CHAPTER 1

MANAGEMENT

Learning Objectives:

- To introduce the concept and definitions of management.
- Present the characteristics of management.
- Understand the functions of management.
- Understand the functional areas of management.
- Distinguish administration and management.
- Introduce the role of management.
- Present the levels of management.
- Trace the development of management thought.

1.1 MEANING

Giving precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline it has drawn concepts and principles from a number of disciplines such as Sociology, Economics, Psychology, Statistics, Anthropology and so on. The contributors from each of these groups have viewed management differently. For example economists have treated management as 'a factor of production'; Sociologists treated it as 'a group of persons'. Hence, taking all these view points, it becomes difficult to define management in a comprehensive way and no definition of management has been universally accepted. Many definitions were given by various contributors; one popular definition is given by Mary Parker Follet. According to Follet management is '**the art of getting things done through people**'. This definition clearly distinguishes between manager and other personnel of the organization. A manager is a person who contributes to the organization's goal indirectly by directing the efforts of others, not by performing the task by him. A person who is not a manager makes his contribution to the organization's goal directly by performing the tasks by himself. Some times a person may play both roles simultaneously. For example, a sales manager plays managerial role by directing the sales force to meet the organization's goal and plays non-managerial role by contacting an important customer and negotiating deal with him. The principal of an institution plays the role of manager by directing the heads of the departments and plays non-managerial role by teaching a subject. There are two weaknesses of this definition. The first weakness is that the definition states that management is an art. Art deals with application of knowledge. But management is not merely application of knowledge. It also involves acquisition of knowledge i.e., Science. Managing using intuition or thumb rule is not correct management. The second weakness of this definition is that it does not explain the various functions of management.

A better definition is given by George R Terry who defines management as "a process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources". According to him, management is a process-a systematic way of doing thing using four managerial functions namely planning, organizing, actuating and controlling. 'Planning' means thinking of the manager's action in advance. The actions of the managers are based on logic, plan or some method rather than hunch. 'Organizing' means coordinating machines, materials and human resources of the organization. 'Actuating' means motivating, directing the subordinates. 'Controlling' means that manager must ensure that there is no deviations from plans. This definition also indicates that managers use people, materials and other resources to accomplish the organizations objectives. The objectives may vary with each organization. For example the objective of a technical or management institute might be to provide quality education according to the needs of the industry. The objective of a hospital might be to provide medical care to the community at reasonable price. Whatever may be the objectives of the organization management is a process by which the objectives are achieved.

From the view point of economics, sociology, psychology, statistics and anthropology management has different meanings. There are four views of management:

(1) Management is a process.

(2) Management is a discipline.

(3) Management is a human activity.

(4) Management is a career.

Management is a process: A process is defined as systematic method of handling activities. Often we hear the statements "that company is well managed" or "the company is miss-managed". These statements imply that management is some type of work or set of activities, these activities sometimes performed quite well and some times not so well. These statements imply that management is a process involving certain functions and activities that managers perform.

Management is a discipline: Discipline refers to the field of study having well defined concepts and principles. Classifying management as discipline implies that it is an accumulated body of knowledge that can be learnt. Thus, management is a subject with principles and concepts. The purpose of studying management is to learn how to apply these principles and concepts at right circumstances at the right time to produce desired result.

Management is a human activity: If you say that "the restaurant has an entirely new management" or "He is the best manager I have worked for", you are referring to the people who guide, direct and thus manage organizations. The word 'management' used here refers to the people who engage in the process of management. Managers are responsible for seeing that work gets done in organization.

Management is a career: Today management is developed as a career focused on specialization. Marketing management, finance management, personal management, Industrial management, production management, quality management are some of the specializations in management. Specialists are appointed at various positions of the organizational hierarchy. Hence, management is career.

According to Ralph C Devis, "Management is the executive leadership anywhere".

According to William Spriegal, "Management is that function of an enterprise which concerns itself with the direction and control of various activities to attain business activities".

Ross Moore states "Management means decision-making".

According to Donald J Clough, "Management is the art and science of decision-making and leadership".

Joseph L Massie defines as "Management is the process by which a cooperative group directs actions towards common goals".

According to F.W. Taylor, "Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way".

John F Mee states "Management is the art of securing maximum results with minimum efforts so as to secure maximum prosperity for employer and employee and give the public the best possible service".

According to Koontz and O'Donnel, "**Management is the direction and maintenance of an internal environment in an enterprise where individuals working in groups can perform efficiently and effectively towards the attainment of group goals**". It is the art of getting the work done through and with people in formally organized groups.

Learning Activity 1.1: List the Managerial and Non-managerial activities of your Principal and Head of the department.

1.2 CHARACTERISTICS OF MANAGEMENT

The critical analysis of the above definitions, the following characteristics of management evolve.

(1) ***Management is a continuous process***: The process of management consists of planning, organizing, directing and controlling the resources to ensure that resources are used to the best advantages of the organization. A single function alone cannot produce the desired results. Management involves continuous planning, organizing, directing and controlling.

(2) ***Management is an art as well as science***: Management is an art in the sense of possessing managing skill by a person. Management is science because certain principles, laws are developed which are applicable in place where group activities are coordinated. This will be discussed in detail later in this chapter.

(3) ***Management aims at achieving predetermined objectives*****:** All organizations have objectives that are laid down. Every managerial activity results in achievement of these predetermined objectives.

(4) ***Management is a factor of production*****:** An enterprise produce goods or services using resources like land, labour, capital, machines etc. These resources themselves cannot realize the organizations goals. The goals are achieved when these are effectively coordinated by the entrepreneur. In case of small enterprises an individual can do such type of job where as in large enterprises the coordination job is done by management. Therefore, management is a factor of production.

(5) ***Management is decision-making*****:** Decision-making is selecting the best among alternative courses. Decision-making is an important function of a manager. Whatever a manager does, he does it by making decisions. The success or failure of an organization depends upon the quality of decision. A manager must make a right decision at right time.

(6) ***Universal application*****:** The principles and concepts of management are applicable to every type of industry. The practice of management is different from one organization to another according to their nature.

(7) ***Management is needed at all levels*****:** The functions of management are common to all levels of organization. The functions of planning, organizing, directing, controlling, decision-making are performed by top level as well as lower level supervisors.

(8) ***Management aims at maximum profit*****:** The resources are properly utilized to maximize profit. Maximizing the profit is the economic function of a manager.

(9) ***Dynamic*****:** Management is not static. Over a period of time new principles, concepts and techniques are developed and adopted by management. Management is changed accordingly to the social change.

(10) ***Management as a career*****:** Today management is developed as a career focused on specialization. Marketing management, finance management, personal management,

industrial management, production management, quality management are some of the specializations in management. Specialists are appointed at various positions of the organizational hierarchy. Hence management is career.

(11) ***Management is a profession*:** Management is a profession because it possesses the qualities of a profession. The knowledge is imported and transferred. The established principles of management are applied in practice. This is discussed in detail later in this chapter.

(12) ***Management is a discipline*:** Discipline refers to the field of study having well defined concepts and principles. Classifying management as disciplines implies that it is an accumulated body of knowledge that can be learnt. Thus, management is a subject with principles and concepts. The purpose of studying management is to learn how to apply these principles and concepts at right circumstances, at the right time to produce desired result.

1.3 NATURE OF MANAGEMENT

The principles, concepts and techniques of management have changed over the period of time. Various contributions to the field of management have changed its nature. The nature of management can be described as follows:

(1) ***Multidisciplinary*:** Management is multidisciplinary. It draws freely ideas and concepts from the disciplines like economics, sociology, psychology, statistics, operations research etc. Management integrates the ideas taken from various disciplines and presents newer concepts which can be put into practice. The integration of these ideas is the major contribution of management.

(2) ***Dynamic nature of principles*:** A principle is truth which establishes cause and effect relationships of a function. Principles are developed by integration of ideas from various disciplines supported by practical evidence. These principles are flexible and change with the environment in which organization works. Continuous researches are being carried on to establish new principles; many older principles are changed by new principles. There is nothing permanent in management.

(3) ***Relative not absolute principles*:** Management principles are relative and not absolute. They must be applied according to the need of the organization. Each organization is different from other. The principles of management should be applied in the light of prevailing conditions.

(4) ***Management – science or art*:** There is controversy whether management is science or art. Earlier management was regarded as art but now it is both science and art. This aspect has been discussed in detail in this chapter.

(5) ***Universality of management*:** Management is universal phenomena. Though universal yet management principles are not universally applicable but are to be modified according to the needs of the situation.

1.4 MANAGEMENT FUNCTIONS OR THE PROCESS OF MANAGEMENT

A function is a group of similar activities. There is divergence of view on "What functions are undertaken by managers in organizations?" Some management experts classify these functions into four types and others classify into five types and some others classify them as seven items. The Table 1.1 presents the management functions identified by various writers. The Table 1.2 gives the combined list of management functions.

Table 1.1: Management functions

	Writers	Management Functions
1	Henry Fayol	Planning, organizing, commending, coordinating, controlling
2	Luther Gulick	Planning, organizing, staffing, directing, coordinating, reporting and budgeting (POSDCORB)
3	Lyndall Urwick	Planning, organizing, commanding, coordinating, communicating, forecasting, and investigating.
4	E.F.L. Brech	Planning, organizing, motivating, coordinating, controlling
5	Koontz and O'Donnell	Planning, organizing, staffing, directing (leading), controlling.

Table 1.2: Combined list of management functions

Planning	Directing	Controlling
Formulating purpose	Leading	Investigating
Decision making	Motivating	Evaluating
Innovating	Commanding	Coordinating
Organizing	Activating	Representing
Staffing	Securing Efforts	Administration
Appraising	Communicating	

The list of management functions is too long. However it can be shortened by combining some functions into one. For example, leading, motivating, communicating and commanding may be combined into a single function namely directing.

For our purpose we shall designate the following five as the functions of the manager. In addition we briefly refer to "Innovation and representation as two additional managerial functions considered important by Earnest Dale.

(1) ***Planning*:** Planning is the primary function of management. It is looking ahead and preparing for the future. It determines in advance what should be done. It is conscious determination of future course of action. This involves determining why to take action? What action? How to take action? When to take action? Planning involves

determination of specific objectives, programs, setting policies, strategies, rules and procedures and preparing budgets. Planning is a function which is performed by managers at all levels – top, middle and supervisory. Plans made by top management for the organization as a whole may cover periods as long as five to ten years, whereas plans made by low level managers cover much shorter periods. This "Planning" is discussed in detailed in Chapter–2.

(2) ***Organizing*:** Organizing is the distribution of work in group-wise or section-wise for effective performance. Once the managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out those plans successfully. Organizing involves dividing work into convenient tasks or duties, grouping of such duties in the form of positions, grouping of various positions into departments and sections, assigning duties to individual positions and delegating authority to each position so that the work is carried out as planned.

According to Koonz O'Donnel, "**Organization consists of conscious coordination of people towards a desired goal**". One has to note that different objectives require different kinds of organization to achieve them. For example, an organization for scientific research will have to be very different from one manufacturing automobiles.

(3) ***Staffing*:** Staffing involves managing various positions of the organizational structure. It involves selecting and placing the right person at the right position. Staffing includes identifying the gap between manpower required and available, identifying the sources from where people will be selected, selecting people, training them, fixing the financial compensation and appraising them periodically. The success of the organization depends upon the successful performance of staffing function.

(4) ***Directing*:** Planning, organizing and staffing functions are concerned with the preliminary work for the achievement of organizational objectives. The actual performance of the task starts with the function of direction. This function can be called by various names namely "leading", "directing", "motivating", "activating" and so on. Directing involves these sub functions:

(a) ***Communicating*:** It is the process of passing information from one person to another.

(b) ***Leading*:** It is a process by which a manager guides and influences the work of his subordinates.

(c) ***Motivating*:** It is arousing desire in the minds of workers to give their best to the enterprise.

(5) ***Controlling*:** Planning, organizing, staffing and directing are required to realize organizational objectives. To ensure that the achieved objectives confirm to the pre-planned objectives control function is necessary. 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 deviations. Control involves three elements:

(a) Establishing standards of performance.

(b) Measuring current performance and comparing it against the established standard.

