take more interest and initiative in the work assigned.
* **Controlling:**
* Controlling is an important function of management. It is necessary in the case of individuals and departments so as to avoid wrong actions and activities.
* Controlling involves three broad aspects:
  + Establishing standards of performance,
  + Measuring work in progress and interpreting results achieved, and
  + Taking corrective actions, if required.
* Business plans do not give positive results automatically. It is rightly treated as the soul of management process. It is true that without planning there will be nothing to control .It is equally true that without control planning will be only an academic exercise Controlling is a continuous activity of a supervisory nature.

#### **Coordination:**

* The purpose of organizing, division of work, departmentation, and span of management, centralization and decentralization, delegation of authority and organization structure is to optimally achieve the organizational goals. This is possible if departments of the organization are co-ordinated in a unified direction.
* Once the activities of the organization are broken into smaller units which are re-grouped into departments (on the basis of similarity of features), managers need to coordinate the activities of these departments by communicating organizational goals to each department, setting departmental goals and linking the performance of each department with others so that all the departments collectively contribute towards the organizational goals. Coordination is “the process of linking the activities of various departments of the organization.”

**Reporting**

The reporting to management is a process of providing information to various levels of management so as to enable in judging the effectiveness of their responsibility centres and become a base for taking corrective measures, if necessary.

**Budgeting**

Budgeting in its general sense is the act of quantifying objectives in financial terms. Budgeting assists managers in [decision making process in an organization](https://www.accountantnextdoor.com/decision-making-process-what-every-accountant-must-know-about-making-decision/). It is the [function of the management accountant](https://www.accountantnextdoor.com/functions-of-management-accounting-functions-of-management-accountant-in-decision-making/) to provide information needed in budgeting process.

**PART: 2 PLANNING**

* **INTRODUCTION**
* Planning, in simple words, means to decide the objectives clearly and to prepare a plan. Thereafter to take suitable steps for the execution of the plan. Planning function is performed by managers at all levels. It is deciding the objective to be achieved and taking suitable follow-up steps for achieving the same.
* Planning is, now, universally accepted as a key/passport to success, progress and prosperity in business as well as in all other aspects of life. It acts as a base of all purposeful human activities. The concept of planning is old enough.
* In simple words, planning is deciding in advance what is to be done, when where, how and by whom it is to be done. Planning bridges the gap from where we are to where we want to go. It includes the selection of objectives, policies, procedures and programmes from among alternatives.
* **DEFINITIONS**
* According to Koontz and O'Donnell, "Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridges the gap between where we are and where we want to go. It makes it possible for things to occur which would not otherwise happen”.
* According to Philip Kotler, "Planning is deciding in the present what to do in the future. It is the process whereby companies reconcile their resources with their objectives and opportunities".
* According to George R Terry, "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of purposed activities believed necessary to achieve desired results".
* **PLANNING PROCESS**
* Planning involves the following steps:

1. **Awareness of opportunities and problems**

* The first step is the Awareness of business opportunities and problems. The manager must seek answers to the following questions:
  + What business opportunities are likely to arise in future?
  + What plans should be followed to exploit the business opportunities?
  + Is it necessary to devise a new plan?
  + What benefit the organization will get?

1. **Collection of information**

* The next step is to gather the information relating to planning to be done and find out the cause effect relationship between various factors.

1. **Determination of objectives**

* The objective must be specific and clear. It should indicate the end result of planning.

1. **Planning premises**

* Premises are the basic assumption on the basis of which planning is done. Trends in population, political and economic environment, availability of resources, government policies are the planning premises. There are two types of premises: controllable and non controllable (ex. Organizational policies). Controllable premises are within the control of the management. Non controllable premises are beyond the control of management (ex. Government policies).

1. **Alternative courses of actions**

* After establishment of planning premises, the various alternative course of action should be identified to achieve the organizational objective.

1. **Evaluation of alternatives**

* The various alternatives should be evaluated in terms of cost and benefit and select the most profitable alternatives.

1. **Selection of the alternatives**

* Evaluation of various alternatives leads to selection of the best alternative, i.e., adoption of the plan. This is the point of decision-making.

1. **Determination of secondary plan**

* After selecting the best course of action, the management has to select the secondary plan. The basic plan without the support of secondary plan cannot be implemented.

1. **Participation of employees**

* The employees must feel that the plans are for their interest and organizational interest. The employee should be involved at every stage of planning.

1. **Follow Up**

* It is necessary to see that plans are proceeding on the right lines. For this purpose, the difficulties involved in planning should be considered by having discussion with the employees.
* **PLANNING PREMISES**
* Different types of planning premises are:

1. Internal and external premises
2. Controllable, semi-controllable and non-controllable premises
3. Tangible and Intangible premises
4. **Internal and external premises:**

* Internal premises originate from factors within the premise. They relate to premises about the company’s internal policies and programmed, capital budgeting proposals, sales forecasts, personnel forecasts (skills and abilities of personnel) etc.
* External premises originate from factors outside the organization. These are the indirect-action environmental factors (social, political, technological etc.) which affect the organization. They are also non-controllable premises beyond the control of the organization.

1. General business and economic environment
2. Technological changes
3. Government policies
4. Population Growth
5. Political stability
6. Sociological factors
7. Demand for industry's product.
8. **Controllable, semi-controllable and non-controllable premises:**

* Controllable premises are those within the control of a business enterprise, such as, men, money, materials, policies, procedures, program etc. They can be controlled by a business enterprise to ensure better sales of its products. Semi-controllable premises are those which can be partially controlled by a business enterprise like, labor position in the market. Non-Controllable premises are those that lie beyond the control of a business enterprise. Wars, natural calamities and external environmental factors are non-controllable premises.

1. **Tangible and Intangible premises:**

* Tangible premises can be estimated in quantitative terms like production units, cost per unit etc. Intangible premises cannot be quantified, for example, goodwill of the firm, employer-employee relationships, leadership qualities of the managers, motivational factors that get employees to work etc.
* **TYPES OF PLAN**
* Plans can be described by their breadth, time frame, specificity, and frequency of use.

1. Breadth: Strategic versus operational plans. Strategic plans (long-term plans) are plans that apply to the entire organization, establish the organization’s overall goals, and seek to position the organization in terms of its environment. Operational plans (short-term plans) are plans that specify the details of how the overall goals are to be achieved.
2. Time frame: Short-term versus long-term plans. Short-term plans are plans that cover one year or less. Long-term plans are plans with a time frame beyond three years.
3. Specificity: Specific versus directional plans. Specific plans are plans that are clearly defined and leave no room for interpretation. Directional plans are flexible plans that setout general guidelines. (SeeExhibit7-3andPowerPointslide 7-14for illustrations on how specific planning and directional planning differ.)
4. Frequency of use: Single-use versus standing plans. A single-use plans a one-time plan specifically designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly.

**Type of breadth plan**

**Strategic Plans**

Strategic plans define the framework of the organization’s vision and how the organization intends to make its vision a reality.

* It is the determination of the long-term objectives of an enterprise, the action plan to be adopted and the resources to be mobilized to achieve these goals.
* Since it is planning the direction of the company’s progress, it is done by the top management of an organization.
* It essentially focuses on planning for the coming years to take the organization from where it stands today to where it intends to be.
* The strategic plan must be forward looking, effective and flexible, with a focus on accommodating future growth.
* These plans provide the framework and direction for lower level planning.

**Tactical Plans**

Tactical plans describe the tactics that the managers plan to adopt to achieve the objectives set in the strategic plan.

* Tactical plans span a short time frame (usually less than 3 years) and are usually developed by middle level managers.
* It details specific means or action plans to implement the strategic plan by units within each division.
* Tactical plans entail detailing resource and work allocation among the subunits within each division.

**Operational Plans**

Operational plans are short-term (less than a year) plans developed to create specific action steps that support the strategic and tactical plans.

* They are usually developed by the manager to fulfill his or her job responsibilities.
* They are developed by supervisors, team leaders, and facilitators to support tactical plans.
* They govern the day-to-day operations of an organization.
* Operational plans can be −
  + **Standing plans** − Drawn to cover issues that managers face repeatedly, e.g. policies, procedures, rules.
  + **Ongoing plans** − Prepared for single or exceptional situations or problems and are normally discarded or replaced after one use, e.g. programs, projects, and budgets.

**Frequency use type of plan**

**1. Standing Plans**

Standing plans are drawn to cover issues that managers face repeatedly.

For example, managers may be facing the problem of late- coming quite often.

Managers may, therefore, design a standing plan to be implemented automatically each time an employee is late for work. Such a standing plan may be called standard operating procedure (SOP).

Mission or purpose, strategies, policies, procedures, rules are some of the most common standing plans.

**Mission or purpose**

Mission or purpose, often used interchangeably, identifies the basic task of an organization for which it is created.

For example, the mission of a University is to impart higher education.

The mission of the garments factory is to produce and sell ready-made garments and so on.

**Strategy**

The strategy is another type of broad-based standing plan which helps the determination of the basic long-term objectives of an enterprise and adoption of courses of action and allocation of resources necessary to achieve these objectives.

**Policies**

Policies are, in most cases, standing plans. As a matter of fact, policies provide guidelines for repetitive actions.

They define an area or provide limits within which decisions are to be made and ensure that the decision will be consistent with, and contribute to, an objective.

Policies are types of plans that allow decision-makers some discretion to carry out a plan.

Otherwise, there will be no difference between policies and rules.

Policies must allow for some discretion. Policies help decide issues before they become problems and make it unnecessary to analyze the same situation every time it comes up.

It permits managers to delegate authority and still maintain control over subordinates about the matter.

There are many types of policies.

Instances are found in the policies of hiring only university-trained engineers, promotion from within, encouraging an employee suggestion system for improved organizational performance, setting competitive prices etc.

Some policies could originate from customary and general ways of behavior in an organization.

Some of them are put in place through verbal statements or in writing.

For example, there might be a policy in an organization that “except for token gifts of very nominal value or advertising value, no employee shall accept any gift from any supplier.”

Such formal policies are usually written down in company manuals or regulations for employees.

The policy is a means of encouraging discretion and initiative but within limits. The amount of discretion usually depends on the policy and the position and authority occupied in the organization.

Since policies are general in nature, they provide guidelines as to how the employees will carry out their jobs.

While policies provide managers with some flexibility in approaching various organizational problems, this generality again makes policies rather vague.

Control becomes difficult when people start interpreting policy meaning and purpose differently.

**Rules**

Rules Like policies, rules, too, are standing plans that guide action. Rules spell out specifically what employees are supposed to do or not to do.

For example, the no-smoking campaign launched by some organizations is supported by some organizational rules. As opposed to policies, rules do not permit the exercise of individual discretion.

Instead, rules specify what actions will be taken (or not taken) and what behavior is permitted or not. Policies, on the other hand, tell people how to think about decisions to be made about actions.

**Procedures**

Procedures Like rules, procedures are standing plans that provide guidance for action rather than speculation.

They are plans that establish a required method of handling future activities.

Procedures establish customary ways for handling certain activities like hiring a clerk, promoting employees, obtaining a loan from a bank.

The major characteristic of a procedure is that it represents a chronological sequencing of events.

It specifies a series of steps that must be taken to accomplish a task. Specified series of steps that are required to be taken for admission into the MBA program of AUB is an example of the procedure.

**2. Single-use Plans**

Single-use plans are prepared for single or unique situations or problems and are normally discarded or replaced after one use.

Generally, four types of single-use plans are used. These are—

1. objectives/goals,
2. programs,
3. projects,
4. Budgets.

**Objectives or Goals**

Objectives or goals, often used interchangeably, are the ends toward which activity is aimed.

They represent not only the end point of planning but also the end toward which all other managerial functions are aimed.

In fact, objectives are set in relation to a particular time period and thus the same objective is not repeated year after year, month after month or day after day.

[**Objectives or goals are divided into 3 types**](https://iedunote.com/organizational-goals)**.**

**Programs**

Programs are plans of action followed in proper sequence according to objectives, policies, and procedures.

Thus a program lays down the major steps to be taken to achieve an objective and sets an approximate time frame for its fulfillment.

Programs are usually supported by budgets.

A program may be a major or a minor one or long, medium or short-term one. Since it is not used in the same form once its task is over it belongs to single-use plan category.

**Projects**

A project is a particular job that needs to be done in connection with a general program. So a single step in a program is set up as a project.

A project has a distinct object and clear-cut termination.

“Projects have the same characteristics as programs but are generally narrower in scope and less complex. Projects are frequently created to support or complement a program.”

**Budgets**

A budget is a statement of expected results expressed in numerical terms.” It is sometimes called the enumerated program and most commonly expressed in terms of money i.e. Rupee, Euro, and Dollar etc.

They may also be expressed in terms of any measurable unit like an hour, metric ton etc.

