

MG8591- Principles of Management

Part 2- Introduction to organization

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COURSE OBJECTIVES

- **The student should be made to:**
 - ✓ To learn the application of the principles in an organization

COURSE OUTCOMES

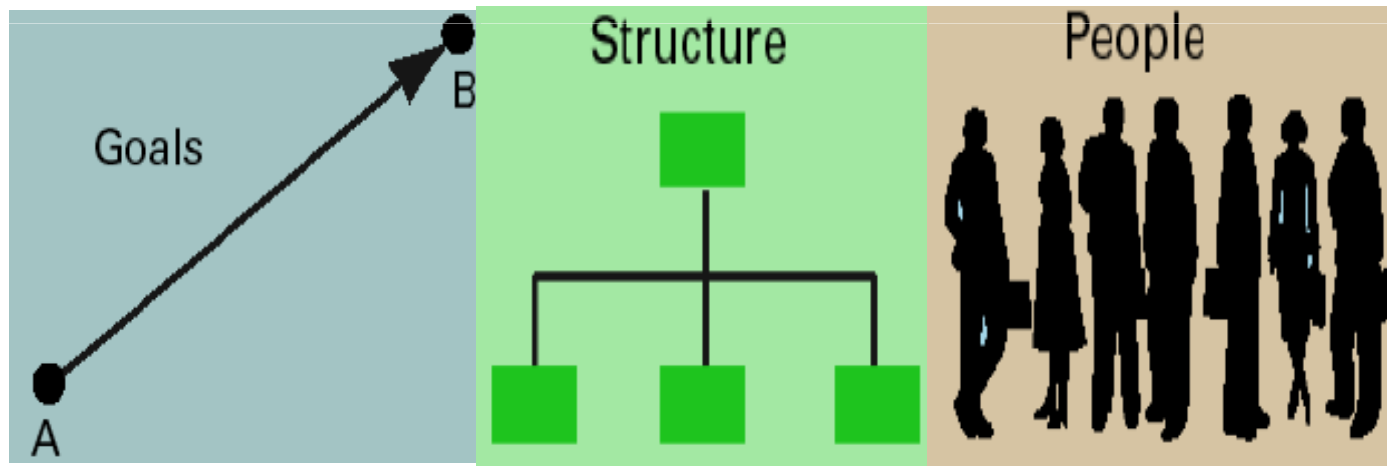
- **Upon successful completion of this course, students will be able to:**
 - ✓ Have clear understanding of managerial functions like planning, organizing, staffing, leading & controlling
 - ✓ Have same basic knowledge on international aspect of management

OVERVIEW

- Introduction
- Types of Business organization
- Sole proprietorship,
- Partnership,
- Company-public and private sector enterprises
- Organization culture and Environment
- Current trends and issues in Management.

INTRODUCTION

- Organization is:
 - *An organized group of people with a particular purpose, such as a business or government department (for-profit as well as not-for-profit)*
 - *Business is an organization that uses economic resources or inputs to provide goods or services to customers in exchange for money or other goods & services*



TYPES OF BUSINESS ORGANIZATION

- Sole proprietorship (72% of Business)
- Partnership (9% of Business)
- Private Limited companies
- Public Limited companies
- Corporation (20% of business 74% - Profits)
- Cooperative



TYPES OF BUSINESS ORGANIZATION

■ Sole proprietorship (72% of Business)

- *It is a business owned, managed & controlled by one person or an individual*
- *Owner has unlimited control over the business and enjoys all the profits & also has unlimited personal responsibility for the losses and debts*
- *Take help from family members & also make use of services of others such as manager & other employees.*

A person who starts a business is known as an entrepreneur or individual ownership

TYPES OF BUSINESS ORGANIZATION

■ Sole proprietorship - Advantages

- *Ease of start up/wind up*
- *Ease of Management*
- *Easy decision making*
- *No profit sharing/owner gets 100% profits*
- *No need to pay any business taxes or less taxes*
- *Psychological (emotional) advantages*
- *Less administrative paperwork*
- *Owner is boss & total control over the business*
- *Owner has freedom to change working hours or whom to employ*
- *Minimal working capital required*
- *No registration/Few regulations*

A person who starts a business is known as an entrepreneur or individual ownership

TYPES OF BUSINESS ORGANIZATION

■ Sole proprietorship – Economic weakness

- *Unlimited Liability: Owner has total responsibility for all debts and losses of the company*
- *Difficulty in raising financial capital*
- *Limited employees, size and efficiency*
- *Limited managerial experience*
- *Limited Life & uncertain*
- *Lack of continuity in business in the absence of the owner*
- *Owners normally spends long hours working*

A person who starts a business is known as an entrepreneur or individual ownership

TYPES OF BUSINESS ORGANIZATION

■ Sole proprietorship – Examples



A person who starts a business is known as an entrepreneur or individual ownership

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business)

- A partnership is a business owned by 2 or more persons
 - It is an association of persons who agree to combine their financial resources & managerial abilities to run business & share profits in a agreed ratio

■ More capital

■ Better supervision & control

■ Division of work & spreading of risk/profit

■ Partnership agreement

■ Minimum 2 to maximum 20 partners

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business)

■ Two major types

1. General or Active Partnership
2. Limited Partnership

■ 1. General or Active Partnership

- To carry & active part in day to day business
- It is Most common type, all partners are responsible for management and the financial responsibilities of the partnership.