(c) Taking action to correct any performance that does not meet those standards.

(6) ***Innovation*:** Innovation means creating new ideas which may be either results in the development of new products or finding new uses for the old ones. A manager who invents new products is an innovator. A salesman who persuades Eskimos to purchase refrigerator is an innovator. One has to note that innovation is not a separate function but a part of planning.

(7) ***Representation*:** A manager has to spend a part of his time in representing his organization before various groups which have some stake in the organization. A manager has to be act as representative of a company. He has dealings with customers, suppliers, government officials, banks, trade unions and the like. It is the duty of every manager to have good relationship with others.

Learning Activity 1.2: Visit your bank and identify various functions performed by the bank manager.

1.5 FUNCTIONAL AREAS OF MANAGEMENT

Management process involves several functions. A distinction should be maintained between management functions (planning, organizing, staffing, directing and controlling) and the organizational functions (productions, finance etc.) Organizational functions differ from organization to organization depending upon their nature while management functions are common to all. A manager may be put either in production or finance or marketing, he performs all the managerial functions. These organization functions are called functional areas of management. There are four functional areas of management namely production, finance, marketing and finance and personnel. Each functional area may have a number of sub-activities.

***Production*:** This is generally put under production manager and he is responsible for all production related activities.

This area has a number of activities, few of them are given below:

(1) ***Purchasing*:** Which is related with the purchase of various materials required by the organization. Purchasing involves procuring right quantity of materials at the right quality, at the right time and at the right price from the right supplier.

(2) ***Materials management*:** This involves storing of materials, issue of materials to various departments.

(3) ***Research and Development*:** It deals with improving the existing products and process and developing new products and process.

Marketing**:** This area involves the distribution of organizations' products to the buyers. The sub-activities are:

(1) ***Advertising*****:** Involves giving information about products to buyers.

(2) ***Marketing research*****:** It is related with the systematic collection, analysis of data relating to the marketing of goods and services.

(3) ***Sales management*****:** It involves management efforts directed towards movement of products and services from producers to consumers.

Finance and accounting**:** It deals with intelligent investment of financial resources and record-keeping of various transactions. The various sub-functions are

(1) ***Financial Accounting*****:** Deals with record keeping of various transactions.

(2) ***Management Accounting*****:** Deals with analysis and interpretation of financial records so that management can take certain decision.

(3) ***Costing*****:** It deals with recording of costs, their classification and analysis for cost control.

(4) ***Investment Management*****:** Takes care of how financial resources can be invested in various alternatives to maximize returns.

(5) ***Taxation*****:** Deals with various direct and indirect taxes to be paid by the organization.

Personnel**:** It deals with the management of human resources with the following sub-activities:

(1) ***Recruitment and Selection*****:** It deals with recruitment and selection of employees.

(2) ***Training and Development*****:** It deals with training of employees and making them more efficient.

(3) ***Wage and Salary Administration*****:** Deals with fixing of salaries, job evaluation, promotion, incentives etc.

(4) ***Industrial Relations*****:** Deals with maintenance of good employee relations.

1.6 MANAGEMENT: A SCIENCE OR ART?

There is great controversy whether management is science or art. It is an art in the sense of possessing of managing skill by a person. It is a science also because of developing principles or laws which are applicable in a place where a group of activities are coordinated. In fact management is both science and art as it clear from the following discussion.

Management as science**:** Science is a systematized body of knowledge. We call a discipline scientific if its

(1) Methods of inquiry are systematic and empirical.

(2) Information can be ordered and analyzed; and

(3) Results are cumulative and communicable.

'Systematic' means, being orderly and unbiased. Moreover, enquiry must be empirical and not merely an armchair speculation. Scientific information collected in the raw form is finally ordered and analyzed with statistical tools. It is communicable which permits repetition of study. When study is replicated then the second try produces the results similar to the original. Science is also cumulative in that what is discovered is added to that which has been found before. We build upon the base that has been left by others.

Science denotes two types of systematic knowledge; natural or exact and behavioural or inexact. In exact or natural science (such as physics and chemistry) we can study the effect of any one of many factors affecting a phenomenon. For example, we can study in the laboratory, the effect of heat on density by holding other factors (like humidity, pressure etc.) constant, whereas in behavioural or in exact science it is not possible. In management we have to study man and number of factors affecting him. For example, we cannot study the effect of monetary incentives on workers productivity, because in addition to monetary incentives other inseparable factors like leadership styles, workers need hierarchy and leadership styles will also have simultaneous effect on productivity. At the most we may get only rough idea of the relationship between monetary incentives and productivity. Therefore, management is in the category of behavioural science.

***Management is an art*:** Management is the art of getting things done through others in dynamic situations. A manager has to coordinate various resources against several constraints to achieve predetermined objectives in the most efficient manner. Manager has to constantly analyze the existing situation, determine objectives, seek alternatives, implement, and control and make decision. The theoretical lessons on principles, concepts and techniques learnt by a manager in classroom is not enough to get the aimed results unless he possess the skill (or art) of applying such principles to the problems. The knowledge has to be applied and practised. It is like the art of musician or painter who achieves the desired results with his own skill which comes by practice. A comparison between science and art is given in table 1.3.

Table 1.3: Comparison between science and art

Science	**Art**
Advances by knowledge	Advances by policies
Process	Feels
Predicts	Guesses
Defines	Describes
Measures	Opines
Impresses	Expresses

Management uses both scientific knowledge and art in managing an organization. As the science of management increases so should the art of management. A balance between the two is needed.

1.7 MANAGEMENT: A PROFESSION

According to McFarland, "**Profession**" possesses the following characteristics:

(1) Existence of an organized knowledge.

(2) Formalized method of acquiring training and expertise.

(3) Existence of professional association.

(4) Existence of an ethical code to regulate the behaviour.

(5) Charging of fees based on service with due regard to social interest.

Management does not possess all the above characteristics of profession. Management has no fixed norms for managerial behaviour. There is no uniform code of conduct or licensing of managers. There are no restrictions to individuals to possess an academic degree. Unlike medical or legal professionals, a manager need not possess an academic degree. In the light of absence of these characteristics, management cannot be called as profession. However, 'professionalization' of management started and it is essential nowadays to acquire some professional knowledge or training. In this regard government of India has started six national institutes of management and a number of universities and institutions are offering MBA programmes.

1.8 MANAGEMENT AND ADMINISTRATION

The term administration and management are used synonymously. Some writers urge that running of a business requires skills, which is known as management and functioning of government departments and non-profit institutions requiring skill is known as administration. Various views expressed by thinkers of management led to the emergence of there approaches:

(1) Administration is above management.

(2) Administration is a part of management.

(3) Management and administration are same.

According to classical thinkers, Administration is above management so far as different in the organization are concerned. According to Spreigal, "Administration is that phase of business enterprise that concerns itself with the overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives. Management on the other hand is an executive function which is primarily concerned with carrying of broad policies laid down by the administration". This implies that administration deals with establishing objectives and policies and is done by the top level whereas management is the execution of these policies by the middle and lower organizational level. Table 1.4 shows the distinction between administration and management.

Table: 1.4: Differences between administration and management

Basis of difference	Administration	Management
1. Level of organization	Top Level	Middle and Lower Level
2. Major focus	Policies formulation and objective determination	Policies execution for objectives achievements
3. Nature of function	Determinative	Executive
4. Scope of functions	Broad & Conceptual	Narrow & Operational
5. Factors affecting decision	Mostly external	Mostly internal
6. Employer – Employee relation	Entrepreneurs & Owners	Employee
7. Qualities required	Administrative	Technical

E. El. Brech urges that administration is a part of management. According to Brech, "Management is a generic name for the total process of executive control in industry or commerce. It is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in the fulfilment of a given purpose or risk. Administration is that part of management which is concerned with the installation and carrying out of procedures by which it is laid down and communicated, and the process of activities regulated and checked against plans. According to this view, administration become a subordinate function to overall management function. According to the third approach which is the most popular and practical one, management and administration are same. Both involve the same functions, principles and objectives. The term administrator found its origin in bureaucratic structure of government or in regulation of some laws. The government often uses the terms administrator who is supposed to execute broad policies laid down by government.

The basic point of controversy between management and administration lies in forms of coverage of activities. The content of policy formulation is higher at higher levels; it is lower at lower levels, while executive is more at lower levels and lower at higher levels. Hence, it becomes unimportant whether policy formulation function is known as administration or management.

1.9 ROLE OF MANAGEMENT

A manager performs planning, organizing, directing and controlling to achieve the organizational objectives. It has been questioned whether these functions provide an adequate description of the management process. As against these management functions Henry Mintzberg has defined the role of managers to identify what managers do in the organizations. Mintzberg has identified ten roles of manager which are classified into three broad categories as shown in fig. 1.1.

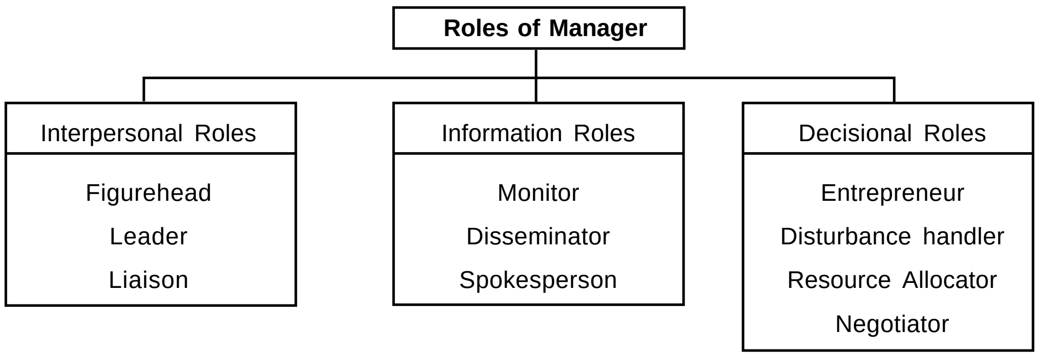

Fig. 1.1: Roles of manager

Interpersonal role**:** This role is concerned with his interacting with people both organizational members and outsiders. There are three types of interpersonal roles:

(1) ***Figure head role*****:** In this role manager has to perform duties of ceremonial nature such as attending social functions of employees, taking an important customer to lunch and so on.

(2) ***Leader role*****:** Manager's leader role involves leading the subordinates motivating and encouraging them.

(3) ***Liaison*****:** In liaison role manager serves as a connecting link between his organization and outsiders. Managers must cultivate contacts outside his vertical chain to collect information useful for his organization.

Information roles**:** It involves communication. There are three types of informational roles:

(1) ***Monitor*****:** In his monitoring role, manager continuously collects information about all the factors which affects his activities. Such factors may be within or outside organization.

(2) ***Disseminator*****:** In the disseminator role, manager possesses some of his privileged information to his subordinates who otherwise not be in a position to collect it.

(3) ***Spokesperson*****:** As a spokesperson manager represents his organization while interacting with outsiders like customers, suppliers, financers, government and other agencies of the society.

Decisional roles**:** Decisional role involves choosing most appropriate alternative among all so that organizational objectives are achieved in an efficient manner. In his decisional role manager perform four roles:

1. ***Entrepreneur*****:** As an entrepreneur, a manager assumes certain risks in terms of outcome of an action. A manager constantly looks out for new ideas and seeks to improve his unit by adopting it to dynamic environment.

2. ***Disturbance handler*:** In this role manager works like a fire-fighter manager contains forces and events which disturb normal functioning of his organization. The forces and events may be employee complaints and grievances, strikes, shortage of raw materials etc.
3. ***Negotiator*:** In his role of negotiator, manager negotiates with various groups in the organization. Such groups are employees, shareholders and other outside agencies.

Readers are advised to note that management functions and roles do not exist opposite to each other but these are two ways of interpreting what managers do. All these roles can be integrated with earlier classification of management which is presented in fig. 1.2.