It covers a particular period of time, and once the period is over, a new budget comes into being. It not only a planning tool but also works as a controlling tool.

Unit – 2

“FORECASTING “

* **MEANING**
* Forecasting is a process of predicting or estimating the future based on past and present data. Forecasting provides information about the potential future events and their consequences for the organization. It may not reduce the complications and uncertainty of the future. However, it increases the confidence of the [management](http://kalyan-city.blogspot.com/2011/04/what-is-management-definitions-meaning.html) to make important decisions.
* Forecasting is the basis of premising. Forecasting uses many statistical techniques. Therefore, it is also called as **Statistical Analysis**.
* A planning tool that helps management in its attempts to cope with the uncertainty of the future, relying mainly on data from the past and present and analysis of trends.
* Forecasting starts with certain assumptions based on the management's experience, knowledge, and judgment.

**Features or Characteristics of Forecasting**

The following are the features or characteristics of forecasting:

* Forecasting is concerned with future events.
* Forecasting is necessary for planning process. Planning is not possible without forecasting.
* The impact of future events has to be considered in the planning process.
* Forecasting is a guessing of future events. Therefore, the future events that might happen could be guessed only to some extent.
* Inferences or conclusions are drawn from past and present relevant events under scientific forecasting.
* Forecasting considers all the factors which affect organizational functions.
* The analysis of various factors may require the use of scientific, mathematical and statistical techniques.
* Personal observation also helps in forecasting.
* The application of scientific, mathematical and statistical techniques is much more reliable than the use of ordinary tools for obtaining conclusions.
* **PROCESS**
* Procedure, stages or general steps involved in forecasting are given below:-
* **Analyzing and understanding the problem :**
* The manager must first identify the real problem for which the forecast is to be made. This will help the manager to fix the scope of forecasting.
* **Developing sound foundation :**
* The management can develop a sound foundation, for the future after considering available information, experience, type of business, and the rate of development.
* **Collecting and analyzing data :**
* Data collection is time consuming. Only relevant data must be kept. Many statistical tools can be used to analyze the data.
* **Estimating future events :**
* The future events are estimated by using trend analysis. Trend analysis makes provision for some errors.
* **Comparing results :**
* The actual results are compared with the estimated results. If the actual results tally with the estimated results, there is nothing to worry. In case of any major difference between the actual and the estimates, it is necessary to find out the reasons for poor performance.
* **Follow up action :**
* The forecasting process can be continuously improved and refined on the basis of past experience. Areas of weaknesses can be improved for the future forecasting. There must be regular feedback on past forecasting.
* **IMPORTANCE OF FORECASTING**

#### 1. Promotion of new business:

Forecasting is of utmost importance in setting up a new business. It is not an easy task to start a new business as it is full of uncertainties and risks. With the help of forecasting the promoter can find out whether he can succeed in the new business; whether he can face the existing competition; what is the possibility of creating demand for the proposed product etc.

After discovering the business opportunity, he will see the possibilities of assembling men, money, materials etc. The success of a business unit depends upon as to how sound is the forecasting? Proper forecasting will help to minimize the role of luck or chance in determining business success or failure. A successful promoter is also the prophet of economic conditions.

#### 2. Estimation of financial requirements:

The importance of forecasting can’t be ignored in estimating the financial requirements of a concern. Efficient utilization of capital is a delicate issue before the management. No business can survive without adequate capital. But adequacy of either fixed or working capital depends entirely on sound financial forecasting.

Financial estimates can be calculated in the light of probable sales and cost thereof. How much capital is needed for expansion, development etc., will depend upon accurate forecasting?

#### 3. Smooth and continuous working of a concern:

‘Forecasting of earnings’ ensures smooth and continuous working of an enterprise, particularly to newly established ones. By forecasting, these concerns can estimate their expected profits or losses. The object of a forecast is to reduce in black and white the details of working of a concern.

#### 4. Correctness of management decisions:

The correctness of management decisions to a great extent depends upon accurate forecasting. As Meivin, T. Copeland says, “Administration is essentially a decision making process and authority has responsibility for making decisions and for ascertaining that the decisions made are carried out.

In business, whether the enterprise is large or small, changes in conditions occur; shifts in personnel take place, unforeseen contingencies arise. Moreover, just to get the wheels started and to keep them turning, decisions must be made.”

This shows that the decision making process continues throughout the life of the concern. Forecasting plays an important role in various fields of the concern. As in the case of production planning, management has to decide what to produce and with what resources. Thus forecasting is considered as the indispensable component of business, because it helps management to take correct decisions.

#### 5. Success in business

The accurate forecasting of sales helps to procure necessary raw materials on the basis of which many business activities are undertaken. The accurate sales forecasting becomes the basis for several other budgets. In the absence of accurate sales forecasting, it is difficult to decide as to how much production should be done.

Thus, to a great extent, the budgets of other departments depend upon the compilations based on the sales forecasts and the accuracy of these budgets also depends upon correctness of sales forecasting. Thus, the success of a business unit depends on the accurate forecasting by the various departments.

#### 6. Plan Formulation:

The importance of correct forecasting is apparent from the Key role it plays in planning. It should not go unaccounted that forecasting is an essential element in planning since planning premises include some forecasts. There are forecast data of a factual nature having enormous implication on sound premises.

Undoubtedly, forecasting is a prelude to planning and indeed it is the foundation on which planning takes place. Infect, planning under all circumstances and in all occasions involve a good deal of forecasting, i.e. appraising the future in the light of existing conditions and environment. Forecasting and planning are closely related. Adequate planning, no matter whether it is overall or sectoral, short-term or long term, largely depends on forecasting.

#### 7. Co-Operation and co-ordination:

Forecasting is not one man’s job. It needs proper co-ordination of all departmental heads in a company. Thus, by bringing participation of all concerned in the process of forecasting, team spirit and co­ordination is automatically encouraged.

According to Henry Fayol, “The act of forecasting is of great benefit to all who take part in the process, and is the best means of ensuring adaptability to changing circumstances. The collaboration of all concerned leads to a united front, an understanding of the reasons for decisions and a broadened outlook.”

#### 8. Complete Control:

Forecasting provides the information which helps in the achievement of effective control. The managers become aware of their weaknesses during forecasting and through implementing better effective control they can overcome these weaknesses

* **LIMITATIONS OF FORECASTING**

### 1] Just Estimates

The future will always be uncertain. Even if use the best of forecasting techniques and account for every aspect imaginable, a forecast is still just an estimate. One can never predict future events with 100% success. So even the best-laid plans may amount to nothing. This will always remain one of the biggest limitations of forecasting.

### 2] Based on Assumptions

The basis of any forecasting method is assumptions, approximations, normal conditions, etc. This makes these forecasts unreliable. So one must always keep in mind the inherent limitations of forecasting and be cautious in being over-reliant on them.

### 3] Time and Cost Factors

The data and information required to make formal forecasts are generally a lot. And the collection and tabulation of such data involve a lot of time and money. The conversion of qualitative data into quantitative data is also another factor. One must be careful that the time, money and effort spent forecasting must not outweigh the actual benefits from such forecasts.

* **TECHNIQUES OF FORECASTING**
* A large number of forecasting techniques have been developed during the past few decades

#### **1. Historical Analogy Method:**

Under this method, forecast in regard to a particular situation is based on some analogous conditions elsewhere in the past. The economic situation of a country can be predicted by making comparison with the advanced countries at a particular stage through which the country is presently passing.

Similarly, it has been observed that if anything is invented in some part of the world, this is adopted in other countries after a gap of a certain time. Thus, based on analogy, a general forecast can be made about the nature of events in the economic system of the country. It is often suggested that social analogies have helped in indicating the trends of changes in the norms of business behavior in terms of life.

Likewise, changes in the norms of business behavior in terms of attitude of the workers against inequality, find similarities in various countries at various stages of the history of industrial growth. Thus, this method gives a broad indication about the future events of general nature.

**ADVANTAGES**

* The main advantage of historical research is that is permits theinvestigation of topics that could be studied in no other way.
* It is the only research method that can study evidence from the past.
* The historical method is well suited for trend analysis.

**Disadvantages:**

* Cannot control for threats to internal validity
* Limitations are imposed due to the content analysis
* Researchers cannot ensure representation of the sample.
* Bias in interpreting historical sources.
* Interpreting sources is very time consuming.
* Sources of historical materials may be problematic
* Lack of control over external variables

**2. Survey Method:**

Surveys can be conducted to gather information on the intentions of the concerned people. For example, information may be collected through surveys about the probable expenditure of consumers on various items. Both quantitative and qualitative information may be collected by this method.

On the basis of such surveys, demand for various products can be projected. Survey method is suitable for forecasting demand—both of existing and new products. To limit the cost and time, the survey may be restricted to a sample from the prospective consumers.

### Advantages

* Relatively easy to administer
* Can be developed in less time (compared to other data-collection methods)
* Cost-effective, but cost depends on survey mode
* Can be administered remotely via online, mobile devices, mail, email, kiosk, or telephone.
* Conducted remotely can reduce or prevent geographical dependence
* Capable of collecting data from a large number of respondents
* Numerous questions can be asked about a subject, giving extensive flexibility in data analysis
* With survey software, advanced statistical techniques can be utilized to analyze survey data to determine validity, reliability, and statistical significance, including the ability to analyze multiple variables
* A broad range of data can be collected (e.g., attitudes, opinions, beliefs, values, behavior, factual).
* Standardized surveys are relatively free from several types of errors

### Disadvantages

The reliability of survey data may depend on the following factors:

* Respondents may not feel encouraged to provide accurate, honest answers
* Respondents may not feel comfortable providing answers that present themselves in a unfavorable manner.
* Respondents may not be fully aware of their reasons for any given answer because of lack of memory on the subject, or even boredom.
* Surveys with closed-ended questions may have a lower validity rate than other question types.
* Data errors due to question non-responses may exist. The number of respondents who choose to respond to a survey question may be different from those who chose not to respond, thus creating bias.
* Survey question answer options could lead to unclear data because certain answer options may be interpreted differently by respondents. For example, the answer option “somewhat agree” may represent different things to different subjects, and have its own meaning to each individual respondent.  ‘Yes’ or ‘no’ answer options can also be problematic. Respondents may answer “no” if the option “only once” is not available.
* Customized surveys can run the risk of containing certain types of errors

**3. Opinion Poll:**

Opinion poll is conducted to assess the opinion of the experienced persons and experts in the particular field whose views carry a lot of weight. For example, opinion polls are very popular to predict the outcome of elections in many countries including India. Similarly, an opinion poll of the sales representatives, wholesalers or marketing experts may be helpful in formulating demand projections.

If opinion polls give widely divergent views, the experts may be called for discussion and explanation of why they are holding a particular view. They may be asked to comment on the views of the others, to revise their views in the context of the opposite views, and consensus may emerge. Then, it becomes the estimate of future events.

### **The Pros of Opinion Polling**

**1. A majority opinion can be determined without an election.**  
Opinion polls are an easy way to see how the general public is thinking or feeling about any given subject. Instead of the costs of a referendum or an election on the issue, opinion polls can help those in leadership to determine what the best response should be from the governing body. This applies in the business world just as it does the political world.

**2. Randomness helps to create more potential accuracy.**  
Because opinion polls are usually random interviews of average people within a core demographic, the information is generally accurate when it goes outward to the feelings of the entire demographic. Although small population samples hinder this process [100 people out of 100 million is hardly reflective], large population samples can create some solid information.

**3. Facts can help people identify thinking errors.**  
Many people form opinions based on what they see as relevant facts. If those facts can be proven false thanks to data collected through opinion polls and other avenues, then it becomes possible for people to find a way to change their mind or deepen their perspective. This happens because opinion polls give people the opportunity to see their perspectives through the eyes of another.

**4. It is highly affordable to complete.**  
To complete an opinion poll, all someone has to do is pick up a telephone or head out into the streets to begin speaking with people. Many polls can be completed over the course of a day or two with very minimal effort and then the data can be compiled to create relevant information.

### **The Cons of Opinion Polling**

**1. The results can influence others in a negative way.**  
Opinion polls that are released in real-time can have a detrimental effect on certain population groups. A classic example of this is during the US Presidential election every 4 years. Because there is a 3 hour time difference from the East Coast and West Coast of the US, opinion polls that dictate a projected winner when some states are still voting can influence the actions of others.

**2. The results are not always accurate.**  
The answers given in an opinion poll are not always a true reflection of what a person’s opinion happens to be. Opinions are nuanced and subtle, based on individual experiences and thoughts. A simple “yes” or “no” doesn’t reflect those nuances at all. Someone might say “yes” to being pro-choice, yet their opinion regarding the subject has varying degrees of nuance that might make it seem like they could say “yes” to being pro-life as well.