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business)

■ Two major types

1. General or Active Partnership
2. Limited Partnership

■ 2. Limited Partnership

- At least one partner is not active in the day to day running of the business. They have limited liability.
 - Dormant or Sleeping partner → Do not active only contribute capital
 - Nominal partners → Land their name in business
 - Partners by holding out → Conducts holds out to another

Joint venture : A partnership in which two companies join to complete the specific project

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business) - Advantages

- Ease of establishment
- Ease of Management: each partners bring new skills & ideas
- No special business taxes
- Easier to raise financial capital
- Easier to attract qualified workers

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business) - Disadvantages

- Unlimited liability
- Limited partner is only responsible for his initial investment
- Limited Life
- Conflict between partners
- Disagreement creates problem
- If one partner is insufficient or dishonest everybody loses

TYPES OF BUSINESS ORGANIZATION

■ Partnership (9% of Business) - Examples

- Family Business [MSLV & Co]
- Auto body repair
- Professionals Business : Doctors (Dental clinic)
- Lawyers
- Teachers (Tuition Centre)



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TYPES OF BUSINESS ORGANIZATION

■ Private Limited companies

- A private limited company is where between one and more people (less than 50) come together and form a business.
 - Owners are called shareholders & they invest money
 - Profit is divided among the shareholders
- At least one partner is not active in the day to day running of the business. They have limited liability.

TYPES OF BUSINESS ORGANIZATION

■ Private Limited companies

■ Advantages

- Limited Liability
- Continuity of existence
- Scope of expansion is higher

■ Disadvantages

- Costly to set up
- A lot of legal requirements when forming a company
- Growth may be limited because maximum share holders allowed
- Shares cannot be sold or transferred to anyone else without the agreement of other shareholders

TYPES OF BUSINESS ORGANIZATION

■ Private Limited companies – Examples

- Reliance Industries/Vodafone
- Tata consultancy services (TCS)/Infosys Technologies/Wipro Ltd
- TVS LTD



TYPES OF BUSINESS ORGANIZATION

■ Public Limited companies

- A public limited company whose securities are treated on a stock exchange & can be brought and sold by anyone (less than 50) come together and form a business.
 - These companies are strictly regulated with true financial position
 - It is also called '**Public held Company**'

TYPES OF BUSINESS ORGANIZATION

■ Public Limited companies

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→ These companies are strictly regulated with true financial position

→ It is also called '**Public held Company**'

■ Advantages

- Better access to capital i.e. Raising share from existing & new investors
- Value of shares based on the share price
- Opportunity to more Easily make achievement
- More Prestigious profile

TYPES OF BUSINESS ORGANIZATION

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■ Disadvantages

- Once listed on a stock exchange
- Financial markets will govern the value of the company
- Greater public scrutiny of the company's financial performance & actions

TYPES OF BUSINESS ORGANIZATION

- **Public Limited companies – Examples**
 - Bharat Petroleum Corporation Limited
 - Indian Gas Corporation Limited
 - United India Insurance Company
 - State bank of India
 - National Thermal Power Corporation Limited

PRIVATE VS. PUBLIC LIMITED

Private Limited Company	Public Limited Company
It is privately held company	It is publically held company
Minimum 2 shareholders are required to incorporate the company	Minimum 7 shareholders are required for incorporation of the company
There can be maximum of 200 shareholders	It can have unlimited number of shareholders
Minimum 2 directors are mandatory	Minimum 3 directors are mandatory
Less compliance as compared to public company	More compliances
Shares are not transferred easily	Shares are easily transferred

TYPES OF BUSINESS ORGANIZATION

■ Corporation (20% of business 74% - Profits)