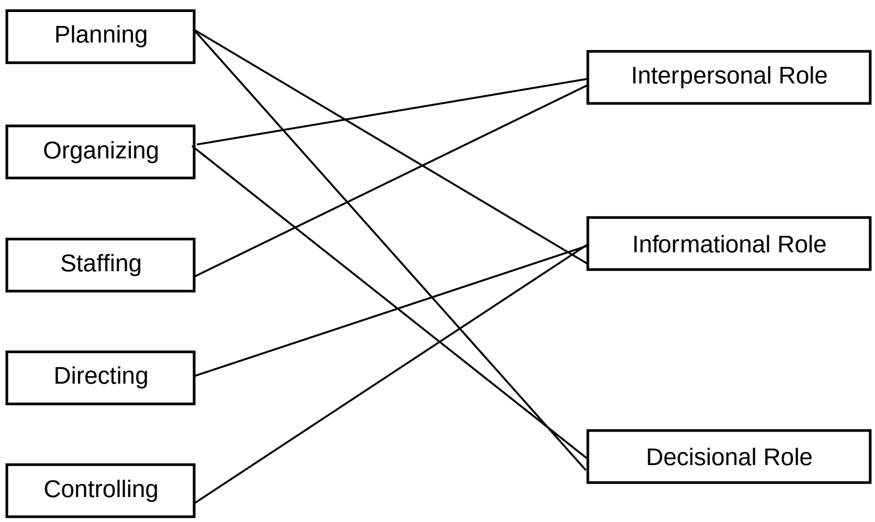

Fig. 1.2: Functions and roles of manager

In planning a manager performs informational and decisional role as he has to collect information on the basis in which he makes decisions. Similarly in performing other functions some or the other roles are performed by manager.

Learning Activity 1.3: Visit an industry, identify and analyze various roles of the manager.

1.10 LEVELS OF MANAGEMENT

People in an organization are arranged in an hierarchy and they all have the relationship of superior-subordinates. Every manager in an organization performs all five management functions. The relative importance of these functions varies along the managerial levels. There may be as many levels in the organization as the number of superiors in a line of command. Some of these levels are merged into one on the basis of nature of functions performed and authority enjoyed. E.F.L. Brech has classified management levels into three categories – Top Management, Middle Management and Supervisory/Lower Level as shown in fig 1.3.

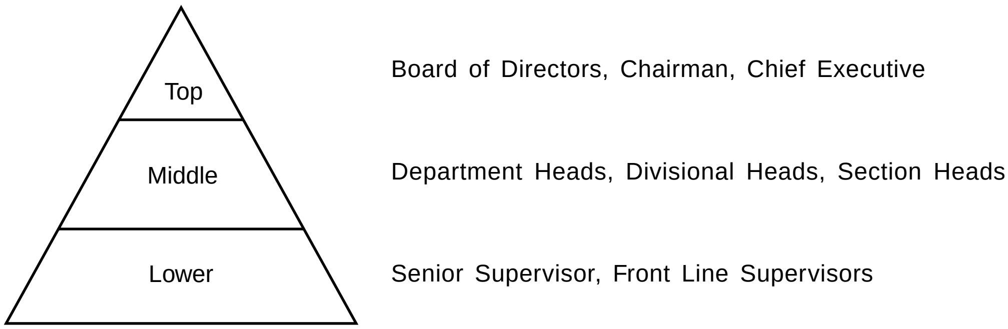

Fig. 1.3: Levels of management

Top management of an organization consists board of directors, chairman and chief executive officer. Top level management determines goals and objectives. It performs overall planning, organizing, staffing, directing and controlling. It integrates organization with environment, balances the interest groups and is responsible for overall results. Middle management stands between top management and supervisory management level. Middle level management establishes programs for department and carries out functions for achieving specific goals. The other functions of middle level management are training and development of employees, integrating various parts of the department. Supervisory management is concerned with efficiency in using resources of the organization. A supervisor is an executor of policies and procedures making a series of decisions with well-defined and specified premises.

Learning Activity 1.4: Identify various levels of management of your institution.

1.11 EVOLUTION OF MANAGEMENT

Management in one or other form has existed in every hook and corner of the world service the down of civilization. Although the 20th century is marked in history as an 'Era of scientific management', yet it does not mean that management was totally absent in yester years. 1700 to 1800 highlights the industrial revolution and the factory system highlights the industrial revolution and the factory system highlighted the importance of direction as a managerial function. Several economists during this period explained the concept of management. For example, Adam Smith explained the concept of division of labour, Jacques Turgot explained the importance of direction and control, and Baptiste explained the importance of planning. But management is emerged as a separate discipline in the second half of 19th century with the introduction of Joint Stock

Company. This form of enterprises separated management of business from their ownership and gave rise to labour inefficiency and inadequate systems of wage payments. In search of solution to this problem, people began to recognize management as a separate field of study. During 20th century, Management has become more scientific discipline with standard principles and practices. The evaluation of management thought during this period can be classified into two parts namely

(1) Early management approaches represented by Taylor's scientific management, Foyal's administrative management and human relations movement.

(2) Modern management approaches, represented by behavioural approach, quantitative/management science approach, systems approach and contingency approach.

Early Management Approaches

Taylor's Scientific Management

F.W. Taylor started his career as an apprentice in a steel company in USA and finally became Chief Engineer. Taylor along with his associates made the first systematic study in management. He launched a new movement in 1910 which is known as scientific management. Taylor is known as father of scientific management and has laid down the following principles of scientific management.

(1) ***Separation of planning and doing***: In the pre-Taylor era, a worker himself used to decide or plan how he had to do his work and what machines and equipments would be required to perform the work. But Taylor separated the two functions of planning and doing, he emphasized that planning should be entrusted to specialists.

(2) ***Functional foremanship***: Taylor introduced functional foremanship for supervision and direction. Under eight-boss-scheme of functional foremanship, four persons: (i) route clerk, (ii) instruction card clerk, (iii) time and cost clerk and (iv) disciplinarian are related with planning function, and the remaining four: (vi) speed boss, (vii) inspector, (viii) maintenance foreman, and (ix) gang-boss are concerned with operating function.

(3) ***Elements of scientific management***: The main elements of scientific management are:

   (a) Work study involving work important and work measurement using method and time study.

   (b) Standardization of tools and equipments for workmen and improving working conditions.

   (c) Scientific Selection, placement and training of workers by a centralized personal department.

(4) ***Bilateral mental revolution***: Scientific management involves a complete mental revolution of workmen towards their work, toward their fellow-men and toward their employers. Mental revolution is also required on the part of management's side–the foreman, the superintendent, the owners and board of directions.

(5) ***Financial incentives***: In order to motivate workers for greater and better work Taylor introduced differential piece-rate system. According to Taylor, the wage should be based on individual performance and on the position which a worker occupies.

(6) ***Economy***: Maximum output is achieved through division of labour and specialization. Scientific Management not only focuses on technical aspects but also on profit and economy. For this purpose, techniques of cost estimates and control should be adopted.

Taylor summed up his approach in these words:

Science, not rule of thumb

Harmony, not discord

Cooperation and not individualism

Maximum output, in place of restricted output

The development of each man to his greatest efficiency and prosperity.

Henry Fayol's Administrative Management (1841–1925)

Henry Fayol was a French Mining Engineer turned into a leading industrialist and successful manager. Fayol provided a broad analytical framework of the process of administration. He used the word Administration for what we call Management. Foyal focused on general administrative and managerial functions and processes at the organizational level. Foyal divided activities of business enterprise into six groups: Technical, Financial, Accounting, Security, and Administrative or Managerial. He focused on this last managerial activity and defined management in terms of five functions: Planning, Organizing, Commanding, Coordinating and Controlling. He emphasized repeatedly that these managerial functions are the same at every level of an organization and is common to all types of organizations.

Foyal presented 14 principles of management as general guides to the management process and management practice. His principles of management are as follows:

1. ***Division of work*:** This is the principle of specialization which is so well expressed by economists as being necessary to efficiency in the utilization of labour. Fayol goes beyond shop labour to apply the principle to all kinds of work, managerial as well as technical.
2. ***Authority and responsibility*:** In this principle, Fayol finds authority and responsibility to be related with the letter, the corollary of the former and arising from the latter. The conceives of authority as a combination of official authority

deriving from a manager's official position and personal authority, "Compounded of intelligence, experience, moral worth, past services etc".

3. ***Discipline*:** Holding that discipline is "respect for agreements which are directed at achieving obedience, application, energy and the outward marks of respect". Fayol declares that discipline requires good superiors at all levels, clear and fair agreement, and judicious application of penalties.
4. ***Unity of command*:** This is the principle that an employee should receive orders from one superior only.
5. ***Unity of direction*:** According to Fayol, unity of direction is the principle that each group of activities having the same objective must have one head and one plan. As distinguished from the principle of unity of command, Fayol perceives unity of direction as related to the functioning of personnel.
6. ***Subordination of individual interest to general interest*:** In any group the interest of the group should supersede that of the individual; when these are found to differ, it is the function of management to reconcile them.
7. ***Remuneration of personnel*:** Fayol perceives that remuneration and methods of payment should be fair and afford the maximum satisfaction to employee and employer.
8. ***Centralization*:** Although Fayol does not use the term 'Centralization of Authority', his principle definitely refers to the extent to which authority is concentrated or dispersed in an enterprise. Individual circumstances will determine the degree of centralization that will give the best overall yield.
9. ***Scalar chair*:** Fayol thinks of the scalar chair as a line of authority, a 'Chain of Superiors" from the highest to the lowest ranks and held that, while it is an error of subordinate to depart 'needlessly' from lines of authority, the chain should be short-circuited when scrupulous following of it would be detrimental.
10. ***Order*:** Breaking this principle into 'Material order' and 'Social Order', Fayol thinks of it as the simple edge of "a place for everything (everyone), and everything (everyone) in its (his) place". This is essentially a principle of organization in the arrangement of things and persons.
11. ***Equity*:** Fayol perceives this principle as one of eliciting loyalty and devotion from personnel by a combination of kindliness and justice in managers dealing with subordinates.
12. ***Stability of tenure of personnel*:** Finding that such instability is both the cause and effect of bad management, Fayol points out the dangers and costs of unnecessary turnover.
13. ***Initiative*:** Initiative is conceived as the thinking out and execution of a plan. Since it is one of the "Keenest satisfactions for an intelligent man to experience", Fayol exhorts managers to "Sacrifice Personal Vanity" in order to permit subordinates to exercise it.

14. ***Esprit de corps***: This is the principle that 'union is strength' an extension of the principle of unity of command. Fayol here emphasizes the need for team-work and the importance of communication in obtaining it.

Human Relations Approach

The human rationalists (also known as neo-classicists) focused as human aspect of industry. They emphasize that organization is a social system and the human factor is the most important element within it. Elton Mayo and others conducted experiments (known as Hawthorne experiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of internal leadership etc. Elton Mayo is generally recognized as father of Human Relations School.

The human relationists, proposed the following points as a result of Hawthorne experiments.

(1) ***Social system***: The organization in general is a social system composed of numerous interacting parts. The social system defines individual roles and establishes norms that may differ from those of formal organization.

(2) ***Social environment***: The social environment of the job affects the workers and is also affected.

(3) ***Informal organization***: The informal organization does also exist within the frame work of formal organization and it affects and is affected by the formal organization.

(4) ***Group dynamics***: At the workplace, the workers often do not act or react as individuals but as members of group. The group plays an important role in determining the attitudes and performance of individual workers.

(5) ***Informal leader***: There is an emergence of informal leadership as against formal leadership and the informal leader sets and enforces group norms.

(6) ***Non-economic reward***: Money is only one of the motivators, but not the sole motivator of human behaviour. Man is diversely motivated and socio-psychological factors act as important motivators.

Modern Management Approaches

Behavioural Approach

This is an improved and more matured version of human relations approach. The various contributors of this approach are Douglas Mc Gregor, Abraham Maslow, Curt Levin, Mary Porker Follelt, Rensis Likert etc. Behavioural Scientists regard the classical approach as highly mechanistic, which finds to degrade the human spirit. They prefer more flexible organization structures and jobs built around the capabilities and aptitudes of average employees. The behavioral approach has laid down the following conclusions.

(1) Decision-making is done in a sub-optimal manner, because of practical and situational constraints on human rationality of decision-making. The behaviorists attach great weight age on participative and group decision-making.

(2) Behavioral Scientists encourage self direction and control instead of imposed control.

(3) Behavioral Scientists consider the organization as a group of individuals with certain goals.