**3. Samples are only a random reflection of opinions.**  
The random sampling process helps to eliminate errors, but it also means that there is the possibility that only a small sub-section of a targeted demographic has been interviewed for the poll. If you take 100 random people in any group from the street and ask them a question, there’s a chance that you could 100 similar answers. That’s the nature of randomness.

**4. People can try to alter the results of an opinion poll by providing false answers.**  
The one primary weakness of an opinion poll is that it must make an assumption that everyone interviewed is telling the truth. If enough people got involved with a poll and wanted to alter the results by giving false opinions, then the information would be skewed and no one would ever realize it.

**4. Business Barometers:**

A barometer is used to measure the atmospheric pressure. In the same way, index numbers are used to measure the state of an economy between two or more periods. These index numbers are the device to study the trends, seasonal fluctuations, cyclical movements, and irregular fluctuations.

These index numbers, when used in combination with one another, provide indications as to the direction in which the economy is proceeding. Thus, with the business activity index numbers, it becomes easy to forecast the future course of action.

However, it should be kept in mind that business barometers have their own limitations and they are not sure road to success. All types of business do not follow the general trend but different index numbers have to be prepared for different activities, etc.

**5. Time Series Analysis:**

Time series analysis involves decomposition of historical series into its various components, viz. trend, seasonal variances, cyclical variations, and random variances. When the various components of a time series are separated, the variation of a particular situation, the subject under study, can be known over the period of time and projection can be made about the future.

A trend can be known over the period of time which may be true for the future also. However, time series analysis should be used as a basis for forecasting when data are available for a long period of time and tendencies disclosed by the trend and seasonal factors are fairly clear and stable.

**Advantages**

## Reliability

Historical data used in time series tests represent conditions reporting along a progressive, linear chart. The time series method of forecasting is the most reliable when the data represents a broad time period. Information about conditions can be extracted by measuring data at various time intervals -- e.g., hourly, daily, monthly, quarterly, annually or at any other time interval. Forecasts are the soundest when based on large numbers of observations for longer time periods to measure patterns in conditions.

## Seasonal Patterns

Data points variances measured and compared from year to year can reveal seasonal fluctuation patterns that can serve as the basis for future forecasts. This type of information is of particular importance to markets whose products fluctuate seasonally, such as commodities and clothing retail businesses. For retailers, for instance, time series data may reveal that consumer demand for winter clothes spikes at a distinct time period each year, information that would be important in forecasting production and delivery require.

## Trend Estimations

As a linear model of analysis, the time series method can also be used to identify trends. Data tendencies reporting from time series charts can be useful to managers when measurements show an increase or decrease in sales for a particular product or good. For example, an upward trend in the daily sales for widget X at a particular franchise store may serve the basis for trend estimation at similarly situated franchise stores.

## Growth

The time series method is a useful tool to measure both financial and endogenous growth, according to Professor Hossein Arsham of the University of Baltimore. In contrast with financial growth, endogenous growth is the development that occurs from within from an organization's internal human capital that can lead to economic growth. The impact of policy variables, for instance, can be evidenced through time series tests.

#### Disadvantages

(a) Selection of Base Year:

It is not so easy to select the base year. Usually, a normal year is taken as the base year. But it is very difficult to select such a base year for the propose of ascertaining the trend. Otherwise, comparison or trend analyses will be of no value.

(b) Consistency:

It is also very difficult to follow a consistent accounting principle and policy particularly when the trends of business accounting are constantly changing.

(c) Useless in Inflationary Situations:

Analysis of trend percentage is useless at the time of price-level change (i.e. in inflation). Trends of data which are taken for comparison will present a misleading result

#### **Analyzing the Impact of Single Events**

When you try to assess the impact of a single event, the major problem is that there are always many events occurring at any one time. Suppose you are trying to assess the effect of a new toll on bridge A on traffic across bridge B, but a new store opened near bridge B the same day the toll was introduced, permanently increasing traffic on bridge B. When critics remind us that "correlation does not imply causation", they are mostly talking about the possible effects of overlooked *variables*. But in these time-series examples we are talking about the possible effects of overlooked *events*. It's difficult to say which type of problem is more intractable, but they do seem to be two different types of problem.

#### **Analyzing Causal Patterns**

When scientists use time series to study the effects of one variable on another, they usually have at least two time series--one for the independent variable and one for the dependent--as in our earlier example on the relation between unemployment and crime. The problems in analyzing causal patterns are difficult but not impossible.

One problem with such research is that because the observations within each series are not independent of each other, the probability of finding a high correlation between the two series may be higher than is suggested by standard formulas. Later we describe a solution to this problem.

A second problem is that it is rarely reasonable to assume that the time sequence of the causal patterns matches the time periods in the study. Thus if increased unemployment typically produced an increase in crime exactly six months later but not five months later, then it would be fairly easy to discover that relationship by correlating monthly changes in unemployment with monthly changes in crime six months later. However, it is much more plausible to assume that increased unemployment in January produces a slight rise in crime during February, a further slight rise during March, and so on for several months. Such effects can be much more difficult to detect, though later we do suggest a solution to this problem.

A third problem in analyzing causal patterns is the familiar problem that correlation does not imply causation. As in ordinary regression problems, it helps to be able to control statistically for covariates. Later we describe one way to do this in time-series problems.

**6. Regression Analysis:**

Regression analysis is meant to disclose the relative movements of two or more inter-related series. It is used to estimate the changes in one variable as a result of specified changes in other variable or variables. In economic and business situations, a number of factors affect a business activity simultaneously.

Regression analysis helps in isolating the effects of such factors to a great extent. For example, if we know that there is a positive relationship between advertising expenditure and volume of sales or between sales and profit, it is possible to have estimate of the sales on the basis of advertising, or of the profit on the basis of projected sales, provided other things remain the same.

**Advantages**

## Making Predictions and Forecasts

Forecasting future results is the most common application of regression analysis in business.

As with the example of the juice truck, regression methods are useful for making predictions about a dependent variable, sales in this case, as a result of changes in an independent variable – temperature.

Another example is when insurance companies use regression programs to predict the number of claims based on the credit scores of the insureds.

## Improving Business Efficiency

Managers exploit the advantages of regression models in finding ways to improve the efficiency of business processes.

The owner of the juice truck used regression techniques to determine more economical order quantities based on weather forecasts. This same analysis might even help him in scheduling work hours for employees and also lay the groundwork for ordering another truck to exploit a different location.

## Supporting Business Decisions

Business owners are always looking for ways to improve and use resources effectively. Making decisions is never a sure thing, but regression analysis can improve the odds for getting better results.

Suppose the marketing department wants to increase the frequency of radio and television ads. What is the likelihood that the increased ad frequency will lead to a rise in sales? Will the profits from any sales growth be enough to offset the cost of more ads?

A regression analysis could provide some insight into the connection between increased advertising and profitable sales growth.

## Analyzing Results and Correcting Errors

Regressions models are useful to analyze the actual results from decisions that might seem, at first, intuitively correct.

For example, extending store hours might be expected to increase sales. But, will it?

Liquor store owners in one state lobbied for the right to stay open on Sundays, thinking this would increase sales. However, regression analysis revealed that total sales for seven days turned out to be the same as when the stores were open six days. The only difference was the increased cost to stay open the extra day.

## Finding New Opportunities

With the increased capacity of today's computers, point-of-sale data from actual sales and reams of information from governments and industry associations, it is possible to mine this data to find previously unknown relationships between independent variables and dependent variables.

## Regression Analysis in Action

Wal-Mart is a good example of a company that has used this technique.

Wal-Mart management wanted to know which products customers purchased before a storm. A regression analysis of the company's vast sales database revealed a surprising answer. Strawberry Pop-Tarts. Sales for this ready-to-eat pastry increased seven times the normal rate before a hurricane. Beer, of course, was the top-selling item.

Recognizing their customers' fondness for pop-tarts and beer before a storm, Walmart store managers in the path of a storm would order increased quantities of both items.

Astute small business owners will recognize the advantages of regression methods in helping them better manage their businesses.

**7. Input-Output Analysis:**

According to this method, a forecast of output is based on given input if relationship between input and output is known. Similarly, input requirement can be forecast on the basis of final output with a given input-output relationship. The basis of this technique is that the various sectors of economy are inter­related and such inter-relationships are well-established.

For example, coal requirement of the country can be predicted on the basis of its usage rate in various sectors like industry, transport, household, etc. and how the various sectors behave in future. This technique yields sector-wise forecasts and is extensively used in forecasting business events as the data required for its application are easily obtained.

Advantages

i) A producer can know from the input-output table, the varieties and quantities of goods which he and the other firms buy and sell to each other. In this way, he can make the necessary adjustments and thus improve his position vis-a-vis other producers.

(ii) It is also possible to find out from the input-output table the interrelations among firms and industries about possible trends towards combinations.

(iii) The repercussions of a prolonged strike, of a war and of a business cycle on an industry can be easily understood from the input-output table.

(iv) The input-output model has come to be used for national income accounting because it provides a more detailed breakdown of the macro aggregates and money flows.

(v) It provides for individual branches of the economy’s estimates of production and import levels that are consistent with each other and with the estimates of final demand.

(vi) The input-output model aids in the allocation of the investment required to achieve the production levels in production programme.

(vii) The requirements for skilled labour can be evaluated in the same way.

(viii) The analysis of import requirements and substitution possibilities is facilitated by the knowledge of the use of domestic and import materials in different branches of an industry.

(ix) In addition to direct requirements of capital, labour and imports, the indirect requirements in other sectors of an industry can also be estimated.

Disadvantages

(i) The input-output analysis is based on the basic premise that the input coefficients are fixed. There is constant returns to scale in production and techniques of production remain unchanged.

(ii) The assumption of fixed coefficients of production ignores any possibility of factor substitution.

A firm or an industry always finds it possible to substitute one factor for another to some extent. Substitution possibilities are much smaller in the short ‘run than in the long run, yet these possibilities very much exist. These an: completely ignored in the input-output analysis.

(iii) Final demand is also taken in the input-output analysis. Final demand is taken as given and treated as independent of the production sector.

(iv) Input-output analysis is based on linear equations relating outputs of one industry to inputs of the others. This appears unrealistic, as increase in output do not always require proportionate increase in inputs.

(v) Input-output analysis also ignores price changes. If the prices , of inputs change, it will lead to adjustments in inputs and outputs. Input output analysis has no way to include the mechanism of price adjustment.

(vi) Input-output model is technical in nature. It is severely simplified and restricted as it lays exclusive emphasis on the production side. It tells us that how much outputs are possible with the given inputs.

**Difference between Planning and Forecasting**

Both forecasting and planning deal with future events. In spite of the differences between them, they are briefly explained below:

|  |  |
| --- | --- |
| **Planning** | **Forecasting** |
| * Planning is basis for the future course of action. | * Forecasting is the basis for planning. |
| * It is done at the top management level. | * It is done at the middle or lower level of management |
| * Planning is not a tool for forecasting. | * Forecasting is a tool of planning. |
| * Planning can be done by any person. | * Forecasting is done by experts. |
| * Planning helps to arrive at certain decisions. They are regarding what is to be done, how is to be done and when is to be done. | * No decision can be taken without the help of forecasting. |
| * A large number of persons are involved in planning process. | * A few members are involved in forecasting process. |
| * Planning stimulates some activity to achieve the objective of organizations. | * Forecasting does not stimulate the activity among employees. |

Unit – 3

PART-I “DECISION MAKING “

* **INTRODUCTION**
* Decision-making is an essential aspect of modern management. It is a primary function of management. A manager's major job is sound/rational decision-making. He takes hundreds of decisions consciously and subconsciously. Decision-making is the key part of manager's activities. Decisions are important as they determine both managerial and organizational actions. A decision may be defined as "a course of action which is consciously chosen from among a set of alternatives to achieve a desired result." It represents a well-balanced judgment and a commitment to action.
* It is rightly said that the first important function of management is to take decisions on problems and situations. Decision-making pervades all managerial actions. It is a continuous process. Decision-making is an indispensable component of the management process itself.
* **DEFINITIONS**
* The Oxford Dictionary defines the term decision-making as "the action of carrying out or carrying into effect".
* According to Trewatha& Newport, "Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem".

**Characteristics of Decision Making**

* The following are the characteristics of decision making:
* Decision making is a selection process.
* Decision making is the end process. It is preceded by detailed discussion and selection of alternatives.
* Decision making is the application of intellectual abilities to a great extent.
* Decision making is a dynamic process.
* Decision making is situational.
* A decision may be either negative or positive.
* Decision making involves the evaluation of available alternatives through critical appraisal methods.
* Decision is taken to achieve the objectives of an organization
* **PROCESS**
* Following are the important steps of the decision making process. Each step may be supported by different tools and techniques.

1. **Identifying the Problem:** Identification of the real problem before a business enterprise is the first step in the process of decision-making.