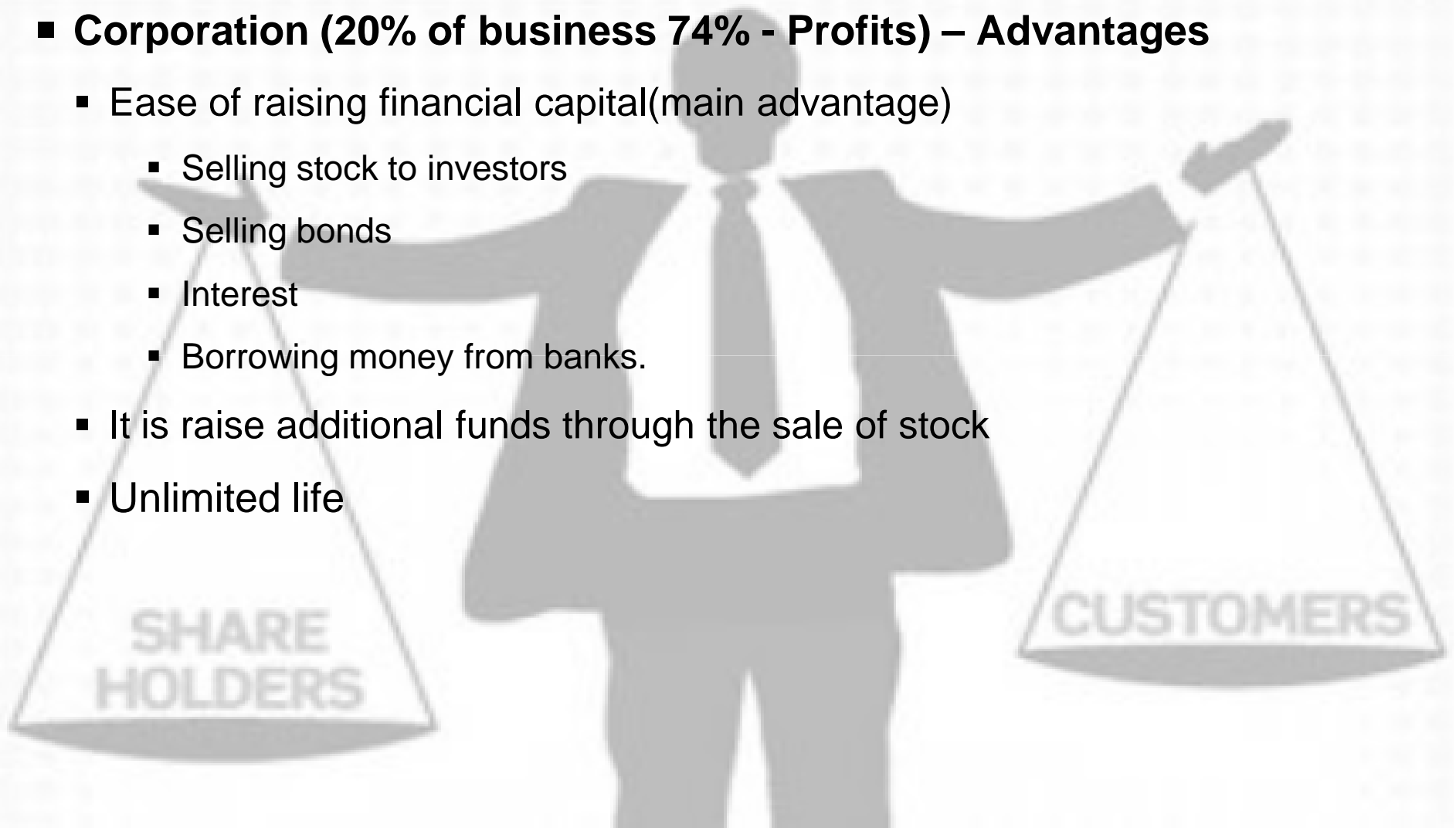
- It is limited liability entity doing business owned by multiple shareholders and is overseen by a board of directors elected by the share holders.
- **Stock**: shares of ownership in the corporation
- **Stockholders** (shareholders): owners of stock.



TYPES OF BUSINESS ORGANIZATION

■ Corporation (20% of business 74% - Profits) – Advantages

- Ease of raising financial capital(main advantage)
 - Selling stock to investors
 - Selling bonds
 - Interest
 - Borrowing money from banks.
- It is raise additional funds through the sale of stock
- Unlimited life



TYPES OF BUSINESS ORGANIZATION

■ Corporation (20% of business 74% - Profits) – Disadvantages

■ Start up expenses are high.

- Stockholders (owners) have a limited
- Profits are taxed
- Corporations are subject to more government regulations than sole proprietors or partners

■ Examples

- Google
- HCL
- Microsoft
- General motor companies
- Honeywell
- LIC

TYPES OF BUSINESS ORGANIZATION

■ Cooperative

- Coop or cooperative is an autonomous association of people who Voluntarily cooperate for their Social , Economic & Cultural Benefits
- Cooperative members believe in the ethical values of honesty, openness, social responsibility & carrying for others.
- More than 7,50,000 companies/cooperatives serve some 730 millions members in more than 100 countries
- Cooperative operate in every industry including agriculture, energy, child care, financial services, food retailing, telecommunications and others
 - Labor Union
 - Professional Associations

TYPES OF BUSINESS ORGANIZATION

■ Cooperative

■ Advantages

- Easy to form
- No obstruction for membership
- Limited liability
- Surplus (Extra) shared by the members

■ Disadvantages

- Easy to form
- No obstruction for membership
- Limited liability
- Surplus (Extra) shared by the members