(4) In view of behavioural scientists the democratic-participative styles of leadership are desirable, the autocratic, task oriented styles may also be appropriate in certain situation.

(5) They suggest that different people react differently to the same situation. No two people are exactly alike and manager should tailor his attempts to influence his people according to their needs.

(6) They recognize that organizational conflict and change are inevitable.

Quantitative Approach

Quantitative approach (also known as management approach) started during Second World War during which each participant country of the war was trying to seek solutions to a number of new and complex military problems. The interdisciplinary teams who were engaged for this purpose were known as operation research teams. These operation research teams developed quantitative basis for making military decisions. These quantitative tools later are used to make business, industry and enterprise decisions.

The focus of quantitative approach is on decision making, and to provide tools and techniques for making objectively rational decisions. Objective rationality means an ability and willingness to follow reasonable, unemotional and scientific approach in relating means with ends and in visualizing the totality of the decision environment. This approach facilitates disciplined thinking while defining management problems and establishing relationships among the variables involved. This approach is widely used in planning and control activities where problems can be defined in quantitative terms.

Systems Approach

A system is a set of interdependent parts which form a unit as a whole that performs some function. An organization is also a system composed of four independent parts namely, task, structure, people and technology. The central to the system approach is 'holism' which means that each part of the system bears relation of interdependence with other parts and hence no part of the system can be accurately analyzed and understood apart from the whole system. A system can be open or closed system. In open system, a system interacts with surrounding. An organization is open system because it interacts with it.

Contingency Approach

According to this approach, management principles and concepts have no general and universal application under all conditions. There is no best way of doing things under all conditions. Methods and techniques which are highly effective in one situation may not give the same results in another situation. This approach suggests that the task of managers is to identify which technique in a situation best contribute to the attainment of goals. Managers therefore have to develop a sort of situational sensitivity and practical selectivity. Contingency views are applicable in designing organizational structure, in deciding degree of decentralization, in motivation and leadership approach, in establishing communication and control systems, in managing conflicts and in employee development and training.

CHAPTER SUMMARY

Management is defined as the art and science of getting things done through others. Management is the process of designing and maintaining the environment in which individuals working together in groups, accomplish their aims effectively and efficiently. Managers carry out the functions for Planning, Organizing, Staffing, Directing and Controlling. Planning involves thinking ahead and preparing for future. It determines in advance what should be done. Organizing involves dividing work into convenient tasks or duties, grouping of such duties in the form of positions, grouping of various positions into departments and sections, assigning duties to individual positions, and delegating authority to each position so that work is carried out as planned. Staffing consists of selecting and placing the right people at right position. Directing involves various sub functions like Communicating, Leading and Motivating. 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 deviations. All these functions are performed to achieve predetermined goals. The nature of management can be described by its multidisciplinary, dynamic nature, relative principles and universality of Management. The functional areas of Management are Production, Finance, Marketing and Personnel. A clear distinction can be made between Administration and Management. Administration involves policy formulation, objective determination and Management deals with policy execution and achieving objectives. A manager plays inter-personal roles, information roles and decision roles. There are many theories of Management and each theory contributes something to our knowledge of what managers do. F W Taylor, Adam Smith, Henry Fayol, Elton Mayo and others have contributed to the development of Management concept.

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CHAPTER 2

PLANNING

Learning Objectives:

- To introduce the meaning and definitions of management.
- Analyze the nature and importance of planning.
- Discuss various types of planning.
- Understand types of plan.
- Present steps in planning.
- Understand the meaning and types of decisions.
- Discuss steps in rational decision making.
- Present decision environment.

2.1 MEANING

The management functions as discussed earlier are planning, organizing, staffing, direction and controlling. These functions are essential to achieve organizational objectives. If objectives are not set then there is nothing to organize, direct and control. An organization has to specify what it has to achieve. Planning is related with this aspect.

Every person whether in business or not has framed a number of plans during his life. The plan period may be short or long. One of the characteristic of human being is that he plans. Planning is the first and foremost function of management. According to Koontz and O'Donnel "Planning **is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are and to where we want to go. It is in essence the exercise of foresight".** According to M.S. Hardly "Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.

Heying and Massie define "Planning is that function of the manager in which he decides in advance what he will do. It is a decision making process of a special kind. It is an intellectual process in which creative mind and imagination are essential". Planning is an attempt to anticipate the future in order to achieve better performance. Plans derive the following benefits:

(1) Planning focus managers to think ahead.
(2) It leads to development of performance standards.
(3) Having to formulate plans forces management to articulate clear objectives.
(4) Planning makes organization to be better prepared for sudden developments.

On the basis of definitions of planning the following **features** can be identified.

(1) Planning is primarily concerned with looking into future. It requires forecasting the future.
(2) Planning involves selection of suitable course of action. It means there are several ways to achieving objectives.
(3) Planning is undertaken at all levels of the organization because managers at all level are concerned with determination of future course of action.
(4) Planning is flexible. Planning involves selection of best course of action under specific environment. If environment changes an adjustment is needed between various factors of planning.
(5) Planning is pervasive and continuous managerial function.

2.2 NATURE OF PLANNING

The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness.

Planning: A Rational Approach

Planning is a rational approach for defining where one stands, where one wants to go in future and how to reach there. Rationalist denotes a manager chooses appropriate means for achieving the stated objectives rational approach fills the gap between the current status and future status. The difference between two time periods T1 and T2 may be as long as 5 years or as short as one year. The desired and the current results are usually expressed in terms of objectives, which can be achieved by an action or set of actions. The actions required resources and the rational approach emphasis an appropriate use of resources.

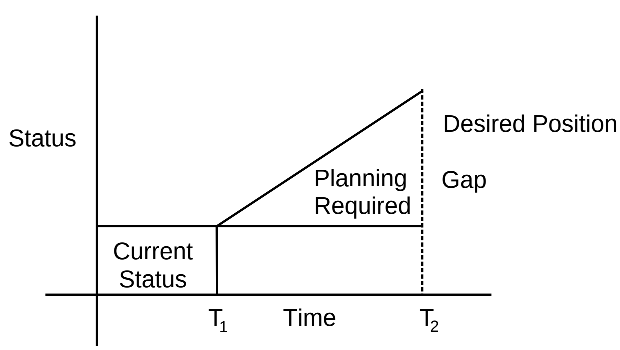

Fig. 2.1: Planning for bridging current & desired

Planning: An Open System Approach

An organization is an open system because it accepts inputs from the environment and exports output to environment. Planning adopt an open system approach. Open system approach indicates that the gap between current and desired status and the action required to bridge this gap is influenced by a variety of environmental economic, legal, political, technological, socio-cultural and competitive factors. These factors are dynamic and change with time. Therefore managers have to take into account the dynamic features of environment while using open system approach.

Flexibility of Planning

By flexibility of a plan is meant its ability to change direction to adopt to changing situations without undue cost. The plans must be flexible to adapt to changes in technology, market, finance, personal and organizational factors. However flexibility is possible only within limits, because it involves extra cost. Some times the benefit of flexibility may not be worth the cost.

Pervasiveness of Planning

Planning is pervasive and it extends throughout the organization. Planning is the fundamental management function and every manager irrespective of level, has a planning function to perform within his particular area of activities. Top management is responsible for overall objectives and action of the organization. Therefore it must plan what these objectives should be and how to achieve them. Similarly a departmental head has to devise the objectives of his department within the organizational objectives and also the methods to achieve them. Thus planning activity goes in hierarchy as shown in fig 2.2.

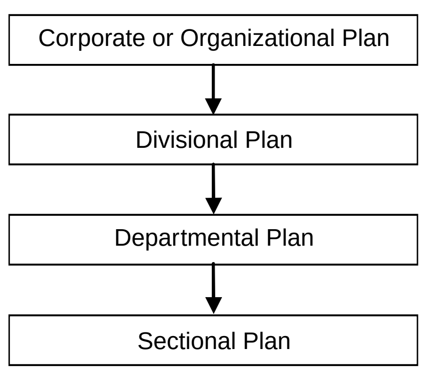

Fig. 2.2: Planning at various levels

2.3 IMPORTANCE OF PLANNING

Planning is of great importance in all types of organization whether business or non-business, private or public, small or large. The organization which thinks much ahead about what it can do in future is likely to succeed as compared to one which fails to do so. Without planning, business decisions would become random, ad hoc choices. Planning is important because of the following reasons.

(1) ***Primacy of planning*:** Planning is the first and foremost function of management, other functions follow planning. What is not planned cannot be organized and controlled. Planning establishes the objectives and all other functions are performed to achieve the objectives set by the planning process as shown in fig 2.3.

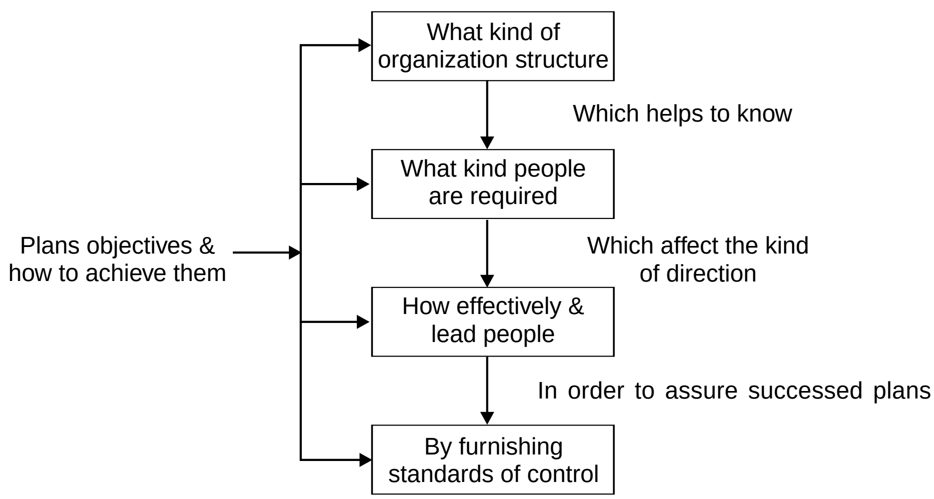

Fig. 2.3: Primacy of planning

(2) ***To minimize risk and uncertainty*:** The organization continuously interacts with the external dynamic environment where there is great amount of risk and uncertainty. In this changing dynamic environment where social and economic conditions alter rapidly, planning helps the manager to cope up with and prepare for changing environment. By using rational and fact based procedure for making decisions, manager can reduce the risk and uncertainty.

(3) ***To focus attention on objectives*:** Planning focuses on organizational objectives and direction of action for achieving these objectives. It helps managers to apply and coordinate all resources of the organization effectively in achieving the objectives. The whole organization is forced to embrace identical goals and collaborate in achieving them.

(4) ***To facilitate control*:** Planning sets the goals and develops plans to achieve them. These goals and plans become the standards or benchmarks against which the actual performance can be measured. Control involves the measurement of actual performance, comparing it with the standards and initiating corrective action if there is deviation. Control ensures that the activity confirm to plans. Hence control can be exercised if there are plans.

(5) ***To increase organizational effectiveness*:** Effectiveness implies that the organization is able to achieve its objectives within the given resources. The resources are put in a way which ensures maximum contribution to the organizational objectives. Effectiveness leads to success.

2.4 TYPES OF PLANNING

Though the basic process of planning is same yet there are several ways in which an organization can undertake planning process. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization in planning process as shown in Table 2.1

Table 2.1: Types of planning

Dimension	Types of planning
1. Coverage of activity	Corporate and functional planning
2. Importance of contents	Strategic and tactical/operational planning
3. Time period involved	Long term and short term planning
4. Approach adopted	Proactive and reactive planning
5. Degree of formalization	Formal and Informal planning

Corporate and functional planning: The planning activities at the corporate level which cover the entire organizational activities are known as corporate planning. The focus in corporate planning is to determine long term objectives as a whole and to generate plans to achieve these objectives bearing in mind the probable changes in dynamic environment. This corporate planning is the basis for functional planning. Functional planning which is derived from corporate planning is undertaken for each major function of the organization like production, marketing, finance etc., Since functional planning is derived out of corporate planning and therefore it should contribute to the corporate planning.