* It is rightly said that a problem well-defined is a problem half-solved. Information relevant to the problem should be gathered so that critical analysis of the problem is possible. This is how the problem can be diagnosed.
* Clear distinction should be made between the problem and the symptoms which may cloud the real issue. In brief, the manager should search the 'critical factor' at work. It is the point at which the choice applies.
* Similarly, while diagnosing the real problem the manager should consider causes and find out whether they are controllable or uncontrollable.

1. **Analyzing the Problem:** After defining the problem, the next step in the decision-making process is to analyze the problem in depth. This is necessary to classify the problem in order to know who must take the decision and who must be informed about the decision taken. Here, the following four factors should be kept in mind:

* Futurity of the decision,
* The scope of its impact,
* Number of qualitative considerations involved, and
* Uniqueness of the decision.
* Collecting Relevant Data: After defining the problem and analyzing its nature, the next step is to obtain the relevant information/ data about it. There is information flood in the business world due to new developments in the field of information technology. All available information should be utilized fully for analysis of the problem. This brings clarity to all aspects of the problem.

1. **Developing Alternative Solutions:** After the problem has been defined, diagnosed on the basis of relevant information, the manager has to determine available alternative courses of action that could be used to solve the problem at hand.

* Only realistic alternatives should be considered. It is equally important to take into account time and cost constraints and psychological barriers that will restrict that number of alternatives.
* If necessary, group participation techniques may be used while developing alternative solutions as depending on one solution is undesirable.

1. **Selecting the Best Solution:** After preparing alternative solutions, the next step in the decision-making process is to select an alternative that seems to be most rational for solving the problem.

* The alternative thus selected must be communicated to those who are likely to be affected by it. Acceptance of the decision by group members is always desirable and useful for its effective implementation.

1. **Converting Decision into Action:** After the selection of the best decision, the next step is to convert the selected decision into an effective action. Without such action, the decision will remain merely a declaration of good intentions.

* Here, the manager has to convert 'his decision into 'their decision' through his leadership. For this, the subordinates should be taken in confidence and they should be convinced about the correctness of the decision. Thereafter, the manager has to take follow-up steps for the execution of decision taken.

1. **Ensuring Feedback:** Feedback is the last step in the decision-making process. Here, the manager has to make built-in arrangements to ensure feedback for continuously testing actual developments against the expectations.

* It is like checking the effectiveness of follow-up measures. Feedback is possible in the form of organized information, reports and personal observations.
* Feedback is necessary to decide whether the decision already taken should be continued or be modified in the light of changed conditions.
* **TECHNIQUES OF DECISION MAKING**
* **DECISION TREE**
* A decision tree is a [decision support](https://en.wikipedia.org/wiki/Decision_support_system) tool that uses a tree like [graph](https://en.wikipedia.org/wiki/Diagram) or [model](https://en.wikipedia.org/wiki/Causal_model) of decisions and their possible consequences , including [chance](https://en.wikipedia.org/wiki/Probability) event outcomes, resource costs, and [utility](https://en.wikipedia.org/wiki/Utility). It is one way to display an [algorithm](https://en.wikipedia.org/wiki/Algorithm).
* Decision trees are commonly used in [operations research](https://en.wikipedia.org/wiki/Operations_research), specifically in [decision analysis](https://en.wikipedia.org/wiki/Decision_analysis), to help identify a strategy most likely to reach a [goal](https://en.wikipedia.org/wiki/Goal), but are also a popular tool in [machine learning](https://en.wikipedia.org/wiki/Decision_tree_learning).
* They provide a highly effective structure within which you can lay out options and investigate the possible outcomes of choosing those options. They also help you to form a balanced picture of the risks and rewards associated with each possible course of action.
* A decision tree consists of 3 types of nodes:
* Decision nodes - commonly represented by squares
* Chance nodes - represented by circles
* End nodes - represented by triangles

## Drawing a Decision Tree

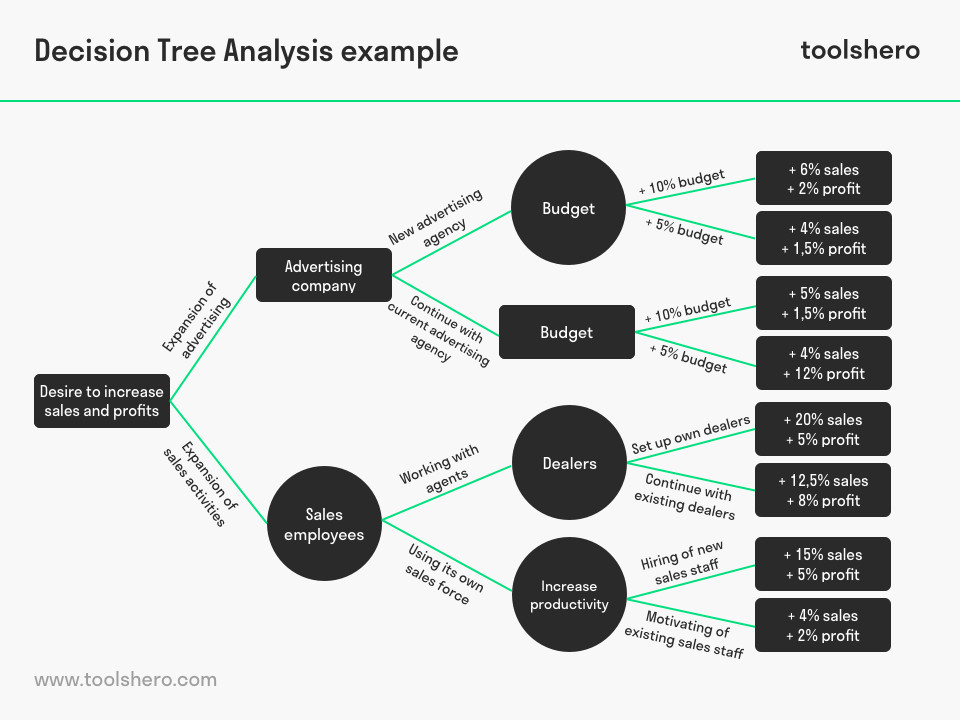
* You start a Decision Tree with a decision that you need to make. Draw a small square to represent this towards the left of a large piece of paper.
* From this box draw out lines towards the right for each possible solution, and write that solution along the line. Keep the lines apart as far as possible so that you can expand your thoughts.
* At the end of each line, consider the results. If the result of taking that decision is uncertain, draw a small circle. If the result is another decision that you need to make, draw another square. Squares represent decisions, and circles represent uncertain outcomes. Write the decision or factor above the square or circle. If you have completed the solution at the end of the line, just leave it blank.
* Starting from the new decision squares on your diagram, draw out lines representing the options that you could select. From the circles draw lines representing possible outcomes. Again make a brief note on the line saying what it means. Keep on doing this until you have drawn out as many of the possible outcomes and decisions as you can see leading on from the original decisions.
* An example of the sort of thing you will end up with is shown in Figure 1:



* Once you have done this, review your tree diagram. Challenge each square and circle to see if there are any solutions or outcomes you have not considered. If there are, draw them in. If necessary, redraft your tree if parts of it are too congested or untidy. You should now have a good understanding of the range of possible outcomes of your decisions.

## Evaluating Your Decision Tree

* Now you are ready to evaluate the decision tree. This is where you can work out which option has the greatest worth to you. Start by assigning a cash value or score to each possible outcome. Estimate how much you think it would be worth to you if that outcome came about.
* Next look at each circle (representing an uncertainty point) and estimate the probability of each outcome. If you use percentages, the total must come to 100% at each circle. If you use fractions, these must add up to 1.
* If you have data on past events you may be able to make rigorous estimates of the probabilities. Otherwise write down your best guess.



## What Are the Advantages of Decision Tree Analysis?

Decision trees have a number of advantages as a practical, useful managerial tool.

**Comprehensive**

A significant advantage of a decision tree is that it forces the consideration of all possible outcomes of a decision and traces each path to a conclusion. It creates a comprehensive analysis of the consequences along each branch and identifies decision nodes that need further analysis.

**Specific**

Decision trees assign specific values to each problem, decision path and outcome. Using monetary values makes costs and benefits explicit. This approach identifies the relevant decision paths, reduces uncertainty, clears up ambiguity and clarifies the financial consequences of various courses of action.

When factual information is not available, decision trees use probabilities for conditions to keep choices in perspective with each other for easy comparisons.

**Easy to Use**

Decision trees are easy to use and explain with simple math, no complex formulas. They present visually all of the decision alternatives for quick comparisons in a format that is easy to understand with only brief explanations.

They are intuitive and follow the same pattern of thinking that humans use when making decisions.

**Versatile**

A multitude of business problems can be analyzed and solved by decision trees. They are useful tools for business managers, technicians, engineers, medical staff and anyone else who has to make decisions under uncertain conditions.

The algorithm of a decision tree can be integrated with other management analysis tools such as Net Present Value and Project Evaluation Review Technique (PERT).

Simple decision trees can be manually constructed or used with computer programs for more complicated diagrams.

Decision trees are a common-sense technique to find the best solutions to problems with uncertainty. Should you take an umbrella to work today? To find out, construct a simple decision-tree diagram.

* **PERT/CPM**

## INTRODUCTION

* Basically, CPM (Critical Path Method) and PERT (Programme Evaluation Review Technique) are project management techniques, which have been created out of the need of Western industrial and military establishments to plan, schedule and control complex projects.

## Brief History of CPM/PERT

* CPM/PERT or Network Analysis as the technique is sometimes called, developed along two parallel streams, one industrial and the other military.
* CPM was the discovery of M.R.Walker of E.I.Du Pont de Nemours & Co. and J.E.Kelly of Remington Rand, circa 1957. The computation was designed for the UNIVAC-I computer. The first test was made in 1958, when CPM was applied to the construction of a new chemical plant. In March 1959, the method was applied to maintenance shut-down at the Du Pont works in Louisville, Kentucky. Unproductive time was reduced from 125 to 93 hours.
* PERT was devised in 1958 for the POLARIS missile program by the Program Evaluation Branch of the Special Projects office of the U.S.Navy, helped by the Lockheed Missile Systems division and the Consultant firm of Booz-Allen & Hamilton. The calculations were so arranged so that they could be carried out on the IBM Naval Ordinance Research Computer (NORC) at Dahlgren, Virginia.

## Planning, Scheduling & Control

* Planning, Scheduling (or organizing) and Control are considered to be basic Managerial functions, and CPM/PERT has been rightfully accorded due importance in the literature on Operations Research and Quantitative Analysis.
* Far more than the technical benefits, it was found that PERT/CPM provided a focus around which managers could brain-storm and put their ideas together. It proved to be a great communication medium by which thinkers and planners at one level could communicate their ideas, their doubts and fears to another level. Most important, it became a useful tool for evaluating the performance of individuals and teams.
* There are many variations of CPM/PERT which have been useful in planning costs, scheduling manpower and machine time. CPM/PERT can answer the following important questions:
  + How long will the entire project take to be completed? What are the risks involved?
  + Which are the critical activities or tasks in the project which could delay the entire project if they were not completed on time?
  + Is the project on schedule, behind schedule or ahead of schedule?
  + If the project has to be finished earlier than planned, what is the best way to do this at the least cost?

## The Framework for PERT and CPM

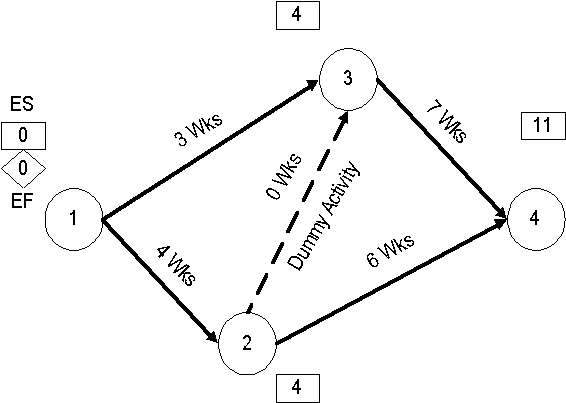
* Essentially, there are six steps which are common to both the techniques. The procedure is listed below:

1. Define the Project and all of its significant activities or tasks. The Project (made up of several tasks) should have only a single start activity and a single finish activity.
2. Develop the relationships among the activities. Decide which activities must precede and which must follow others.
3. Draw the "Network" connecting all the activities. Each Activity should have unique event numbers. Dummy arrows are used where required to avoid giving the same numbering to two activities.
4. Assign time and/or cost estimates to each activity
5. Compute the longest time path through the network. This is called the critical path.
6. Use the Network to help plan, schedule, and monitor and control the project.