TYPES OF BUSINESS ORGANIZATION

■ Cooperative – Examples

- Indian Farmers Fertilizer Cooperative Ltd
- Cooptex – Wavers Society Ltd
- Aavin – Cooperative Milk Producers
- Mother Dairy
- Anyonya Cooperative Bank Ltd
- Cooperative Home Care Associates



ORGANIZATION CULTURE AND ENVIRONMENT

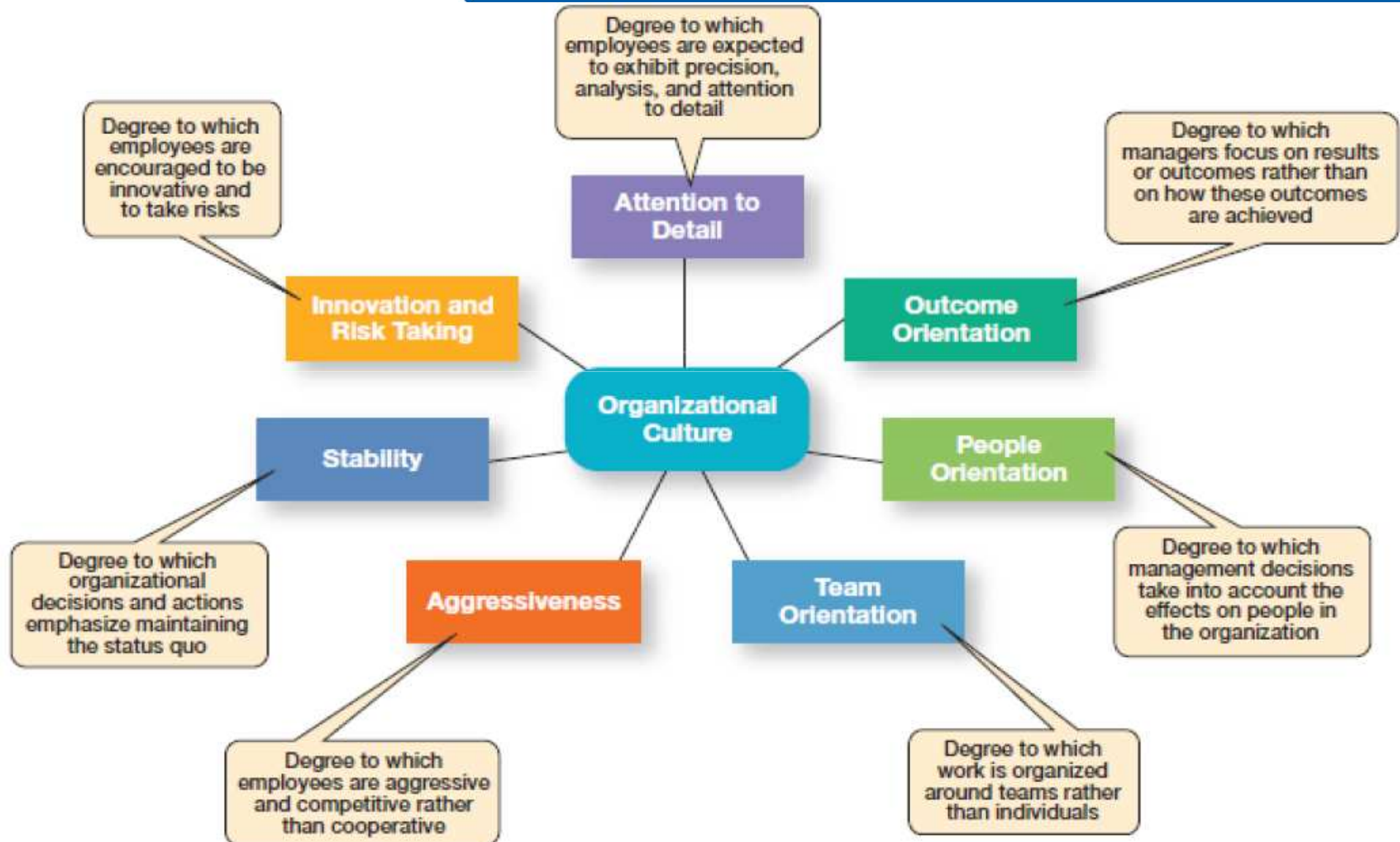
- The manager: omnipotent or symbolic?
 - **Omnipotent view:** the dominant view in general is that managers are directly responsible for an organization's success or failure.
 - **Symbolic view of management:** much of an organization's success or failure is due to external forces outside managers' control .