Strategic and operational planning: Strategic planning sets future directions of the organization in which it wants to proceed in future. Strategic planning involves a time horizon of more than one year and for most of the organization it ranges between 3 and 5 years. Examples of strategic planning may be diversification of business into new lines, planned grown rate in sales etc. Operational planning also known of tactical planning on the other hand involves deciding the most effective use of resources already allocated to achieve the organizational objectives. The time horizon in operational planning is less than one year. Operational planning is undertaken out of the strategic planning. The examples of operational planning may be adjustment of production within available capacity, increasing the efficiency of the operating activity by analyzing past performance etc. Table 2.2 gives the differences between strategic and operational planning.

Table 2.2: Differences between strategic and operational planning.

Strategic planning	Operational planning
1. It decides major goals and policies of allocation of resources to achieve these goals.	1. It decides the detailed use of resources for achieving these goals
2. It is carried at higher level of management.	2. It is carried at lower level of management.
3. It is long term.	3. It is short term.
4. It is based on long term forecasting considering the possible impact of political, economical, technological and competitive factors and is more uncertain.	4. It is generally based on past performance of the organization and is less uncertain.
5. It is less detailed.	5. It is more detailed.

Long and short term planning: The long term planning is strategic in nature and involves more than one year period and can extend to 15 to 20 years or so. Short term planning usually covers one year. Short term plans are made with reference to long term plans because short term plans contribute to long term plans.

Proactive and reactive plans: Planning is an open system approach and hence it is affected by environmental factors which keep on changing continuously. The organization's response to these changes differs. Based on these responses planning may be proactive and reactive. Proactive planning involves designing suitable courses of action in anticipation of likely changes of environment. Managers adopting proactive changes do not wait for environment to change, but take action in advance of environmental changes. For this, continuous scanning of environment is necessary. In reactive planning response comes after environmental changes take place. By the time organization responds to change in environment there may be further change in environment. Hence this type of planning is suitable in the environment which is fairly stable over a long period of time.

Formal and informal planning: Large organizations undertake planning in a formal way. Generally a separate corporate planning cell is formed at higher level. The cell is staffed by people of different backgrounds like engineers, economists, statisticians etc., depending upon the nature. The cell continuously monitors the environment. When environment shows some change the cell analysis the environment and suggest suitable measures to take the advantage of the changing environment. This type of planning is rational, systematic, regular and well documented. On the other hand informal planning is undertaken generally by small organizations. This planning process is based on manager's experience, intuitions rather than based on systematic evaluation of environmental changes. This planning process is part of manager's regular activity and is suitable for small organizations.

Learning activity 2.1: Identify and analyze the long range and short plans of your institution.

2.5 TYPES OF PLANS

Plans are classified into standing plans and single use plans as shown in fig 2.3. Standing plans provide guidelines for further course of action and are used over a period of time. Standing plans are designed for situations that recur often enough to justify a standardize approach. For example a bank designs a standing plan to process a loan application. Using this standing plan the bank manager decides whether to approve or not a loan application depending upon the details furnished by the applicant. Once formulated these plans are in operation for a long period unless there is change in these plans. Examples of such plans are organizational mission, long term objective, strategies, policies, procedures and rules. On the other hand single use plans are designed for specific end; when that end is reached, the plan is dissolved or formulated again for next end. Examples of such plans are project, budgets, quotas, targets etc. Single use plans are generally derived from standing plans. Organization set their mission and objectives, out of which strategic actions are determined. In order to put these actions into operations, projects, budgets etc., are prepared for specific time period.

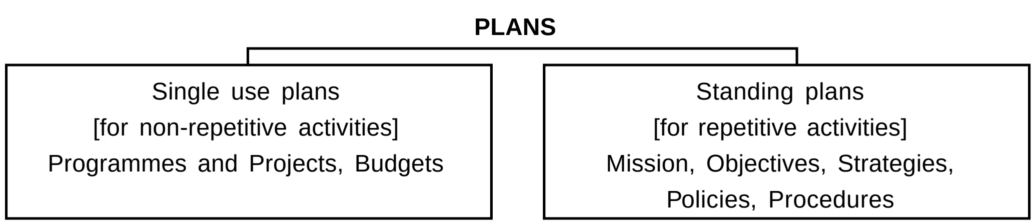

Fig. 2.3: Types of plans

Various organizational plans discussed above are interlinked and may be arranged in hierarchy in which higher order plans helps to derive lower order plans. In turn a lower order plan contributes to the achievement of the objectives of a higher order plans. The hierarchical nature of various plans is represented in fig. 2.4.

Fig. 2.4: Hierarchies of plans

Mission and Purpose

Setting organizational objectives is the starting point of managerial actions. Every organization is purposive creation, it has some objectives; the end results for which the organization strive. These end results are referred to as mission, 'purpose', 'goal', 'target' etc. which are often used inter-changeably. However there are differences in the contest in which these terms are used.

In every social system, enterprises have a basic function or task, which is assigned to them by society. The mission or purpose identifies this basic function or task of the organization, for example the purpose of university.

Mission and purpose are often used interchangeably though there is difference between the two at least at theoretical level. Mission has external orientation and relates the organization to the society in which it operates. A mission statement links the organization activities to the needs of the society and legitimates its existence. Purpose is also externally focused but is relates the organization to that segment of the society to which it serves; it defines the business which the company will undertake. The difference between the two may be visualized in the mission and purpose of Hindustan Lever Limited. The mission statement of HLL is:

> "Hindustan Lever's commitment to national priorities has ensured that the company is a part of people lives at the grass root level, making a difference to India and to Indians- in depth, width and size. Hindustan has always identified itself with the nations priorities; employment generation, development of backward area, agricultural linkages, exports etc."

The purpose of the company is:

> Our purpose in Hindustan lever is to meet the every day needs of the people every where – to anticipate the aspirations of consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

The mission of the company says what it can be for the country i.e., society in general and purpose suggest how this contribution can be made. However in general practice mission and purpose are either used interchangeably or jointly.

Objectives

Every organization is established for the purpose of achieving some objectives. An individual who starts a business has the objective of earning profits. A chartable institution which starts schools and colleges has the objectives of rendering service to the public in the field of education. Though objectives may differ from one organization to another, yet each organization has its own objective. According to Mc Farland, "**Objectives are the goals, aims or purposes that the organizations wish to achieve over varying periods of time**". George R Terry defines ". A managerial objective is the intended goal which describes definite scope and suggests direction to the efforts of a manager". Objective is the term used to indicate the end point of management programme, for which an organization is established and tries to achieve.

Objectives have the following characteristics.

(1) ***Objectives are multiple in numbers*:** Every business enterprise has a package of objectives set in various key areas. Peter Drucker has emphasized setting objectives in eight key areas namely market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.

(2) ***Objectives are tangible or intangible*:** Some of the objectives such as productivity, physical and financial resources are tangible; where as objectives in the areas of manager's performance, workers morale is completely intangible.

(3) ***Objectives have a priority*:** At a given point of time one objective may be important than another. For example maintaining minimum cash balance is important than due date of payment.

(4) ***Objectives are generally arranged in hierarchy*:** It implies that organization has corporate objectives at the top and divisional, departmental and sectional objectives at the lower level of organization.

(5) ***Objectives some time clash with each other*:** An objective of one department may clash with the objectives of other department. For example the objectives of production of low unit cost achievement through mass production of low quality products may conflict with goal of sales department selling high quality products.

Requirements of Sound Objectives

(1) Objectives must be clear: There should not be ambiguity in objectives. The framed objectives should be achievable and are to be set considering various factors affecting their achievements.

(2) Objectives must support one another.
(3) Objectives must be consistent with organizations mission.
(4) Objectives should be consistent over period of time.
(5) Objectives should be rational, realistic and not idealistic.
(6) Objectives should start with word ‘to’ and be followed by an action verb.
(7) Objectives should be periodically reviewed.

Advantages of Objectives

The following are some of the advantages of objectives.

(1) ***Unified planning*:** Various plans are prepared at various level in the organization. These plans are consistent with the objectives and hence objectives encourage unified planning.

(2) ***Individual motivation*:** Objectives act as motivators for individual and departments imbuing their activity with a sense of purpose.

(3) ***Coordination*:** Objectives facilitate coordinated behavior of various groups which otherwise may pull in different directions.

(4) ***Control*:** Objectives provide yardstick for performance. The actual performance is compared with standard performance and hence objectives facilitate control.

(5) ***Basis for decentralization*:** Department-wise or section wise objectives are set in order to achieve common objectives of the organization. These objectives provide basis for decentralization.

Learning activity 2.2: Identify the objectives of your department and institution.

Strategies

‘Every organization has to develop plans logically from goals considering the environmental opportunities and threats and the organizational strengths and weakness. A strategy is a plan which takes into these factors and provides an optimal match between the firm and external environment. Two activities are involved in strategy formulation namely environmental appraisal and corporate appraisal.

Environmental appraisal involves identifying and analysis of the following factors:

(1) ***Political and legal factors*:** Stability of government, taxation and licensing laws, fiscal policies, restrictions on capital etc.

(2) ***Economic factors*:** Economic development, distribution of personal income, trend in prices, exchange rates etc.,

(3) ***Competitive factors*:** Identifying principal competitors and analysis of their performance, anti-monopoly laws, protection of patents, brand names etc.

Corporate analysis involves identifying and analyzing company's strength and weakness. For example a companies strength may be low cost manufacturing skill, excellent product design, efficient distribution etc.,. Its weakness may be lack of physical and financial resources. A company must plan to exploit these strengths to maximum and circumvent it's weakness.

The formulation of strategy is like preparing for beauty contest in which a lady tries to highlight her strong points and hide her weak points. The process of matching company's strength and weakness with environmental opportunities and threats is known as SWOT analysis.

Standing Plans

Policies

A policy is a general guideline for decision making. It sets up boundaries around decisions. Policies channelize the thinking of the organization members so that it is consistent with the organizational objectives. According to George R Terry " Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and directions in which managerial action will take place". Although policies deal with "how to do" the work, but do not dictate terms to subordinates. They only provide framework within which decisions are to be made by the management in various areas. Hence an organization may have recruitment policy, price policy, advertisement policy etc.,

Types of policies: Policies may be classified on the basis of sources, functions or organizational levels as shown in fig 2.5.

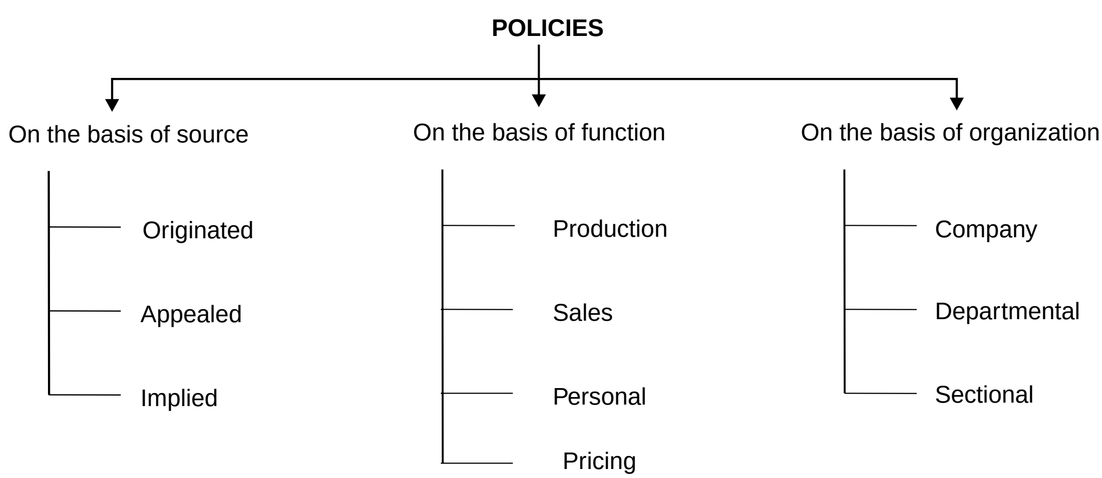

Fig. 2.5: Classification of policies

Originated policies are policies which are established formally. These policies are established by top managers for guiding the decisions of their subordinates and also their own and are made available in the form of manuals. Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the supervisor on appeals made by the subordinates, they become precedents for further action. For example a books dealer offers a discount of 10% on all text books. Suppose if an institution requests for a discount of 15% and prepared to pay full amount in advance, the sales manager not knowing what to do may approach his superior for his advice. If the superior accepts the proposal for 15% discount, the decision of the superior become a guideline for the sales manager in future. This policy is an appealed policy because it comes into existence from the appeal made by the subordinate to the superior. The policies which are stated neither in writing nor verbally are known as implied policies. The presence of implied policies can be ascertained by watching the actual behavior of various superiors in specific situations. For example if company's residential quarters are repeatedly allotted to individuals on the basis of seniority, this may become implied policy.