* The Key Concept used by CPM/PERT is that a small set of activities, which make up the longest path through the activity network control the entire project. If these "critical" activities could be identified and assigned to responsible persons, management resources could be optimally used by concentrating on the few activities which determine the fate of the entire project.
* Non-critical activities can be replanted, rescheduled and resources for them can be reallocated flexibly, without affecting the whole project.
* Five useful questions to ask when preparing an activity network are:
* Is this a Start Activity?
* Is this a Finish Activity?
* What Activity Precedes this?
* What Activity Follows this?
* What Activity is Concurrent with this?
* Some activities are serially linked. The second activity can begin only after the first activity is completed. In certain cases, the activities are concurrent, because they are independent of each other and can start simultaneously. This is especially the case in organizations which have supervisory resources so that work can be delegated to various departments which will be responsible for the activities and their completion as planned.
* When work is delegated like this, the need for constant feedback and co-ordination becomes an important senior management pre-occupation.

## Drawing the CPM/PERT Network

* Each activity (or sub-project) in a PERT/CPM Network is represented by an arrow symbol. Each activity is preceded and succeeded by an event, represented as a circle and numbered.



* At Event 3, we have to evaluate two predecessor activities – Activity 1-3 and Activity 2-3, both of which are predecessor activities. Activity 1-3 gives us an Earliest Start of 3 weeks at Event 3. However, Activity 2-3 also has to be completed before Event 3 can begin. Along this route, the Earliest Start would be 4+0=4. The rule is to take the longer (bigger) of the two Earliest Starts. So the Earliest Start at event 3 is 4.
* Similarly, at Event 4, we find we have to evaluate two predecessor activities – Activity 2-4 and Activity 3-4. Along Activity 2-4, the Earliest Start at Event 4 would be 10 wks, but along Activity 3-4, the Earliest Start at Event 4 would be 11 wks. Since 11 wks is larger than 10 wks, we select it as the Earliest Start at Event 4.We have now found the longest path through the  
  network. It will take 11 weeks along activities 1-2, 2-3 and 3-4. This is the  
  Critical Path.

PART-II “ORGANIZATION “

* **INTRODUCTION**
* Organizing is next to planning. It means to bring the resources (men, materials, machines, etc.) together and use them properly for achieving the objectives. Organization is a process as well as it is a structure.
* Organizing means arranging ways and means for the execution of a business plan. It provides suitable administrative structure and facilitates execution of proposed plan.
* Organizing involves different aspects such as departmentation, span of control delegation of authority, establishment of superior-subordinate relationship and provision of mechanism for co-ordination of various business activities.
* People within the organization are given work assignments that contribute to the company’s goals. Tasks are organized so that the output of each individual contributes to the success of departments, which, in turn, contributes to the success of divisions, which ultimately contributes to the success of the organization.
* **DEFINITION**
* Organizing or Organizing in [management](http://kalyan-city.blogspot.com/2011/04/what-is-management-definitions-meaning.html) refers to the relationship between people, work and resources used to achieve the common objectives (goals).
* **According to Theo Haimann,**
* "Organizing is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them."
* **According to Louis Allen,**
* "Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."
* **PRINCIPLES**
* **Objectives**
* The objectives of the organization should be clearly defined. Every single individual in the organization should understand these objectives. This will enable them to work efficiently and help the organization to achieve its objectives.
* **Specialization**
* Every single individual in the organization should be asked to perform only one type of function (work). This function should be related to his educational background, training, work-experience, ability, etc., in other words, there should be a division of work and specialization in the organization. This will increase the efficiency, productivity and profitability of the organization.
* **Co-ordination**
* The efforts of all the individuals, departments, levels, etc. should be co-coordinated towards the common objectives of the organization. Therefore, managers must try to achieve co-ordination.
* **Authority**
* Every individual should be given authority (power) to perform his responsibilities (duties). This authority should be clearly defined. Authority should be maximum at the top level and it should decrease as we come to the lower levels. There should be a clear line of authority which joins all the members of the organization from top to bottom. This line of authority should not be broken. It should be short, i.e. there should be few levels of management.
* **Responsibility**
* The responsibility (duties) of every individual should be clearly defined. This responsibility is absolute, i.e. it cannot be delegated. The responsibility given to an individual should be equal to the authority given to him.
* **Span of Control**
* Span of control means the maximum number of subordinates which one superior can manage effectively. The span of control should be as small as possible. Generally, at the top level, the span of control should be 1:6, while at the lower level, it should be 1:20. Span of control depends on many factors such as nature of job, ability of superior, skill of subordinate, etc.
* **Balance**
* There should be a proper balance between the different levels, functions and departments of the organization. Similarly, there should be a proper balance between centralization and decentralization, authority and responsibility, etc. If there is no balance between these factors then the organization will not function smoothly.
* **Chain of Command**
* The chain of command should be very short. That is, there should be very few levels of management. If not, there will be many communication problems and delays in execution of workflow.
* **Delegation**
* Authority and responsibility should be delegated to the lowest levels of the organization. Therefore, the decisions can be made at the lowest competent level. The authority delegated to an individual should be equal to his responsibility.
* **Continuity**
* The organization structure should have continuity. That is, the enterprise should be able to use the organization structure for a long period of time. The organization structure should be able to achieve not only present objectives but also future objectives of the enterprise.

Unit – 4

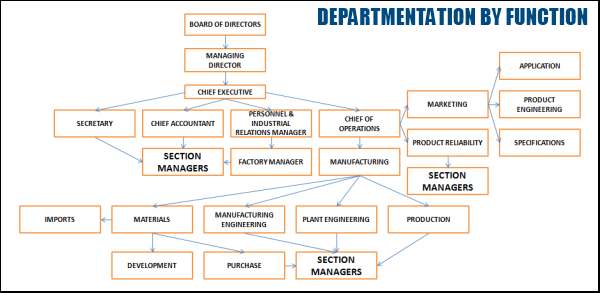
PART-I “DEPARTMENTATION “

* **INTRODUCTION TO DEPARTMENTATION**
* The process of organization consists of Dividing different duties and Assigning responsibilities to different people. Dividing and grouping of activities is of paramount importance to all developing organizations.
* The [span of control](http://accountlearning.com/span-of-supervision-meaning-need-determining-factors/) i.e... The limitation on the number of subordinates that can be directly managed would restrict the size of the enterprise. Therefore, the work and people should be divided and grouped to facilitate expansion of the firm. Dividing the work and people, and grouping them on some logical basis is called Departmentation. With this introduction, we shall now see the meaning of departmentation, bases of departmentation and their relative merits and demerits.
* **MEANING AND DEFINITION OF DEPARTMENTATION**
* Departmentation is the process which is used to group activities into units for purpose of administration at all levels. By this process, the personnel and functions of an enterprise are departmentalized by division into separate units. Dividing the work naturally means the identification of individual activities which have to be undertaken for attaining the objectives of the enterprise. But once the various activities have been identified, it is necessary to group them together on some logical basis. This process of grouping is known as departmentation.
* The administrative units so created may be called as divisions, units, branches or by some other name. Each department or division is a distinct area of activities over which a manager will be given authority and for which he is responsible. The departments are agencies of management and simplify the tasks of the management within a workable span.
* **BASES OF DEPARTMENTATION**
* There is no single best way of departmentation applicable to all organizations or to all situations.
* The pattern that will be used will depend on the given situation and what managers believe will yield the best result for them in the situation they face. However, there are a few basic methods for dividing responsibilities within an organization.
* They are as follows:

1. Functional basis.
2. Territorial basis.
3. Process basis.
4. Product basis.
5. Customer basis.
6. Time basis.
7. Number basis.

### Departmentation by Function

* The most commonly accepted practice is the grouping of the activities in accordance with the functions of an enterprise. The basic enterprise functions generally consist of production, marketing, finance, etc. This method is more logical and hence present in almost all enterprises at some level.



#### **Merits of Departmentation by function**

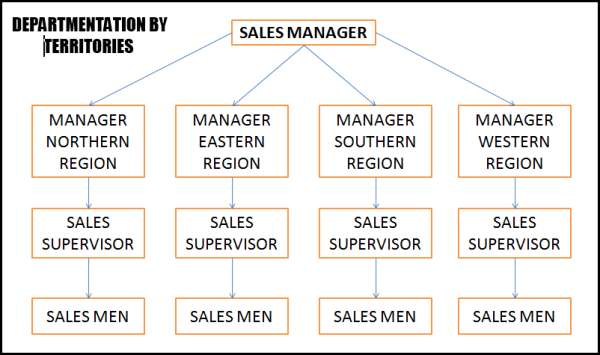
1. It is a logical and time proven method.
2. This method follows the principle of specialization.
3. Authority and responsibilities can be clearly defined and fixed.
4. Since the top managers are responsible for the end results, control shall become effective.

#### **Demerits of Departmentation by function**

1. This type of departmentation shall develop a loyalty towards the functions and not towards the enterprise as a whole.
2. Co-ordination of different functions shall become difficult.
3. Only the departmental heads are held responsible for defective work.
4. This pattern is not a best training ground for promotable top management people.

### **Departmentation by Territories**

* When the organization is large and geographically dispersed, departmentation on territorial basis is the best. This is also considered suitable where the branches produce the same goods or perform similar services at various locations.



#### **Merits of Departmentation by Territory**

* Departmentation on territorial basis has many points to its credit.

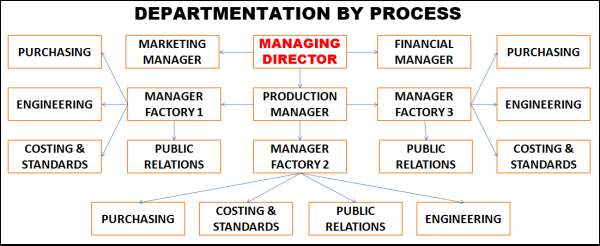
1. This method is highly suitable when the needs of the local customers are to be satisfied effectively.
2. Certain economies of localized operation can be availed.
3. Sales activities can be conducted more effectively. Sales personnel can spend more time on sales rather than on traveling.
4. The executives of territorial departments shall become thoroughly familiar with the key details and can take on the spot decisions in times of emergency.
5. The department has an excellent training situation for all round managers needed in the future at higher levels.

#### **Demerits of Departmentation by Territory**

1. This type of departmentation requires more persons with general managerial abilities needed in the future at higher levels.
2. Co-ordination shall become difficult and the problem of maintaining top management control shall also acute.
3. Territorial grouping may sometime cause some problems if authority over financial matters is also decentralized.

### **Departmentation by Process**

* Activities can also be grouped according to the process involved or the equipment used, this form of departmentation is often employed in manufacturing enterprises. It is also called equipment departmentation. Process departments for receiving goods in stores, transportation, wrapping and delivery. Departmentation by process is usually decided on the basis of a cost that is mainly on economic considerations.



#### Merits **of Departmentation by Process**

* The following are the important merits of this type of departmentation:

1. It is suitable for all organizations irrespective of their size.
2. The equipment can be economically used to their maximum capacity.
3. It saves money and consequently reduces the cost of production.
4. Better timing and customer service can be ensured.

### Departmentation by Product

* This type of departmentation is desirable for large undertakings which deal with a variety of products or product lines. To departmentalise on product basis means to establish each product or group of closely related products in a product line as a relatively autonomous integrated unit within the overall framework of the company. Under this method, an executive will be in charge of and responsible for all the activities relating to a particular product from production to distribution.



#### Merits **of Departmentation on basis of Product**

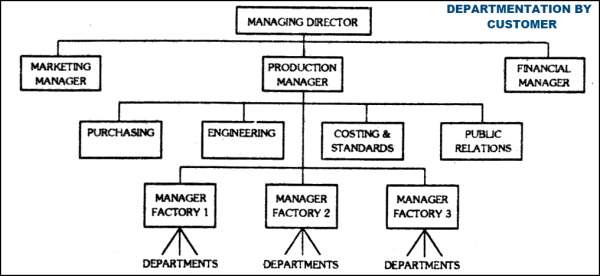
1. This pattern of departmentation facilitates the optimum use of specialized skill, labour and capital.
2. Various economies relating to production, assembly and handling can be availed.
3. All the activities connected with a particular product can be effectively coordinated.
4. Better timing and customer service can be ensured.
5. Responsibility can be fixed.

#### Demerits **of Departmentation on product basis**

1. This type of departmentation will often result in unnecessary duplication of work and ultimately result in an increase in the production cost.
2. The problem of maintaining headquarters control shall also be more acute.
3. Their pattern can also create difficulties in co-ordination with the organizational structure.
4. Successful managers will be tempted to acquire more and more powers and build up their own empire. This danger can be averted by centralizing all major policy decisions.

### **Departmentation by Customer**

* Departmentation can also be made on the basis of a customer served that is customer departmentation. In this case, the firm shows its paramount interest in the welfare of the customer and attention given to them. Under this method, the customers are divided into separate categories, such as distributors, retailers and consumers, and the task of satisfying the needs of different categories of customers assigned to specific departments.