ORGANIZATION CULTURE

- The shared values, principles, traditions & the ways of doing things that influence the way organizational members act.
 - It is the behavior of humans within an organization
 - It includes the organization vision values, norms, systems, symbols, Language, Assumptions, Beliefs (Attitude) & Habits
- The definition implies three things:
 - 1.Culture is perception (Awareness)
 - it's not something that can be physically touched or seen.
 - 2.Culture is descriptive (Colorful)
 - it's concerned with how members perceive the culture, not with whether they like it
 - 3.Culture is shared
 - Individuals tend to describe the organization's culture in similar terms, even they may have different backgrounds or work at different organizational levels

ORGANIZATION CULTURE - CHARACTERISTICS



STRONG AND WEAK CULTURE

■ Strong culture

- Organizational cultures in which the key values are intensely (deeply) held and widely shared

■ Weak culture

- Have greater influence on employees than do weaker cultures

Strong Cultures

Values widely shared

Culture conveys consistent messages about what's important

Most employees can tell stories about company history or heroes

Employees strongly identify with culture

Strong connection between shared values and behaviors

Weak Cultures

Values limited to a few people—usually top management

Culture sends contradictory messages about what's important

Employees have little knowledge of company history or heroes

Employees have little identification with culture

Little connection between shared values and behaviors

ESTABLISHMENT AND MAINTAINING CULTURE



LEARN OR ELEMENTS OF ORGANIZATION CULTURE

- How employees learn culture or elements of organization culture.
 - Invisible Elements
 - 1.Values – What is important in the organization
 - Major core values are Creativity, Humor, Integrity, Dedication, Mutual Respect, Kindness, contribution to society
 - 2.Beliefs
 - Best ways to achieve certain goals such as increasing productivity & job motivation
 - 3.Norms
 - It reflects the typical & accepted behaviors in an organization
 - →Quality of work environment
 - →People Communication
 - →Typical Leadership

CURRENT ORGANIZATION FACING CULTURE ISSUES

- Creating an ethical culture
- Creating an innovation culture
- Creating a customer-responsive culture
- Spirituality and organizational culture



CURRENT ORGANIZATION FACING CULTURE ISSUES

■ Creating an ethical culture

- Visible Role model
- Communicate ethical expectations
- Provides ethics training
- Visibly reward ethical acts
- Punish unethical ones



CURRENT ORGANIZATION FACING CULTURE ISSUES

■ Creating an innovation culture

- Challenge and involvement
- Freedom
- Trust and openness
- Idea time
- Playfulness/Humor
- Conflict Resolution
- Debates
- Risk taking



CURRENT ORGANIZATION FACING CULTURE ISSUES

■ Creating a customer-responsive culture

- Type of employees – Customer service friendly & attentive
- Type of Environment – Satisfy customer
- Empowerment – Service oriented employees
- Role Clarity – Reduce uncertainty



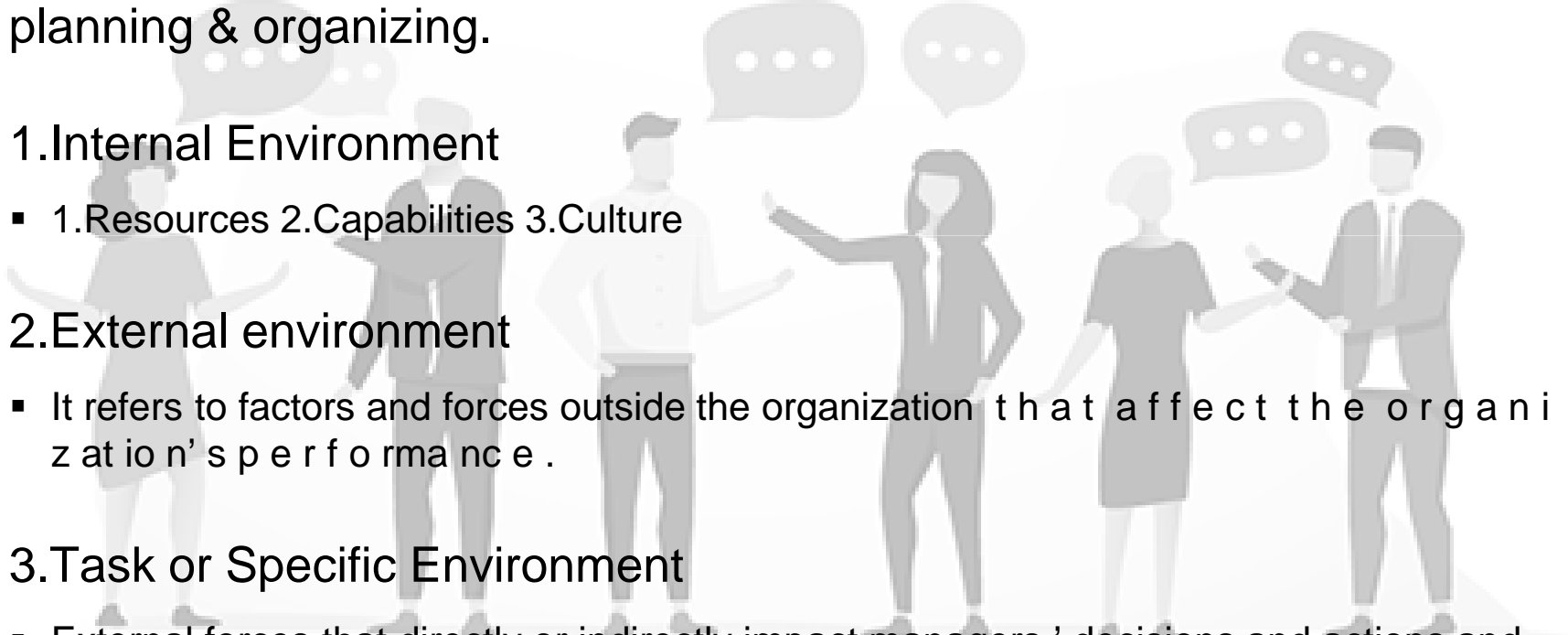
CURRENT ORGANIZATION FACING CULTURE ISSUES