On the basis of business function policies may be classified into production, sales, finance, personnel policies etc. Every one of these function may have a number of policies. For example the personnel function may have recruitment policy, promotion policy and finance function may have policies related to capital structure, dividend payment etc.,

On the basis of organizational level policies may range from major company policies through major departmental policy to minor or derivative policies applicable to smallest segment of the organization.

Advantages of Policies

The advantages of policies are as follows:

(1) Policies ensure uniformity of action at various organization points which make actions more predictable.

(2) Since the subordinates need not consult superiors, it speeds up decision.

(3) Policies make easier for the superior to delegate more and more authority to his subordinates because, he knows that whatever decision the subordinates make will be within the boundaries of the policies.

(4) Policies give a practical shape to the objectives by directing the way in which predetermined objectives are to be attained.

Procedures

Policies are carried out by means of more detailed guidelines called procedures. A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. A procedure is a list of systematic steps for handling activities that occur regularly. The same steps are followed each time that activity is performed. A streamlined, simplified and sound procedure helps to accelerate clerical work without duplication and waste of efforts and other resources. Difference between policies and procedures can be explained by means of an example. A company may adopt a policy of centralized recruitment and selection through labor department. The labor department may chalk out the procedure of recruitment and selection. The procedure may consist of several steps like inviting application, preliminary interview aptitude and other tests, final interview, medical examination and issue of appointment orders. The following are advantages of procedures.

(1) They indicate a standard way of performing a task.
(2) They result in simplification and elimination of waste.
(3) Procedure improves the efficiency of employees.
(4) Procedure serves as a tool of control by enabling managers to evaluate the performance of their subordinates.

Methods

A method is a prescribed way in which one step of procedure is to be performed. A method is thus a component part of procedure. It means an established manner of doing an operation. Medical examination is a part of recruitment and selection procedure, method indicate the manner of conducting medical examination. Methods help in increasing the effectiveness and usefulness of procedures. By improving methods, reduced fatigue, better productivity and lower costs can be achieved. Methods can be improved by eliminating wastes by conducting "motion study".

Rules

The rules are the simplest and most specific type of standing plans. Every organization attempts to operate in an orderly way by laying down certain rules. Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation. Rules are more rigid than policies. Rules generally pertain to the administrative area of a procedure. For example sanctioning overtime wages to workers, sanctioning traveling bills etc., need uniform way of handling them. These are all covered by rules of the enterprises. A rule may not be part of procedure. For example 'no smoking' is not related to any procedure. Rules demand strict compliance. Their violation is generally associated with some sort of disciplinary action.

Single Use Plans

Programme

A programme is a sequence of activities directed towards the achievement of certain objectives. A programme is action based and result oriented. A programme lays down the definite steps which will be taken to accomplish a given task. It also lays down the time to be taken for completion of each step. The essential ingredients of every programme are time phasing and budgeting. This means that specific dates should be laid down for the completion of each successive stage of programme. In addition a provision should be made in the budget for financing the programme. A programme might include such general activity as purchasing new machines or introducing new product in the market. Thus a programme is a complex of objective, policies, procedures, task assignments, steps to be taken, resources to be employed and other elements to carry out a given course of action.

Budgets

A budget is a single use plan since it is drafted for a particular period of time. A budget is a statement of expected results expressed in quantitative terms i.e. rupees, man hours, product units etc. Since it is a statement of expected results, it is also used as an instrument of managerial control. It provides a standard by which actual operations can be measured and variation could be controlled. One should not forget that making budget is clearly planning. The important budgets are sales budgets, production budgets, cash budgets, and revenue and expenses budgets.

2.6 STEPS IN PLANNING

The planning process is different from one plan to another and one organization to another. The steps generally involved in planning are as follows:

(1) ***Establishing goals/objectives*:** The first step in planning process is to determine the enterprise objectives. These are set by upper level managers after number of objectives has been carefully considered. The objective set depends on the number of factors like mission of the organization, abilities of the organization etc., Once the organizations objectives are determined, the section wise or department wise objectives are planned at the lower level. Defining the objectives of every department is a very essential one; then only clear cut direction is available to the departments. Control process is very easy if the objectives are clearly defined.

(2) ***Establishing planning premises*:** This is the second step in planning which involves establishing planning premises that is the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental factors, pertinent facts and information relating to the future such as general economic conditions, population trends, competitive behavior etc.

The planning premises can be classified as below:

(1) Internal and External premises.
(2) Tangible and Intangible premises.
(3) Controllable and non-controllable premises.

Internal and External premises: Premises may exist within or outside the enterprise. Internal premises include sales forecasts, ability of the organization in the form of machines, methods of design, behavior of the owners and employees etc., The external premises exists outside the enterprise and include general business and economic environment, technological changes, government policies and regulations, population growth etc.,

Tangible and Intangible premises: Tangible premises are those which can be quantified. They include population growth, industry demand, capital and resources invested etc., On the other hand political stabilities, sociological factors, attitudes and behavior of the owners etc., are intangible premises.

Controllable and non-controllable premises: Some of the planning premises are controllable and others are non-controllable. Some examples of non-controllable factors are strikes, wars, natural calamity, legislation etc., Because of the presence of non-controllable factors; organizations have to revise plans periodically in accordance with current development. The controllable factors are availability of resources, skill of managers and labor etc.,

(3) ***Deciding the planning period*:** Once the long term objectives and planning premises are decided, the next task is to decide the period of the plan. Some plans are made for a year and in others it will be decades. Companies generally base their period on a future that can reasonably be anticipated. The factors which influence the choice of a period are:

(a) Lead time in development and commercialization of a new product: An aircraft building company planning to start a new project should have a planning period of five to ten years where as a small manufacturer of spare parts who can commercialize his idea in a year or so makes annual plans.

(b) Time required for recovering capital investment or the pay back period: The pay back period also influence the planning period. For example, if a machine costs 50 lakhs and generates cash in flow of Rs. 10 lakhs a year, it has a pay back period of 5 years. Therefore the plans should also be for at least five years.

(c) Length of commitment already made: The plan period should be long enough to enable the fulfillment of already made commitments. For example if a company has agreed to supply goods for five years, it needs to plan for the same period to fulfill its commitments.

(4) ***Identification of alternatives*:** The fourth step in planning is identifying alternatives. A particular objective can be achieved through various actions. For example an organization's objective is to grow further which can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organization

and so on. With each category there may be several alternatives. For example, diversification may point out the possibility of entering into one of the several fields.

(5) ***Evaluation and selection of alternative*:** Once the alternatives are identified the next step is to evaluate the alternatives in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research. In addition software packages are available for evaluating alternatives.

(6) ***Developing derivative/supportive plans*:** Once the plan is selected, various plans are derived so as it support the main plan. The derivative may be planning for buying equipments, buying raw material etc. These derivative plans are formulated out of the main plan and therefore, they support.

(7) ***Measuring and controlling the process*:** One should not allow plan to run on its own without monitoring its progress. Managers need to check the progress of their plans so that remedial action can be taken to make plan work or change the plan if it is unrealistic. Hence process of controlling is a part of any plan.

2.7 DECISION-MAKING

Decision-making is an essential part of modern management. Whatever a manager does he does by making decisions. A manager makes hundreds of decisions consciously or subconsciously every day. Decisions are made by the managers and actions are taken by others. Major decisions are taken carefully and consciously by the application of human judgment and experience where as minor decisions are made almost subconsciously using rules. Decision-making permeates through all managerial functions namely planning, organizing, staffing, directing and control. In planning for example manager decides what to produce, where and when etc., and in organizing manager decides about division of work, delegating authority and fixing responsibility. Decision-making is commitment to something, a point of view, a principle or course of action. It is selecting the best among alternative courses of action. The decision-making has the following factors.

(1) Decision-making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem.

(2) Existence of alternatives suggests that the decision-maker has freedom to choose an alternative of his liking.

(3) Decision-making like any other managerial process is goal oriented. It implies that the decision maker attempts to achieve some results through decision-making.

Types of Decisions

Decisions are classified in a number of ways as below:

***Programmed and non-programmed decisions**:* Programmed decisions are those that are made in accordance to policy, procedure and rules. These decisions are routine and repetitive and programmed decision are relatively easy to make. For example determining salary payment to the workers who have been ill, offering discounts for regular customers etc. are programmed decision. Non-programmed decisions are novel and non-repetitive. If a problem has not arisen before or if there is no clear cut method for handling it, it must be handled by non-programmed decision. For example what to do about a failing product line is a non-programmed decision because no definite procedure exists for it. For programmed decision clear cut rules exists and hence it is not possible for two persons to reach different solutions to the some problem.

In case of non-programmed decision there are no clear cut rules for handling the problem, each manager may bring his own personal beliefs, attitudes and judgments to bear on the decision, it is possible for two managers to arrive at distinctly different solutions to the same problem. For manager at higher level this ability to make non-programmed decisions becomes important.

***Major and minor decisions**:* The decisions which have their impact for long-period or which have impact on other departments are known as major decision. On the other hand decisions which does not have long term effect or affecting one department are known as minor decisions, diversification of existing product lines, adopting new technology are the major decisions. The decision to procure raw materials is a minor decision, Major decisions are made at higher level and minor decisions are taken at lower level in the organizational hierarchy.

***Simple and complex decisions**:* If very few variables are to be considered for solving a problem the decision is sample. If the variables are many, then it is a complex decision.

***Strategic and tactical or operational decisions**:* Strategic decision is a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Strategic decisions are major and non-programmed decisions having long term impact. A strategic decision may involve major departure from earlier ones. For example change in the product mix. Strategic decisions are made by the higher level managers. Tactical or operational decision is derived out of strategic decision. It relates to day-to-day working of the organization and is made in the context of well-set policies and procedures. Decisions relating to provisions of air conditioning, parking facilities are operational decisions. These decisions are made at the lower level of the organization.

***Individual and group decisions**:* Decision may be taken either by an individual or group. Decisions which are routine in nature, with few variables and definite procedures exists to deal with them are taken by individuals. On the other hand decisions which have their impact on other departments, which may result into some changes in the organization, are generally taken by groups.

Learning activity 2.3: Enumerate the major and minor decisions that you have made in the recent past.

Decision Making Process: Steps in Rational Decision Making

A decision is rational if appropriate means are chosen to reach the desired end. The following steps are involved in the process decision making.

(1) Recognizing the problem.
(2) Deciding priorities among the problems.
(3) Diagnosing the problem.
(4) Developing alternative solutions or courses of activities.
(5) Evaluating alternatives.
(6) Converting the decision into effective action and follow up of action.

(1) ***Recognizing the problem*:** When a manager makes a decision it is in effect the organization's response to a problem. Hence it is necessary to search the environment for the existence of a problem. A problem is said to exist;

(a) When there is deviation from past experience. For example the present year's sales are lower than previous year, the expenses are more than previous years etc.,
(b) When there is deviation from plan. For example sales are lower than anticipated, expenses are more than expected etc.,
(c) When competitors outperform. For example other companies manufacture the goods of same quality at lower costs.
(d) When people bring problems to the manager, For example workers may complain about poor ventilation.

(2) ***Deciding priorities among problems*:** A manager might have identified a number of problems. All these problems vary in their importance. He may find that some of the problems are such that they can be solved by their subordinates because they are closest to them. All such problems should be passed on to them. Some problems may need information available only at higher level or affecting other departments. Such problems are referred to higher level managers. And those problems which can be best solved by him are to be focused.