#### **Merits of departmentation by customer**

1. Customers are the key to any organization. Particularly in modern times, the needs of the customers should be satisfied effectively. This pattern of departmentation aims to satisfy the customers in a better and effective way.
2. It is highly useful where a product or service of wide variety is offered through many marketing channels and outlets.

#### **Demerits of departmentation by customer**

1. There may not be enough work in each department. Hence, some salesmen have to remain idle.
2. Coordinating various departments will also pose many serious problems.
3. It may also develop an unequal development of customer groups in times of expansion and disappearance of certain customer groups in times of recession.
4. It may also create a tendency to remain rigid. Consequently, it may also become difficult to adjust to the situation in case there is a fluctuation in the activities of the enterprise.

### **Departmentation by Time**

* It is a common practice to departmentalize activities on time basis. Enterprise engaged in continuous process can follow this pattern. We are familiar with the second shift, third shift, or night shifts, etc. Under this method, the activities performed in each shift are similar and almost identical. But they are departmentalized on time basis. This kind of departmentation is generally found in public utilities and manufacturing establishments.

### **Departmentation by Number**

* In case of departmentation by number, activities are grouped on the basis of their performance by certain number of persons. For instance, in the army, soldiers are grouped into squanders, battalions, companies, brigades and regiments based on the number prescribed for each unit. However, this type of departmentation is not found in business concerns.

**PART-II “DELEGATION “**

* **MEANING**
* Delegation of authority means giving work to others and giving them the authority to do this work. Delegate means to hand over or give.
* Delegation is a group of people who are chosen to vote or act for someone else Delegation is the act of giving control, authority, a job, a duty, etc., to another person.
* **ELEMENTS OF DELEGATION/PROCESS OF DELEGATION:**
* There are three elements of delegation:

1. Responsibility
2. Authority
3. Accountability

#### **RESPONSIBILITY:**

* Responsibility means the work assigned to an individual. It includes all the physical and mental activities to be performed by the employees at a particular job position. The process of delegation begins when manager passes on some of his responsibilities to his subordinates which mean responsibility can be delegated.
* **Features of Responsibility:**

1. Responsibility is the obligation of a subordinate to properly perform the assigned duty.
2. It arises from superior subordinate relationship because subordinate is bound to perform the duty assigned by his superior.
3. Responsibility flows upward because subordinate will always be responsible to his superior.

#### **AUTHORITY:**

* Authority means power to take decision. To carry on the responsibilities every employee need to have some authority. So, when managers are passing their responsibilities to the subordinates, they also pass some of the authority to the subordinates. The delegating authority is the second step of organizing process.
* While sharing the authority managers keep in mind that the authority matching to the responsibility should only be delegated. They shall not pass all their authority to their subordinates.
* **Features of Authority:**

1. Authority refers to right to take decision due to your managerial position.
2. Authority determines superior subordinate relationship. As subordinate communicates his decisions to subordinate expecting compliance from him as per his directions.
3. Authority is restricted by law and rules and regulations of the organization.
4. Authority arises from the scalar chain which links various job positions.
5. Authority flows upward as we go higher up in management hierarchy the scope of authority increases.
6. Authority must be equal to Responsibility i.e.,

Authority = Responsibility

#### **ACCOUNTABILITY:**

* To make sure that the employees or subordinates perform their responsibilities in their expected manner, the accountability is created. Accountability means subordinates will be answerable for the non-completion of the task; creating accountability is the third and final step of delegation process.
* The accountability cannot be passed or delegated. It can only be shared with the subordinates which means even after delegating responsibility and authority the managers will be accountable for non-completion of task.
* If the production manager is given the target of producing 20 machines in one month’s time and he divided this target between four foremen working under him.
* i.e., 5 machines to be produced by each foreman but one foreman could not achieve the target and at the end of the month only 17 machines are manufactured, then production manager will be held accountable for non-completion of target as accountability cannot be transferred or shared: it is an absolute term.
* **Features of Accountability:**

1. Accountability refers to answerable for the final output.
2. It cannot be delegated or passed.
3. It enforced through regular feedback on the extent of work accomplished.
4. If flows upward, i.e., subordinate will be accountable to his superior.

* **5 PRINCIPLES OF EFFECTIVE DELEGATION**
* Delegation is very different from simply assigning someone a task or project that falls into his or her established job description or requirements. When you delegate, you give someone else one of your job tasks to complete with the authority and control to complete it properly.
* Delegation is not abdication. You share accountability for the assignment, which is why checkpoints are established to monitor overall progress. Just as the outcomes of your entire department are your responsibility, you are also responsible for the ultimate success of the delegation process.
* When delegation is done properly and for the right reasons, it helps foster a climate of trust and creates growth opportunities for your employees. Here are five principles that can help you create an effective delegation process.
  1. **Determine what you will delegate.**

Effective delegation begins with defining your responsibilities. Write down all of your activities and responsibilities. Review your master list and categorize all of the items into two secondary lists: things you alone must do and things that others could do or help you complete. Anything that falls into the second list presents an opportunity for delegation.

* 1. **Choose the right person to delegate the task to.**

 Andrew Carnegie said, "The secret to success lies not in doing your own work, but in recognizing the right person to do it." The key to finding the right person to delegate an assignment to is matching skills and attitude to the task at hand.

* 1. **Clarify the desired results.**

 When the results are clear, it allows the employee to use his or her own creativity and resources to accomplish the task. An added benefit of effective delegation is the individual may find a better and more effective way to accomplish the task or achieve the desired results.

* 1. **Clearly define the employee's responsibility and authority as it relates to the delegated task.**

Clearly communicate the expectation, responsibilities, and timeline. Be sure to ask the employee to share his or her understanding.

* 1. **Establish a follow up meeting or touch points.**

 The follow up meetings should be focused on two things-monitoring progress and determining the need for assistance. The number of follow up meetings will vary based on the scope of the task or project and whether the employee is new or a long term member of the department

PART-III “CENTRALIZATION & DECENTRALIZATION “

* **CENTRALIZATION:**
* **MEANING:**
* Under Centralization, the executive reserves the authority with himself instead of delegating it to his subordinates and ultimately reserves authority. But where he is forced to delegate, he may do so by not delegating adequate authority so that the subordinates must approach him to arrive at the appropriate decision.
* According to Allen, “Centralization is the systematic and consistent reservation of authority at central points within an organization”.
* Centralization, according to Fayol, “It is that organization where the role of the subordinates is reduced”.
* Thus, we see that in centralization decisions regarding the work are made not by those doing the work, but at a point higher in the organization.
* **ADVANTAGES OF CENTRALIZATION:**
* The following advantages can be drawn from centralization:

1. **Facilitates Personal Leadership:**

* In a small company, centralization is desirable since the leader has to take quick decisions. According to Louis A. Allen, “The small company can retain the advantages of centralization so long it continues to function as one entrepreneurial unit; that is, so long as it can operate effectively as a projection of the personality and skills of one outstanding leader”.

1. **Less Skilled Subordinates:**

* An enterprise running on the lines of centralization need not have highly skilled subordinates. It results in the economy of wages and salaries.

1. **Handling Emergencies:**

* In the centralized organization, emergencies can be handled promptly. The more acute the emergency or the more competitive the situation, the greater is the need for centralized decision-making.

1. **Integration of Total Operation:**

* In highly decentralized entrepreneurial units, it is very difficult to integrate the total operations of the enterprise. A centralized enterprise gets benefits of enduring nature (e.g., stable market, efficient production etc.).
* Since it can keep all the departments of a company integrated “central direction is needed to keep all parts of the company moving harmoniously together towards a common objective.” (Louis A. Allen).

1. **Uniformity of Action:**

* Centralization of decision-making is essential in case of multi-units or multi-branches of company, so that there is uniformity of action. If the company wishes all its units to do the same thing in the same way, there must be centralization. Uniformity is essential in matters like buying, selling, advertisement, personnel etc.
* **LIMITATIONS OF CENTRALIZATION:**

1. Centralization of authority increases the burden on the top executives and little time is left for attending to important functions of administration like planning, organization, motivation, etc.
2. Centralization hampers the growth and development of subordinates as they are not given any authority to take independent decisions. The sense of” Oneness’ disappears from the subordinates.
3. Centralization tends to slow up the operations as most of the decisions are not taken at a point where the work is carried out but at a point higher in the organization.
4. It reduces the scope for specialization as the persons taking decisions at the top level are not all round experts.

* **FACTORS DETERMINING CENTRALIZATION OF AUTHORITY:**
* The management of an undertaking may centralize decision-making for the following reasons:

#### **Achieving Uniformity of Action:**

* Uniformity of action is possible when decision-making authority is centralized. The decisions taken at the top will be implemented at every level. There may be more than one unit under the same management and it may be desired to have same types of policies and procedures. If the units take their independent decisions then uniformity of action will not be achieved. Under such situations centralized decision-making will enable unity of action.

#### **Facilitating Integration:**

* There may be a need to integrate all operations of the enterprise for achieving common objectives. Centralized management will facilitate integration of activities by devising common policies and programmes.

#### **Promoting Personal Leadership:**

* The small enterprises grow on the strength and capability of their manager. Even big concerns too depend upon the qualities of their managers during initial periods. The whole authority will be in the hands of the chief executive. This will result in quick decisions and imaginative actions. The manager will acquire more and more skill and experience which will promote their personal leadership.

#### **Handling Emergencies:**

* Under uncertain business conditions there is a need to take emergency decisions. Sometimes the existence of small- scale units is endangered if timely actions are not taken. Centralized authority will enable quick and timely decisions from short-term as well long-term perspective.
* **DECENTRALIZATION**
* **MEANING:**
* Decentralization can be viewed as an extension of delegation.
* When a part of the work is entrusted to others, it is known as delegation. Decentralization extends to the lowest level of the organization.
* A few definitions are given below:
* “Decentralization refers to tire systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points.” —Louis A. Allen
* “Decentralization means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegate to timd of cacti unit.’—Earl. P. Strong
* “Decentralization is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills.”—Newman, summer and Wairen
* **ADVANTAGES OF DECENTRALIZATION:**

#### **Reduces the burden on top executives:**

* Decentralization relieves the top executives of the burden of performing various functions. Centralization of authority puts the whole responsibility on the shoulders of an executive and his immediate group. This reduces the time at the disposal of top executives who should concentrate on other important managerial functions. So, the only way to lessen their burden is to decentralize the decision-making power to the subordinates.

#### **Facilitates diversification:**

* Under decentralization, the diversification of products, activities and markets etc., is facilitated. A centralized enterprise with the concentration of authority at the top will find it difficult and complex to diversify its activities and start the additional lines of manufacture or distribution.

#### **To provide product and market emphasis:**

* A product loses its market when new products appear in the market on account of innovations or changes in the customers demand. In such cases authority is decentralized to the regional units to render instant service taking into account the price, quality, delivery, novelty, etc.

#### **Executive Development**:

* When the authority is decentralized, executives in the organization will get the opportunity to develop their talents by taking initiative which will also make them ready for managerial positions. The growth of the company greatly depends on the talented executives.

#### **It promotes motivation:**

* To quote Louis A. Allen, “Decentralization stimulates the formation of small cohesive groups. Since local managers are given a large degree of authority and local autonomy, they tend to weld their people into closely knit integrated groups.” This improves the morale of employees as they get involved in decision-making process.

#### **Better control and supervision**:

* Decentralization ensures better control and supervision as the subordinates at the lowest levels will have the authority to make independent decisions. As a result they have thorough knowledge of every assignment under their control and are in a position to make amendments and take corrective action.

#### **Quick Decision-Making:**

* Decentralization brings decision making process closer to the scene of action. This leads to quicker decision-making of lower level since decisions do not have to be referred up through the hierarchy.

* **DISADVANTAGES OF DECENTRALIZATION:**
* Decentralization can be extremely beneficial. But it can be dangerous unless it is carefully constructed and constantly monitored for the good of the company as a whole.
* Some disadvantages of decentralization are:

#### **Uniform policies not followed**:

* Under decentralization, it is not possible to follow uniform policies and standardized procedures. Each manager will work and frame policies according to his talent.

#### **Problem of Co-Ordination:**

* Decentralization of authority creates problems of co-ordination as authority lies dispersed widely throughout the organization.

#### **More Financial Burden:**

* Decentralization requires the employment of trained personnel to accept authority, it involves more financial burden and a small enterprise cannot afford to appoint experts in various fields.

#### **Require Qualified Personnel:**

* Decentralization becomes useless when there are no qualified and competent personnel.

#### **Conflict:**

* Decentralization puts more pressure on divisional heads to realize profits at any cost. Often in meeting their new profit plans, bring conflicts among managers.
* **8 FACTORS TO DETERMINE THE DEGREE OF EFFECTIVE DECENTRALIZATION**
* Factors to determine the degree of effective decentralization are: 1. Costliness of Decisions, 2. Uniformity of Policy, 3. Economic Size, 4. Availability of Managers, 5. History of the Enterprise, 6. The Philosophy of the Management, 7. Decentralization of Performance, 8. Environmental Influences!