■ Spirituality and organizational culture

- Strong sense of purpose.
- Focus on individual development.
- Trust and openness.
- Employee empowerment.
- Toleration of employee expression

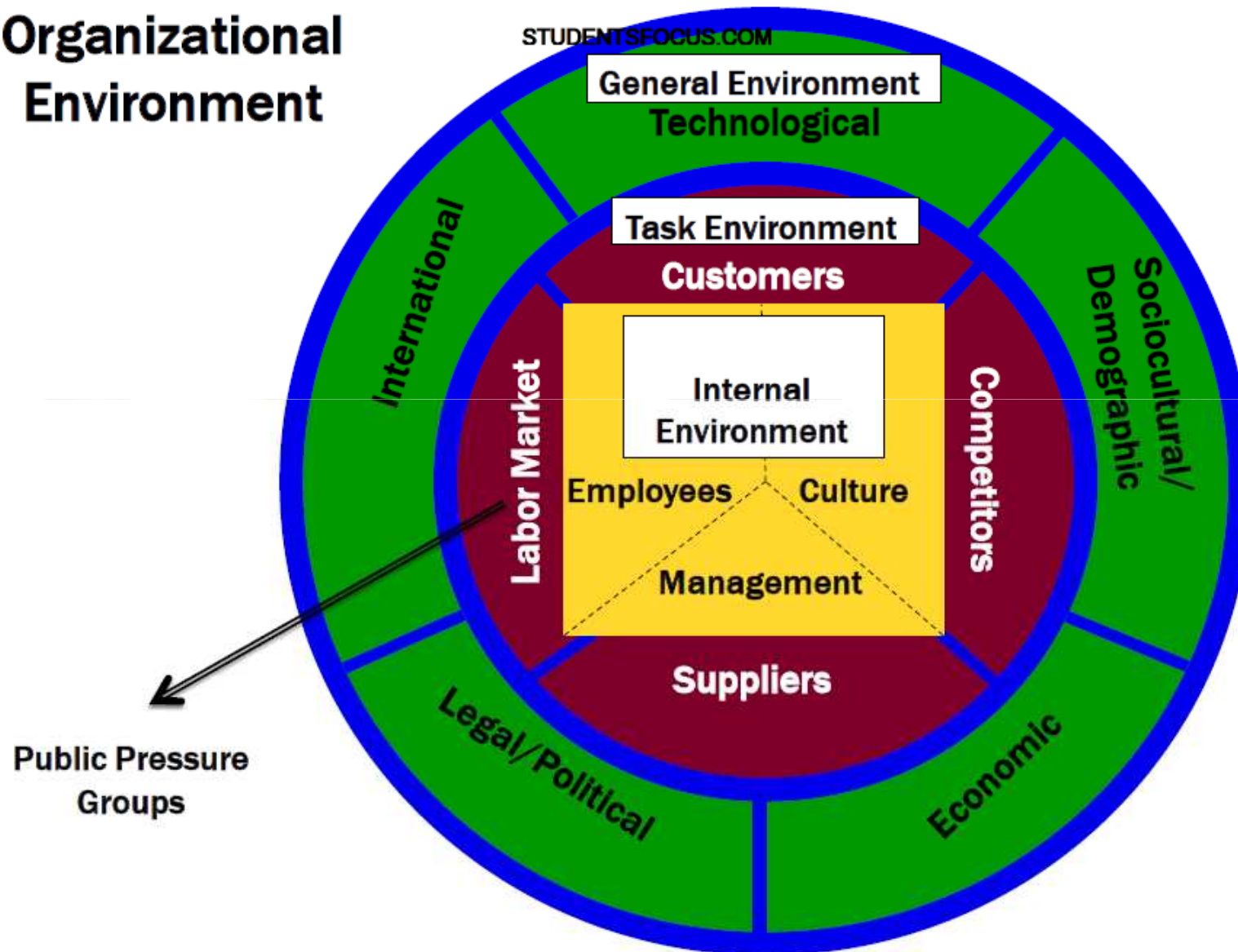


ORGANIZATION ENVIRONMENT

- The organizational environment is a set of forces & conditions such as technology & competition, that are outside the organizations boundaries and have the potential to affect the way of the managers engage in planning & organizing.
 - 1.Internal Environment
 - 1.Resources 2.Capabilities 3.Culture
 - 2.External environment
 - It refers to factors and forces outside the organization that affect the organization's performance.
 - 3.Task or Specific Environment
 - External forces that directly or indirectly impact managers' decisions and actions and are directly relevant to the achievement of the organization's goals
- 