(3) ***Diagnosing the problems*:** Symptoms of the problem that are observed by the manager may some times mislead him. The symptom may lead manager to suspect one part when the defect may lie hidden in another part. For example if there is decline in sales, the management may think that the problem is one of poor selling procedure or

the saturation of the old market. But the real problem may be inability to move quickly to meet changing needs of the customers. For diagnosing the problem a manager should follow the systems approach. He should study all the sub-parts of his organization which are connected with the sub-part in which the problem seems to be located.

(4) ***Developing alternative solutions or courses of action***: A problem can be solved in several ways; however all the ways cannot be equally satisfying. If there is only one way of solving a problem, then no question of decision arises. Therefore decision maker must identify various alternatives available in order to get most satisfactory result of a decision. It should also be borne in mind that it is not possible to consider all alternatives either because information about all alternatives may not be available or some of the alternatives cannot be considered because of limitations. Hence while developing alternatives; the concept of limiting factor should be applied. Limiting factor is one which stands in the way of accomplishing a desired objective. For example, if an organization has limitation in raising sizable finance, it cannot consider projects involving high investment.

A decision maker can identify alternatives using his own experience, practices followed by others and using creative technique. A decision maker using past experience takes into account the action taken by the decision maker in the past with the difference between former challenges and the present one. The successful action of the past may become an alternative for the future. The limitation of this is, what was successful in the past may not be so in the present context because of change in context under which decision was made. Copying from experience of others is another way of generating alternatives. Alternatives used by successful decision makers can be thought of alternatives of decision making. The third method of generating alternatives is through creative process where various exercises are taken to generate entirely new ideas. Creative ideas of individuals or groups help in developing alternatives. One popular group technique is brain storming. The brain storming group consists of 5 to 10 people. The best idea behind brain storming is to think of as many alternatives as possible without pausing to evaluate them.

(5) ***Measuring and comparing consequences of the alternative solution***: Once various alternatives are developed, the next step is to measure and compare their consequences of alternatives using quality and acceptability. The quality of a decision must be determined considering both tangible and intangible consequences. Tangible consequences are those which can be quantitatively measured or mathematically demonstrated. For example the one can calculate the installing and running costs of two types of air conditioners. Intangible consequences cannot be measured quantitatively. For example the effect of good labor relationship in one location cannot be compared with the local taxes in another location.

Acceptability of solution is also important. A decision though good in quality may be poor in acceptability or decision though acceptable may not be good in quality. In such cases managers must find the relative importance of these two. In production, finance, purchase etc. the solution's quality is important than acceptability, where as in all human maters such as lighting condition, layout of office etc., the acceptability is more important. If sufficient information about quality or acceptability of a solution is not available, it is suggested to experiment it on a small scale known as pilot testing. For example a company may test a new product in a certain market before expanding its sale nationwide.

(6) ***Converting the decision into effective action and follow up of action***: This step involves communication of decisions to the employees. Decision must be communicated in clear and unambiguous terms. All necessary efforts should be made to secure employees participation in some stages of decision making. Association of employees in decision making not only enhance the acceptability, but also improves the quality of decision. Sometimes due to non-availability of data, a manager may not take correct decision. As a safeguard against incorrect decision, the manager while converting a decision into effective action should institute a system of follow-up so that he can modify or alter his decision at the earliest opportunity.

ENVIRONMENT OF DECISION-MAKING

A decision-maker may not have the complete knowledge about decision alternatives or about the outcome of a chosen alternative. This problem may be highly complex and uncertain. These conditions of knowledge are referred to as the 'environment of decision making'. The environment may be of three types; certainty risks and uncertainty. The environment of decision-making is a continuum, at one end there is complete certainty and at the other end there is complete uncertainty as shown in fig 2.6.

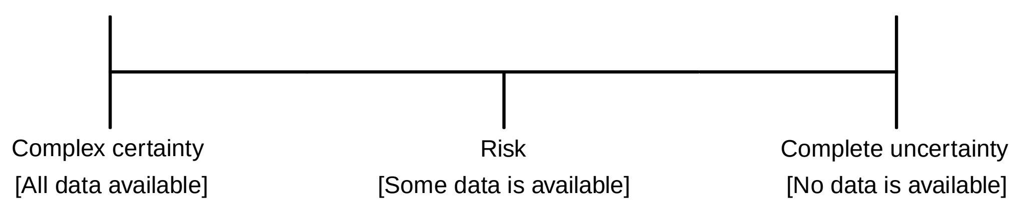

Fig. 2.6

Decision-making under certainty: The term certainty refers to accurate knowledge of the outcome of each alternative. All relevant data are available for making decision. For example a company wants to transport goods from five warehouses to a number of customers. It is possible to obtain the relevant facts for the problem like type of transport available, the cost of transporting a unit from each warehouse to each customer. With this it is possible to design least cost distribution pattern.

Decision-making under risk: In decision making under risk, the consequences of a particular decision cannot be specified with certainty but can be specified with known probability values. The value of probability is a measure of likelihood of the occurrence of that event. In such cases, alternatives are evaluated by computing the expected value of the payoff associated with each alternative. For example, while estimating the demand of a product for future where there is great amount of uncertainty, a manager can make three estimates of demand associated with the probability of occurrence as show is table 2.3.

Table 2.3

Types of demand	Demand	Probability
High demand	1000	0.3
Medium demand	800	0.5
Low demand	500	0.2

Then the expected demand is computed as follows

Expected demand $= 1000(0.3) + 800(0.5) + 500(0.2)$

Decision making under uncertainty: Uncertainty is said to exist when the decision maker does not know the probabilities associated with the possible outcomes, though he has been able to identify the possible outcomes and their related pay-offs. Since the probabilities are not known, the decision maker cannot use the criterion of maximizing the pay off. He can however use MaxiMin criterion. MaxiMaxi criterion or Minimax regret criterion. If a manufacturer is pessimistic or cautions in his approach, he can choose that decision act which maximizes the minimum pay-off, which is called as MaxiMin criterion. If a manufacturer is optimistic he may choose that decision act which maximizes the maximum pay-off. This is called as max-max criterion. A manager using minimax regrets criterion look at the decision problem neither as pessimistic nor as optimistic. As the name implies the minimax regret criterion is the one by which the decision maker minimizes the maximum regret can occur, no matter what the outcome.

Learning activity 2.4: List at least two decisions that you have made under complete certainty, risk and complete uncertainty.

CHAPTER SUMMARY

Planning is the first and foremost function of management Planning is deciding in advance what to do, when to do, how to do and who is to do it. It is in essence the exercise of foresight. The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization and so on.

Plans are classified into standing plans and single use plans. Single use plans (programmes, projects, budgets) are for non-repetitive activities and standing plans (mission, objectives, strategies, policies and procedures) are for repetitive activities. The steps involved in planning process are establishing goals/objectives, establishing planning premises, deciding the planning period, identifying alternatives, evaluation and selection of alternative, developing derivative/supportive plans, and measuring and controlling process. Decision making is selecting the best among alternative courses of action. Decisions may be classified as programmed and non-programmed decisions, major and minor decisions, simple and complex decisions, strategic and operational (tactical) decisions. The environment of decision may be of three types; certainty, risk and uncertainty.

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CHAPTER 3

ORGANIZING AND STAFFING

Learning Objectives:

- To introduce the meaning of organizing.
- Present the characteristics of organizing.
- Discuss the nature and purpose of organizing.
- Present the principles of organization.
- Understand departmentation.
- Discuss types of organization.
- Understand span of control.
- Present delegation of authority.
- Introduce MBO.
- Discuss the meaning of staffing.
- Understand the meaning of recruitment and selection.

3.1 MEANING AND DEFINITIONS OF ORGANIZING

Organization is the foundation upon which the whole organization is built. Without efficient organization, no management can perform its function smoothly. Sound organization contributes greatly to the continuity and the success of organization. A poor organization structure makes good performance impossible, no matter how good the individuals are.

The term organization connotes different things to different people. For example to the sociologists, organization means a study of interactions of people, classes or hierarchy of an enterprise. To the psychologists organization means an attempt to explain, predict and influence the behaviour of individuals in an enterprise. The word 'organization' is also used widely to connote a group of people and the structure of relationships. In order to understand the meaning and characteristics of organization, we shall study it under the following heads:

(1) Organization as a group of persons.
(2) Organization as a structure of relationship.
(3) Organization as a function of management.
(4) Organization as a process.

(1) ***Organization as a group of persons*:** Organization is viewed as a group of people contributing their efforts towards certain goal. The concept of organizing began at the early stages of human civilization when two or more persons began to cooperate and combine together for fulfilling their basic needs of food, clothing, shelter and protection of life. Organization begins when people combine efforts for some common purpose. Chester I Barnard defined organization "as an identifiable group of people contributing their efforts. An organization comes into existence when there are a number of persons in communication and relationship to each other and are willing to contribute towards a common Endeavour. The group of people lay down rules and regulations and the formal structure or relationship among themselves".

(2) ***Organization as a structure of relationships*:** Some people view organization as a structure of relationship. Organization sets up the scope of activities of the enterprise by laying down the structure of relationships. If organization is merely recognized as 'structure', it will be viewed as a static thing used to explain formal relationships. But an organization is a 'dynamic' entity consisting of individuals, means, objectives and relationships among the individuals. However, the use of the term structure to denote organization is not used independently, but is combined with the term organization either in the form of organization structure or structure of organization.

(3) ***Organization as a function of management*:** Organization is one of the basic functions of management. It involves determination and provision of various resources for the achievement of predetermined goal. Thus, organization is defined as a process of integrating and coordinating the efforts of human, financial and other resources for the accomplishment of certain objectives. Like 'planning', organizing is also applied in every aspect of management, For example organization is necessary for planning, development, for formulation of plans and policies.

(4) ***Organization as a process*:** Organization is the process of establishing relationship among the members of the organization. Using this process organization structure is crated. The relationships are created in terms of authority and responsibility. Each person in the organization is assigned specific responsibility or duty to perform and is granted the corresponding authority to perform his duty.

According to Louise A Allen, "Organization involves identification and grouping of activities to be performed and dividing them among the individuals and creating authority and responsibility relationship among them for the accomplishment of organizational objectives. Organizing being process, consists of departmentalization, linking of departments, defining authority and responsibility and prescribing authority relationships. The organization structure is the result of this process.

3.2 STEPS IN ORGANIZING

While organizing, a manager differentiates and integrates the activities of his organization. By differentiation is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among various departments, segments or subsystems.

Organization involves the following interrelated steps:

(1) ***Consideration of objectives*:** The first step in organizing is to know the objectives of the enterprise. Objectives determine resources and the various activities which need to be performed and the type of organization which needs to be built for this purpose. Objectives also serve as guidelines for the management and workers. They bring about unity of direction in the organization.

(2) ***Identification and grouping of activities*:** If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the total activities of an enterprise may be divided into major functions like production, purchasing, marketing, finance etc., and such function is further subdivided into various jobs. For example, in production department separate sections may be created for research, industrial engineering etc. The jobs then can be classified and grouped to ensure the effective implementation of other steps.

(3) ***Assignment of duties*:** After classifying and grouping the activities into various jobs, they should be allotted to the individuals for ensuring certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that.

(4) ***Delegation of authority*:** Authority without responsibility is dangerous and responsibility without authority is an empty vessel. Hence, corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance.

3.3 NATURE OF ORGANIZATION

The nature of organization can be highlighted by studying the following features:

(1) Organization is always related to certain objectives: Whether it is organization of the entire enterprise or part of it, organization is influenced by objectives. The operations are divided; authority and responsibility are determined to achieve predetermined objectives.

(2) ***An organization connotes a group of people*:** Mc Farland has defined organization as "an identifiable group of people contributing their efforts towards the attainment of goals. People form groups or organizations to accomplish common objectives and pool their efforts by defining and dividing various activities, responsibility and authority".

(3) ***Communication is the nervous system of organization*:** The organizational members are able to communicate with each other and may coordinate their activities. No organization can survive without an efficient system of communication.

(4) ***Organizing is a basic function of management*:** Organizing is done in relation to all other functions of management, namely planning, staffing, directing and controlling and in all the areas of business namely production, marketing, purchasing, personnel. The organizing function is performed by all managers.

(5) ***Organization is a continuous process*:** It is not a one step function. Managers are continuously engaged in organizing and reorganizing.