1. **Costliness of Decisions:**

* The costliness of decisions is the most important factor influencing the degree of decentralization.
* In general, the decisions involving heavy cost or investment will most probably be made at the higher levels of management.
* This cost may be expressed in the terms of money value or it may be reckoned in such intangibles as the company’s reputation, its competitive position or the effect on the employees’ morale. Decisions involving risk will not be delegated but in turn will be made at the top managerial positions.
* The decision for the purchase of capital goods i.e., machinery or equipment will be made at higher levels, whereas the decision to purchase items of routine nature will be made by the purchasing department.

1. **Uniformity of Policy:**

* Uniformity of the organization’s policy determines the degree of decentralization. If a company intends to keep uniform policies in the organization then policies should be consistent. Where there is decentralization, the company will not be in a position to take the advantages of uniformity of policies because of different habits and talents on the part of different persons.

1. **Economic Size:**

* Larger the size of a business unit, the greater will be the number of departments and as a result, decentralization would be preferred in large sized units. The burden on the top management will be much less and they will be in a position to concentrate on crucial matters.
* In other words it can be said that principle of “management by exception” if followed, will yield better results because each departmental head will be able to take better decisions regarding the work allotted to him. In a small concern the persons will be few and the decisions can be made by the owner himself.

1. **Availability of Managers:**

* The shortage of managerial manpower necessarily restricts the extent of decentralization. The dispersal of decision-making and leadership requires the availability of persons who can discharge their obligations as per the authority delegated.

1. **History of the Enterprise:**

* To what extent authority in an organization will be centralized depends upon the way the business has been built up. If an organization has appointed a set of departments with the departmental heads being vested with the authority to achieve the objectives, it sets the example of decentralization.

1. **The Philosophy of the Management:**

* The character of the top leader and the philosophy possessed by him will have an important influence on the extent to which authority in an enterprise is centralized or decentralized. It is necessary that the leaders should have broad vision which will have a lasting effect on the organizational structure.

1. **Decentralization of Performance:**

* The nature of operations also determine the extent of decentralization i.e., whether the operations of the organization are concentrated at the one place or in a region or dispersed to different territories. If the enterprise activities are dispersed over to different territories it will prosper by this policy of decentralization.

1. **Environmental Influences:**

* Most of the factors determining the extent of decentralization dealt so far are related to the organization. In addition there are many other factors which are external to the business yet have an impact on the degree of decentralization, such as, government controls, tax policies and national unionism.
* For example, if prices are regulated by Government, the sales manager cannot be given real freedom in determining them. With the high rate of taxes on corporate income, the impact of taxation is often a policy-determining factor that overshadows traditional business considerations such as plant expansion, marketing policies and economic operations. Similarly, the rise of national unions in the past has had a centralizing influence on business.

Unit – 5

“TYPES OF ORGANIZATION “

* **TYPES OF ORGANIZATION**

**Formal Organization**

Formal organization clearly defines the duties, responsibilities, authority and relationships as prescribed by the top management. The inert-relationship of staff members can be shown in the organization chart and manuals under formal organization.

**Characteristics of formal organization**

The important characteristics of formal organization are as given below:

* It is properly planned.
* It is based on delegated authority.
* It is deliberately impersonal.
* It provides division of labour.
* Organizational charts are drawn.
* Unity of command is maintained.
* The responsibility and accountability at all levels of organization is clearly defined.
* **Advantages of Formal Organization:**

1. **Systematic Working:**

* Formal organization structure results in systematic and smooth functioning of an organization.

1. **Achievement of Organizational Objectives:**

* Formal organizational structure is established to achieve organizational objectives.

1. **No Overlapping of Work:**

* In formal organization structure work is systematically divided among various departments and employees. So there is no chance of duplication or overlapping of work.

1. **Co-ordination:**

* Formal organizational structure results in coordinating the activities of various departments.

1. **Creation of Chain of Command:**

* Formal organizational structure clearly defines superior subordinate relationship, i.e., who reports to whom.

1. **More Emphasis on Work:**

* Formal organizational structure lays more emphasis on work than interpersonal relations.
* **Disadvantages of Formal Organization:**

1. **Delay in Action:**

* While following scalar chain and chain of command actions get delayed in formal structure.

1. **Ignores Social Needs of Employees:**

* Formal organizational structure does not give importance to psychological and social need of employees which may lead to demonization of employees.

1. **Emphasis on Work Only:**

* Formal organizational structure gives importance to work only; it ignores human relations, creativity, talents, etc.

**Informal Organization**

Informal organization is an organizational structure which establishes the relationship on the basis of the likes and dislikes of officers without considering the rules, regulations and procedures. Friendship, mutual understanding and confidence are some of the reasons for existing informal organization. The informal organization relationship exists under the formal organization also. The informal organization relationship or informal relations give a greater job satisfaction and result in maximum production.

**Characteristics of informal organization**

The important characteristics of informal organization are as given below:

* It arises without any external cause.
* It is social structure formed to meet personal needs.
* It has no place in organization chart.
* It acts as an agency of social control.
* This organization can be found on all levels of organization within the managerial hierarchy.
* The rules and traditions of informal organization are not written but are commonly followed.
* It develops from habits, conduct, customs and behavior of social groups.
* It is one of the parts of total organization.
* There is no structure or definiteness to the informal organization.
* **Advantages of Informal Organization:**

1. **Fast Communication:**

* Informal structure does not follow scalar chain so there can be faster spread of communication.

1. **Fulfills Social Needs:**

* Informal communication gives due importance to psychological and social need of employees which motivate the employees.

1. **Correct Feedback:**

* Through informal structure the top level managers can know the real feedback of employees on various policies and plans.

**Strategic Use of Informal Organization. Informal organization can be used to get benefits in the formal organization in the following way:**

* The knowledge of informal group can be used to gather support of employees and improve their performance.
* Through grapevine important information can be transmitted quickly.
* By cooperating with the informal groups the managers can skillfully take the advantage of both formal and informal organizations.
* **Disadvantages of Informal organization:**
  1. **Spread Rumors:**
* According to a survey 70% of information spread through informal organizational structure are rumors which may mislead the employees.
  1. **No Systematic Working:**
* Informal structure does not form a structure for smooth working of an organization.
  1. **May Bring Negative Results:**
* If informal organization opposes the policies and changes of management, then it becomes very difficult to implement them in organization.
  1. **More Emphasis to Individual Interest:**
* Informal structure gives more importance to satisfaction of individual interest as compared to organizational interest.

# **Difference between Formal and Informal Organization**

An organization is a collection of people who work together to attain specified objectives. There are two types of organization structure that can be formal organization and informal organization. An organization is said to be**formal organization** when the two or more than two persons come together to accomplish a common objective, and they follow a formal relationship, rules, and policies are established for compliance, and there exists a system of authority.

On the other end, there is an**informal organization** which is formed under the formal organization as a system of social relationship, which comes into existence when people in an organization, meet, interact and associate with each other. In this article excerpt, we are going to discuss the major differences between formal and informal organization.

### **Comparison Chart**

| **BASIS FOR COMPARISON** | **FORMAL ORGANIZATION** | **INFORMAL ORGANIZATION** |
| --- | --- | --- |
| Meaning | An organization type in which the job of each member is clearly defined, whose authority, responsibility and accountability are fixed is formal organization. | An organization formed within the formal organization as a network of interpersonal relationship, when people interact with each other, is known as informal communication. |
| Creation | Deliberately by top management. | Spontaneously by members. |
| Purpose | To fulfill, the ultimate objective of the organization. | To satisfy their social and psychological needs. |
| Nature | Stable, it continues for a long time. | Not stable |
| Communication | Official communication | Grapevine |
| Control mechanism | Rules and Regulations | Norms, values and beliefs |
| Focus on | Work performance | Interpersonal relationship |
| Authority | Members are bound by hierarchical structure. | All members are equal. |
| Size | Large | Small |

**Types of Organizations**

**Line Organization**

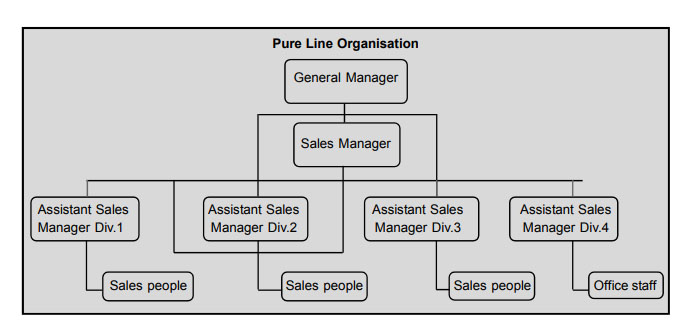
Line organization is the simple and the oldest type of an organization, where the decision making authority flows from top to bottom.

**Characteristics of line organization**

* Consists of vertical relationships.
* Authority flows from top to bottom level.
* Departmental heads are given full freedom to control their departments.
* Operation of this system is very easy.
* Each member has direct command over his subordinates.
* The superior takes decisions within the scope of his authority.

**Line Organization**

Line organization structure is the oldest and simplest form of organization. In these organizations, a supervisor exercises direct supervision over a subordinate. Also, authority flows from the top-most person in the organization to the person in the lowest rung. This type of an organization is also called a military organization or a scalar-type organization.



**Advantages of a Line Organization**

* Simple to work
* Economical and effective. It also allows quick decisions and efficient coordination.
* Conforms to the scalar principle of organization. Further, it promotes the unity of command.
* In a line organization, the responsibility for the performance of tasks is fixed upon definite individuals. Therefore, there is accountability of delegated tasks.
* There is excellent discipline in a line organization due to unified control and undivided loyalties.
* The overall cost of running the organization is low due to the non-involvement of staff personnel.
* It is a stable form of organization.

**Disadvantages of a Line Organization**

* A line organization can suffer from a lack of specialization. This is because each department manager is concerned only with the activities of his own department. Therefore, employees are skilled in tasks pertaining to their departments alone.
* These organizations can overburden a keyman or a few key-men to the extent of their breaking point. Also, in the absence of a staff aid, if a strong man seizes the organization, he can run it arbitrarily. Such arbitrary power can lead to a considerable damage to the organization.
* Such organizations usually suffer from a lack of expert advice. If the line manager has trouble making a decision, there is no expert staff that he can turn to.
* A line organization is usually rigid and inflexible. In fact, such organizations maintain discipline so rigorously that they can rarely change.
* These organizations are based on the autocratic system of management.
* The division of work is not based on any scientific plan but on the whims of the manager.
* It might stop progress and prevent the unit to work effectively.
* Such organizations might also encourage nepotism or favoritism based on relationship or friendship.

**Functional Organization**

Functional organization was proposed by F. W. Taylor, to overcome the limitations of line organization. This type of organization has various specialists for various functions. The directions of work are decided by functions and not mere authority. The workers under a functional unit are accountable not only to the functional specialist but to the other specialists as well as from whom they receive instructions.

**Characteristics of functional organization**

The work is divided according to the specified functions

Authority is given to the specialist to give orders to a specific function

Functional authority can give orders throughout the line with reference to specified area

The decisions are taken in consultation with the functional authority.

**Advantages of Functional Organization :**

**Functional organization has the following advantages:**

**1. Specialization:**

This type of organization has the benefit of having specialists in each area. The work is performed by those who have the specialist knowledge of that work. The workers have the advantage of getting instructions from specialists. This makes possible the fullest use of energy in the organization .

**2. Increase in Efficiency:**

There is a division of labour up to manager level. Planning and execution are also separated. This helps to increase the overall efficiency in the organization. The workers get guidance from expert supervisors and this enhances their performance at work.

**3. Scope for Growth:**

The functional organization provides wide scope for growth and mass production. The employment of specialists at various levels of work enables the organization to grow as per the needs of the situation.

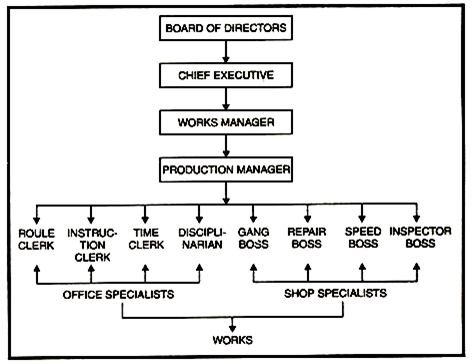
**4. Flexibility:**

Functional organization allows changes in organization without disturbing the whole work. The span of supervision can also be adjusted according to the requirements.

**5. Relief to Top Executives:**

Top executives are not unnecessarily burdened as happens in line organization. The line officer is supposed to be a jack of all trades and is burdened with all types of works. On the contrary a specialist is a master of his line and he has the expertise and capability of taking his own decisions.