ORGANIZATION ENVIRONMENT

Organizational Environment



INTERNAL ENVIRONMENT

- Internal environmental factors are

- Management changes
- Employee moral
- Culture changes
- Financial changes/issues

- Various internal factors are

- a) Value of system
- b) Mission & Objectives
- c) Organization structure
- d) Corporate culture
- e) Labor Unions
- f) Physical Resources
- g) Technological capabilities



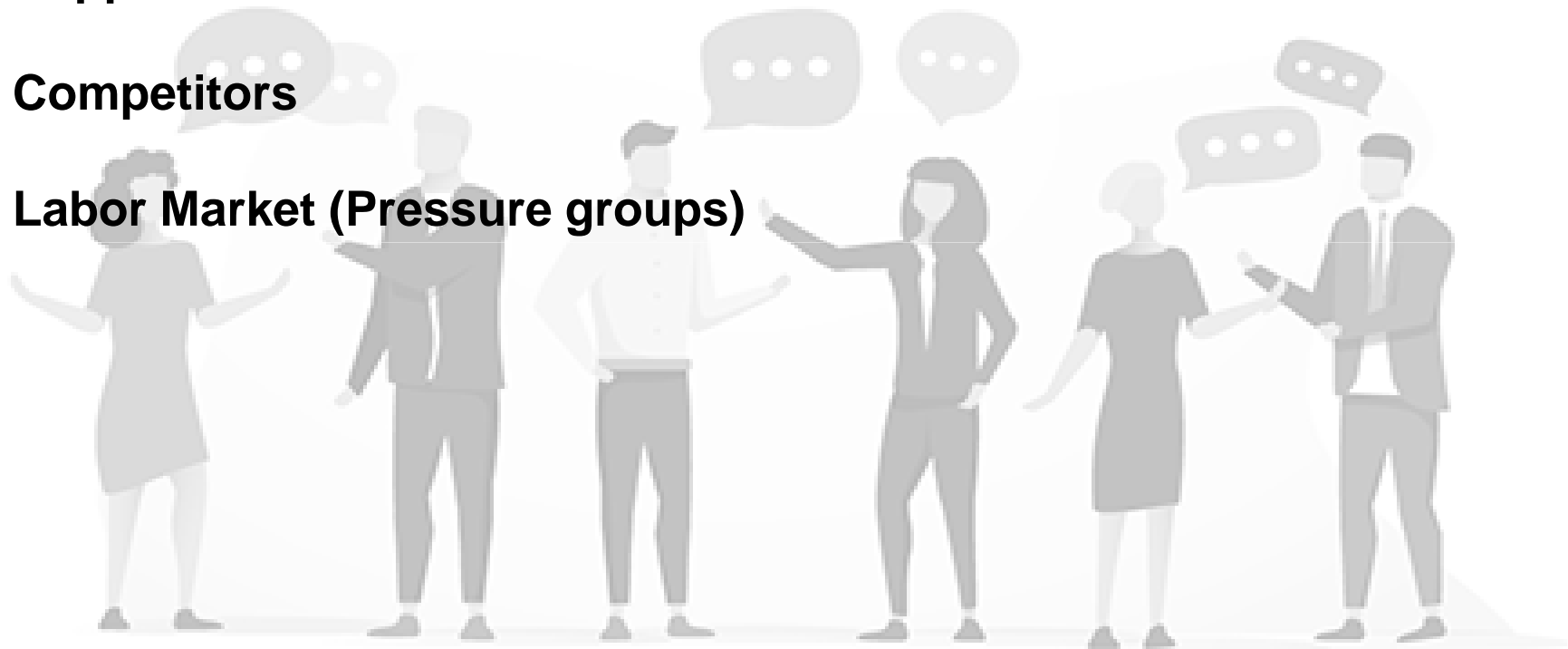
TASK OR SPECIFIC ENVIRONMENT

- Customers
- Suppliers
- Competitors
- Labor Market (Pressure groups)



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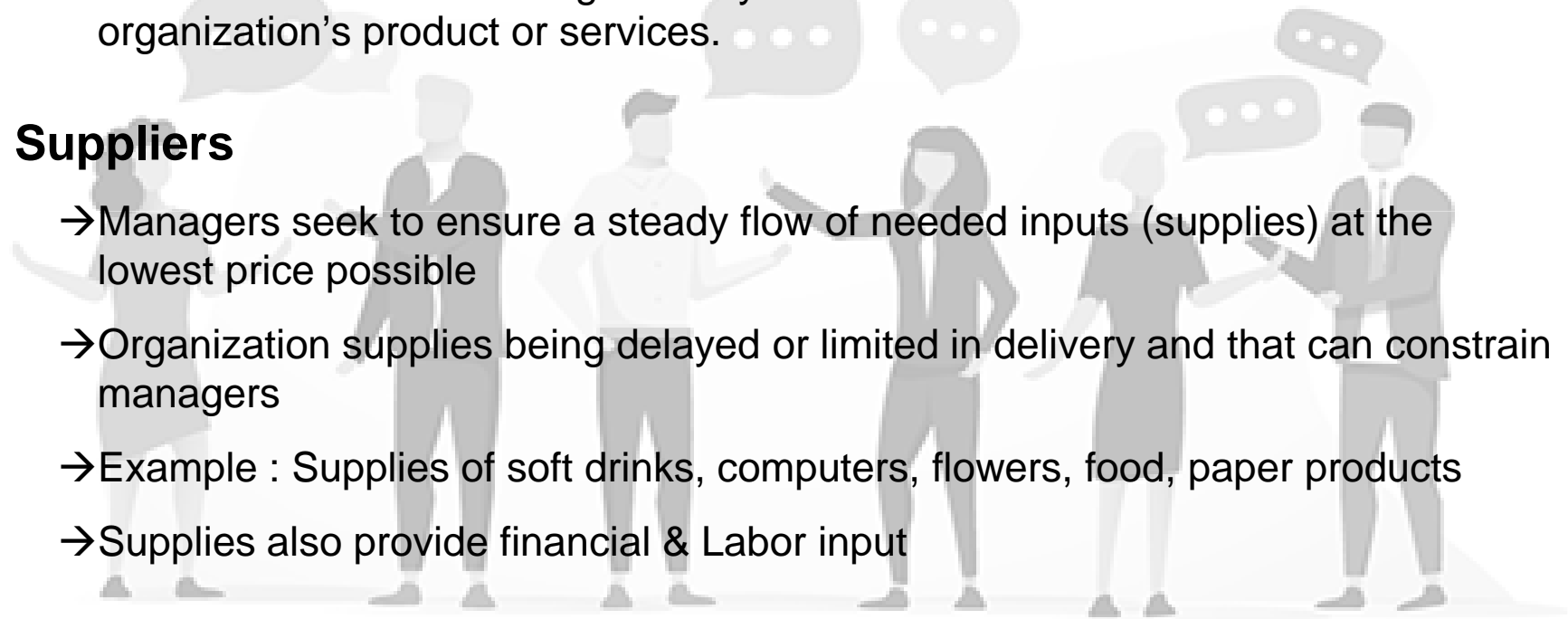
TASK OR SPECIFIC ENVIRONMENT

■ Customers

- An organization exists to meet the needs of customers who use its output
- Customers' taste can change or they can become dissatisfied with the organization's product or services.

■ Suppliers

- Managers seek to ensure a steady flow of needed inputs (supplies) at the lowest price possible
- Organization supplies being delayed or limited in delivery and that can constrain managers
- Example : Supplies of soft drinks, computers, flowers, food, paper products
- Suppliers also provide financial & Labor input



TASK OR SPECIFIC ENVIRONMENT

■ Competitors

- Managers can't afford to ignore the competitors.
- Competitors generally look for higher margin for this provide unique features to its producers

■ Labor Market (Pressure groups)

- special interest groups that attempt to influence the actions of organizations in order to get managers to change some decisions or actions
- **Examples** : Human rights, Boycotting, consumer's protection societies PETA – People for Ethical Treatment of Animals.

*Distributors : Intermediary between retailers & wholesalers or manufacturer
wholesaler play a vital role in a Task Environment*

ENVIRONMENTAL UNCERTAINTY MATRIX

	Stable	Dynamic
Simple	<p>Cell 1</p> <p>Stable and predictable environment</p> <p>Few components in environment</p> <p>Components are somewhat similar and remain basically the same</p> <p>Minimal need for sophisticated knowledge of components</p>	<p>Cell 2</p> <p>Dynamic and unpredictable environment</p> <p>Few components in environment</p> <p>Components are somewhat similar but are continually changing</p> <p>Minimal need for sophisticated knowledge of components</p>
Complex	<p>Cell 3</p> <p>Stable and predictable environment</p> <p>Many components in environment</p> <p>Components are not similar to one another and remain basically the same</p> <p>High need for sophisticated knowledge of components</p>	<p>Cell 4</p> <p>Dynamic and unpredictable environment</p> <p>Many components in environment</p> <p>Components are not similar to one another and are continually changing</p> <p>High need for sophisticated knowledge of components</p>

TEST YOUR SKILLS

- What Is An Organization?
- Describe the characteristics of an organization.
- Explain how the concept of an organization is changing.