**Functional organization is shown in the following table:**

[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2015/08/image4.png)

**6. Economy of Operations:**

The use of specialists helps in controlling the waste of materials, money and time. The consolidation of activities leads to optimum use of facilities like office accommodation, plant and machinery, etc.

**7. Better Supervision:**

Every superior is an expert in his own area and he will be successful in making proper planning and execution. The superiors, being well acquainted with the work, will be able to improve the level of supervision.

**8. Democratic Control:**

This type of organization eliminates one man control. There will be a joint control and supervision in the organization. This boosts the morale of employees and also enthuses a sense of co-operation among them. The democratic approach motivates workers to go deep into their work and make suggestions for work improvement.

**Disadvantages of Functional Organization:**

**Following are the disadvantages of functional organization:**

**1. Conflict in Authority:**

The principle of ‘unity of command’ is violated in functional organization. A subordinate is answerable to many bosses. Every superior considers his work important and wants the workers to give top priority to his assignment. The workers feel confused and are unable to decide about the priorities of their work.

**2. Lack of Co-Ordination:**

The appointment of several specialists creates problems of co-ordination, especially when the advice of more than one is needed for taking decisions. Specialists try to give more importance to their work as compared to other areas. This creates conflicts among specialists and co-ordination becomes a problem.

**3. Difficulty in Fixing Responsibility:**

Since there is no unity of command, it becomes difficult to fix responsibility for slackness in work. So many persons are involved in completing a work and everybody tries to blame others for low performance.

**4. Delay in Taking Decisions:**

The involvement of more than one person in decision-making process slows the process down. The speed or action tends to be hampered by the division of authority. Much time is taken in consulting different specialists prior to decision-making.

**5. Poor Discipline:**

The division of authority creates problem of discipline. The workers have to obey many bosses, their loyalty becomes divided. Discipline tends to break down not only among workers but also among lower level supervisors.

**6. Expensive:**

Multiplicity of experts increases overhead expenses of the organization. A number of specialists are appointed for manning various lines of work. These persons being specialists demand much higher emoluments. Small units cannot afford to have functional organization.

**7. Group Rivalries:**

The emergence of many persons of equal status encourages group rivalries among executives. Persons connected with different fields try to create their groups and then rivalry starts among these groups. Every group tries to dominate the other. The growth of the unit is adversely affected in a vicious atmosphere.

**Line and Staff Organization**

Line and staff organization has tried to use the advantages of both the line and the functional type of organization to overcome their demerits.

Line and staff organization have line officers as well as the staff officers.

Line officers have the authority to take decisions and implement them to achieve the objectives of the organization whereas staff officers assist line officers in framing the policies, plans and taking decisions.

**Advantages of Line and Staff Organization:**

**This organization has the following advantages:**

**1. Specialization:**

Line and staff organization introduces specialization in a systematic manner. Persons with specialized knowledge are appointed to help line officers. The planning part is generally undertaken by staff personnel and line officers are able to devote much time for execution.

**2. Better Discipline:**

The unity of command is maintained in this type of organization. The staff personnel do not interfere with the executive work of line officers. The workers get command from line personnel and are accountable directly to them for their performance. This creates better understanding and discipline among employees.

**3. Balanced and Prompt Decisions:**

The functional managers have the advantage of expert advice when taking important decisions. The staff can also be used to investigate and advise on inter-departmental relationships. The line officers can take balanced and quick decisions.

**4. Growth and Expansion:**

The line and staff organization is quite suitable for growth and expansion. The burden of line staff is eased by the appointment of specialists. Line officers will be able to devote much time for future planning. The present staff will enable the expansion and growth of unit. Some assistants can be appointed to cope with the work if needed.

**5. Development of Employees:**

This organization provides scope for advancement of career to able and dedicated employees. There are more openings for those who have capabilities of going up. The separation of functions of ‘planning’ and ‘doing’ also helps in creating more and more job opportunities. Promotional chances increase for deserving persons.

**6. Lesser Burden on Line Officers:**

With the appointment of staff officers the burden of the officers is greatly reduced. The specialists help line officers in deciding things regarding their lines of specialization. The line officers are left with routine administrative work. They will be able to devote their time in supervising the implementation of various plans and policies.

**7. Quick Actions:**

The line officers will have sufficient time to take various decisions. Whenever there is a need for certain a decision, they will be able to devote time and decide the things. This type of situation helps in solving many issues which would have created difficulties if timely decisions would not have been taken.

**Disadvantages of Line and Staff Organization:**

**The line and staff organization suffers from the following drawbacks:**

**1. Conflict between Line and Staff Personnel:**

There is a possibility of conflict between line and staff personnel. The responsibility for operations lies with line officers while staff officers only advise. The staff officers feel ignored at the hands of line officers. The line officers, on the other hand, complain of interference by staff persons in the day-to-day working. The conflict between line and staff officials adversely affects the work in the organization.

**2. Lack of Responsibility:**

There is a lack of responsibility for staff officials. They are not accountable for the actual results of operations. This may tempt them to give rash or theoretical advice. They may also be casual in their approach because the whole blame for non-performance lies with line.

**3. More Dependence on Staff:**

The line officers become habituated for advice on staff. They refer everything to staff for advice. Over-dependence on staff will make line officers less creative. They will not give much thought to any activity since advice will be available from staff.

**4. Lack of Co-Ordination:**

There will be a lack of co-ordination between line and staff. The staff advice may be confused with line orders. The staff officers may also not be clear about their exact role. They may try to dominate the implementation part of their advice. Overlapping of functions will create confusion and disorder among employees.

**5. Ineffective Staff:**

The staff officers do not wield any power in the organization. Without power they will not get prestige in the organization. They will feel unimportant and the quality of advice will also be adversely affected.

**6. Expensive:**

This type of organization is very expensive because a large number of specialists are appointed. The persons being experts in their fields, they demand higher emoluments. Small and medium concerns cannot afford line and staff organization because of its expensive nature.

**Line and Staff Conflict:**

Line and staff structure is based on the assumption that both will help and support each other. But often there are conflicts between the two and both accuse each other. There is a lack of understanding and both try to dominate each other.

**Matrix Organization**

**Matrix organization is defined as “**Any organization that employs a multiple command structure but also relates support mechanisms and an organizational culture and behavior pattern**.”**

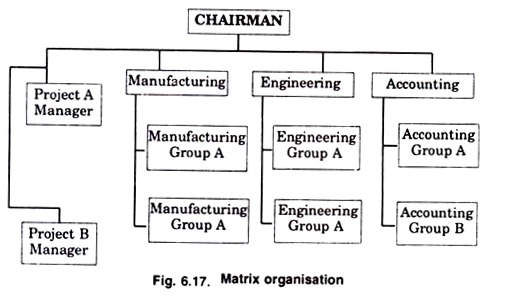
**Meaning of Matrix Organization:**

Matrix organization or grid organization is a hybrid structure combining two complementary structures functional departmentation with pure project structure.

Functional structure is a permanent feature of the matrix organization and retains authority for the overall operation of the functional units.

Project departments are created whenever specific projects require a high degree of technical skill and other resources for a temporary period.

Functional departments create a vertical chain of command while the project team forms the horizontal lines, thereby forming a matrix. A matrix organization is a two dimensional structure, a combination of pure project structure and the traditional functional departments.

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Matrix organization has been developed to meet the need of large and complex organization which requires a structure more flexible and technically oriented rather than the functional structures. Temporary project teams are tailored to the successful completion of particular projects. Project manager’s authority flows horizontally while functional manager’s authority flows vertically.

**Characteristics of matrix organization**

* Project manager should report to more than one of the superiors.•
* There should be agreement between the managers regarding the authority of utilizing the available resources.
* There should be common willingness among the authority holders to face the conflicts with a view to resolve them.

**Merits of Matrix Organization :**

1. It helps to focus attention, talent and resources on single project individually which facilitates better planning and control.

2. It is more flexible than the traditional functional structures.

3. It provides an environment in which professionals can test their competence and make maximum contributions.

4. It provides motivation to the project staff as they can focus directly on the completion of a particular project.

**Demerits of Matrix Organization :**

1. It violates the principle of unity of command. Each employee has two superiors-one functional superior and other project superior.

2. The scalar principle is also violated as there is no determinate hierarchy.

3. Conflict may arise because of the heterogeneity of team members.

4. Here the organization al relationships are more complex. Apart from formal relationships, informal ones also arise which create problems of co-ordination.

**Committee Form of Organization**

A number of persons may come together to take a decision, decide a course of action, advise line officers on some matters, it is a committee form of organization. It is a method of collective thinking, corporate judgment and common decision. A committee may be assigned some managerial functions or some advisory or exploratory service may be expected from it. A committee is not a separated type of organization as such. But it is a method of attaching persons or groups to line departments for advice and guidance in business planning and execution. A group of competent and interested persons pool their thoughts for facilitating decision making process.

Sometimes there is a need to get opinion of other persons for taking important decisions. The thinking of varied persons is pooled together through deliberations and discussions and common decisions are reached. Because of collective information and analysis, committees are more likely to come up with solutions to complex problems. With the growth of organization the need for committee is more.

### Advantages of Committee Form of Organization:

#### 1. Pooling of Opinions:

The members of committees come from different background and areas of expertise and have different viewpoints and values. When persons with varied abilities sit together and discuss a problem, various aspects of the case are highlighted and pros and cons are assessed. The pooled opinion will help in taking a realistic view of the problem.

#### 2. Better Co-Ordination:

Committee form of organization brings more co-ordination among different segments of the organization when representatives of different departments sit together, they understand and appreciate the difficulties faced by others. This type of frank discussions help on fixing the targets of different departments and better co-ordination is achieved through this type of decision making.

#### 3. Balancing of Views:

This type of organization helps in balancing the views expressed by different persons. There is a tendency to over emphasize the aspects of one’s own department by ignoring the inter dependent character of problems of different departments. A committee helps to bring out an agreed view of the problem by taking into account divergent views expressed in such meetings.

#### 4. Motivation:

The committees consist of managers as well as subordinates. The views of subordinates are given recognition and importance. It gives them encouragement and makes them feel as an integral part of decision making process. Such committees boost the morale of subordinates and motivate them to improve their performance.

#### 5. Dispersion of Power:

The concentration of power in few persons may lead to misuse of authority and wrong decisions. By spreading powers among committee members this problem can be solved.

#### 6. Better Acceptance of Decisions:

The decisions taken by committees are better accepted by subordinates. The decisions of an individual may be autocratic whereas committees decide in wider perspective of organization. Since various shades of people are represented in committees, these decisions are better accepted.

#### 7. Better Communication:

It is a better forum for discussing matters of mutual interest and reaching certain conclusions. These decisions can be properly communicated to subordinates through committee members. The members will transmit correct and authentic information and also convey the background of taking those decisions.

#### 8. Executive Training:

Committees provide a good forum for training executives. They learn the value of interaction, group dynamics and human relations. They are exposed to various view points and learn the art of reaching decisions and solving organizational problems.

### Weakness of Committee Form of Organization:

#### 1. Delay:

The main drawback of committee form of organization is delay in taking decisions. A number of persons express their viewpoints in meetings and a lot of time is taken on reaching a decision. The fixing of committee meetings is also time consuming. An agenda is issued and a convenience date is fixed for the meeting. The decision making process is very slow and many business opportunities may be lost due to delayed decisions.

#### 2. Compromise:

Generally, efforts are made to reach consensus decisions. The view point of the majority is takenas a unanimous decision of the committee. The thinking of the minority may be valid but it may not be pursued for singled out. They may accept less than an optimal solution, because of a fear that if their solution proves wrong then they will be blamed for it.

#### 3. No Accountability:

No individual accountability to be fixed if these decisions are bad. Every member of the committee tries to defend himself by saying that he solves a different solution. If accountability is not fixed then it is the weakness of the organization.

#### 4. Domination by Some Members:

Some members try to dominate in the committee meetings. They try to thrust their view point on others. The aggressiveness of some members helps them to take majority with them and minority view is ignored. This type of decision making is not in the interest to the organization.

#### 5. Strained Relations:

Sometimes relations among committee members or with others become strained. If some members take divergent stands on certain issues, some may feel offended. In case some issue concerning other persons is discussed in a committee and members taking stand not liked by those persons may offend them. The discussions in the meetings are generally leaked to other employees. Some unpleasant decisions may not be liked by those who are adversely affected. It affects relations of employees not only on the job but at personal level also.

#### 6. Lack of Effectiveness:

The role of committees is not effective in all areas. The committees may be useful where grievance redress or inter personal departmental matters are concerned. Committees may not be effective where policies are to be framed and quick decisions are required. Individual initiative will be more effective in these cases. So committees have a limited role to play.