(6) ***Organization connotes a structure of relationship*:** The structure of relationship deliberately created by the management is referred to as formal organization. An organization may also have a network of social relationships that arise between people working together. Such relationships are known as informal organization. In formal organization people are able to communicate with each other, are willing to act and share a purpose. In informal organization, people work together because of their likes and dislikes.

(7) ***Organization involves a network of authority and responsibility relationship*:** Various positions are created; specific tasks are assigned to them. To perform the task, each position is delegated adequate authority. Authority and responsibility relationships throughout the organization must be clearly defined to achieve coordination and to avoid conflicts between individuals and departments.

3.4 ORGANIZATION STRUCTURE

An organization structure shows the authority and responsibility relationship between the various positions of the organization by showing who reports to whom. It is a set of planned relationships between groups of related functions and between physical factors and personnel required for the achievement of organizational goal. The structure of an organization is generally shown on the organization chart or a job task pyramid. It shows the authority and responsibility relationship between various positions in the organization. A good organization structure should not be static but dynamic. It should be subject to change from time to time in the light of changes in the business environment.

3.5 PURPOSE OF ORGANIZATION

Organization means a form of human association for the attainment of common objectives. An industrial organization denotes a type of associationship of persons in relationship to some economic activities. Obviously, the better the organization the fuller would be the achievement of common objectives. Similarly, a loose organization implies an unhappy and dangerous state of affairs. Organization is essential for the following purposes:

(1) ***To facilitate pattern of communication*:** Organization structure provide pattern of communication and coordination. By grouping activities and people, structure facilitates communication between people centered on their job activities. People who have joint problem often need to share information to solve the problem.

(2) ***To allocate authority and responsibility*:** Organization structure allocates authority and responsibility. It specifies who is to direct whom and who is accountable for what results. The structure helps the organization members to know what his role is and how it relates to others role.

(3) ***To locate decision centers*:** Organization structure determines the location of decision making in the organization. For example, a departmental store may leave pricing decision to the lower level manager while in oil refinery pricing decision is at top level.

(4) ***To create proper balance*:** Organization structure creates the proper balance and emphasis of activities. Those more critical to the enterprises success might be placed higher in the organization. For example R&D in pharmaceutical company might be singled out for reporting to the managing director. Activity of comparable importance might be placed at the lower level.

(5) ***To stimulate creativity*:** Sound organization stimulates independent, creative thinking and initiative by providing well-defined areas of work with broad attitude of the development of new and improved ways of doing things.

(6) ***To encourage growth*:** The organization structure provide framework within which an enterprise functions. If the organization structure is flexible, it will help in meeting challenges and creating opportunities for growth.

(7) ***To make use of technological improvements*:** A sound organization structure which is adoptable to changes can make the best possible use of latest technology. It can modify the existing pattern of authority-responsibility relationships in the wake of technological improvements.

3.6 PRINCIPLES OF ORGANIZATION

In order to facilitate the achievement of objectives, management thinkers have laid down certain principles of organization. The principles are guidelines for planning organization structure. Therefore, thorough understanding of the principles of organization is essential for good organization. The principles of organization are discussed below:

(1) ***Objectives*:** The objectives of the enterprise influence the organization structure. Every part of the organization and organization as a whole should be geared to the basic objective determined by the enterprise.

(2) ***Specialization*:** Effective organization must promote specialization. The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.

(3) ***Span of control*:** A manager can directly supervise only a limited number of executives. Hence, it is necessary to have a proper number of subordinates answerable to a manager. A maximum of six may be prescribed for this purpose.

(4) ***Exception*:** This principle requires that organization structure should be so designed that managers are required to go through the exceptional matters only. All the routine decisions should be taken by subordinates, where as problems involving unusual matters and policy decision should be referred to higher levels.

(5) ***Scalar principle*:** This is also known as chain of command. There must be clear lines of authority running from the top to the bottom. Authority is the right to decide, direct and coordinate. Every subordinate must know who his superior is and to whom policy matters beyond his own authority must be referred for decision.

(6) ***Unity of command*:** Each subordinate should have only one supervisor whose command he has to obey. Dual subordination must be avoided, for it causes uneasiness, disorder, and indiscipline and undermine of authority.

(7) ***Delegation*:** Proper authority should be delegated at the lower levels of the organization also. The authority delegated must be equal to responsibility i.e., the manager should have enough authority to accomplish the task assigned to him.

(8) ***Responsibility*:** A superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

(9) ***Authority*:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. The authority and responsibility must be co-extensive in the organization.

(10) ***Efficiency*:** The organization should be able to attain the mission and objectives at the minimum cost.

(11) ***Simplicity*:** The organization structure should be as simple as possible with minimum number of levels. A large number of levels of organization means difficulty of effective communication and coordination.

(12) ***Flexibility:*** The organization should be flexible, should be adaptable to changing circumstances. It should permit expansion and replacement without dislocation and disruption of the basic design. A sound organization must avoid complicated procedures, red-tape and excessive complication of control so that it may adapt itself easily and economically to business and technical changes.

(13) ***Balance:*** There should be reasonable balance in the size of various departments, between centralization and decentralization. There must be balance in the formal structure as regards to factors having conflicting claims.

(14) ***Unity of direction:*** There must be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.

(15) ***Personal abilities:*** As organization is a formal group of people there is need for proper selection, placement and training. Organization structure must ensure optimum use of human resources.

3.7 DEPARTMENTATION

The horizontal differentiation of tasks or activities into discrete segments is called as departmentalization or departmentation. Departmentation involves grouping of operating tasks into jobs, combining of jobs into effective work group and combining of groups into divisions often termed as 'departments'. The aim is to take advantages of division of labour and specialization up to a certain limit. There are several ways of Departmentation, each of which is suitable for particular corporate sizes, strategies and purposes. The important methods of grouping activities may be summarized as below:

***Departmentation by functions*:** This is the simplest and most commonly used base for Departmentation. Each major function of the enterprise is grouped into a department. For example there may be production, finance, marketing and personnel department in an organization as shown in fig.3.1. All functions related to production are grouped together to form production department, similarly other departments are formed on the basis of function.

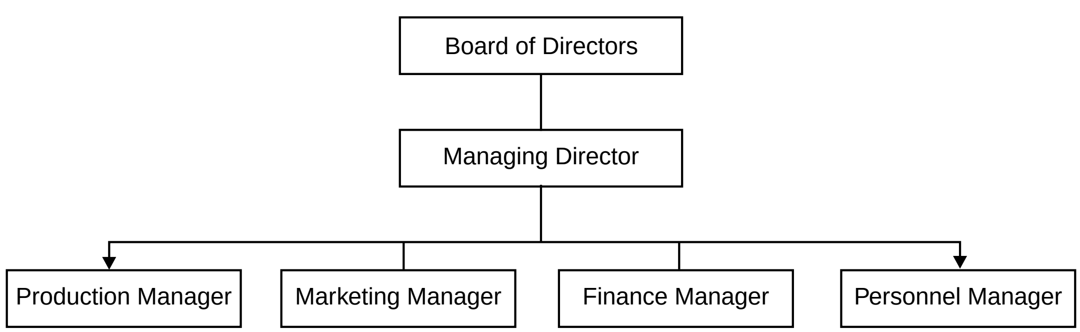

Fig. 3.1: Departmentation by functions

Advantages

(1) It is simple and suitable for small organization which manufactures limited number of products.

(2) It promotes specialization.

(3) It leads to improve planning and control.

(4) Manpower and other resources of the company are effectively used.

Drawbacks

(1) It fosters sub-goal loyalty. Department goal becomes important than organizational goal resulting into interdepartmental conflicts.

(2) Difficult to set up specific accountability and profit centers within functional departments with the result that performance cannot be accurately measured.

Departmentation by product: The grouping of activity on the basis of product or product lines is followed in multi-lines large scale organizations. All activities related to a particular product line may be grouped together under the direction of a semi-autonomous division manager as shown in fig 3.2.

Advantages

(1) It focuses individual attention on each product line.

(2) It leads to specialization of physical facilities on the basis of product which results in economy.

(3) It is easier to evaluate and compare the performance of various product division.

(4) It keeps problems of production isolated from others.

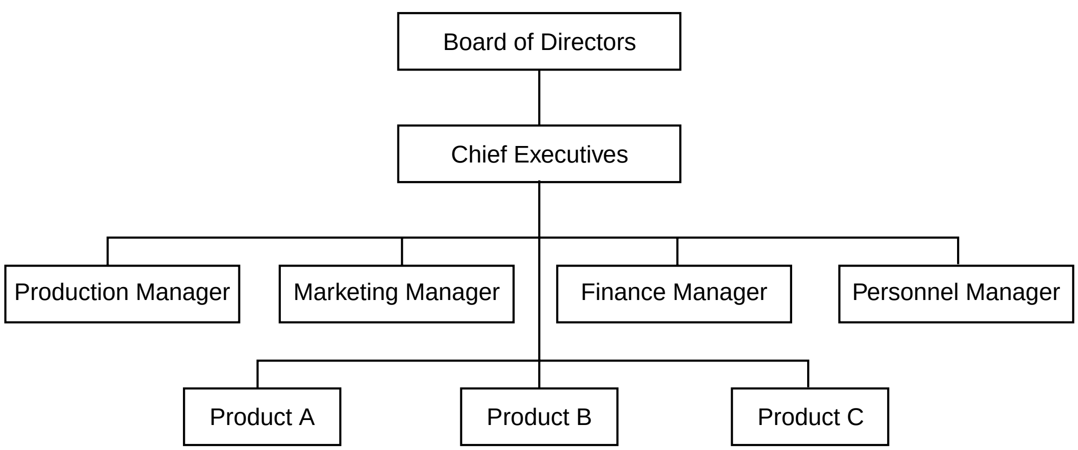

Fig. 3.2: Departmentation by product

Departmentation by customers: This is used in the enterprises engaged in providing specialized services to different classes of customers. Management groups the activities on the basis of customers to cater to the requirements of clearly defined customer groups. For example, an automobile service company may organize its departments as heavy vehicles servicing division, car servicing division and scooter servicing division. Similarly an educational institute may have departments for regular courses, evening and corresponding courses etc.

Departmentation by territory: Under this classification, the market area is broken up into sales territories and a responsible executive is put in-charge of each territory. The territory may be known as district, division or region. The field salesmen under respective regions report to their corresponding sales supervisors, if any, who are reporting to their respective regional managers. The fig. 3.3 is quite illuminating in this connection.

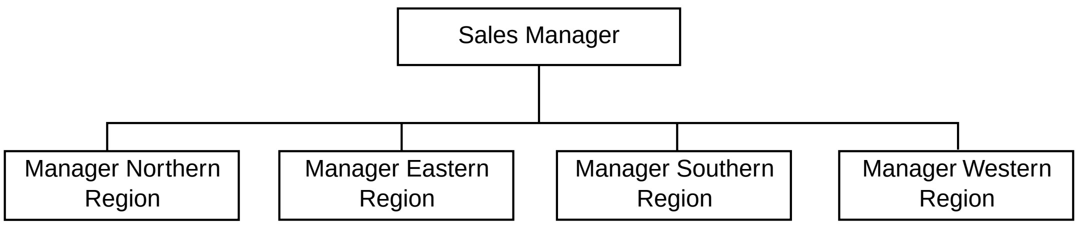

Fig. 3.3: Departmentation by territory

Departmentation by Process: Departmentation here, is done on the basis of several discrete process or technologies involved in the manufacture of a product. For example, a vegetable oil company may have separate departments for crushing, refining and finishing. A textile mill may have departments for ginning, spinning, weaving and dyeing. A work that would otherwise be done in several different locations in an enterprise is done in one place because of special equipments used.

Learning activity 3.1: Identify various departments of your institute and find on what basis the departments are created.

3.8 TYPES OF ORGANIZATION

According to Kimball and Kimball "The problem of an organization is to select and combine the efforts of men of proper characteristics so as to produce the desired results". Nature, scale and size of the business are the normal factors which determine forms of internal organization. The following common types of organization find a place in the structure of internal organization.

Line, Military or Scaler Organization

Line organization is the simple and oldest type of organization and is also known of scalar or military organization. The line organization represents the structure in a direct vertical relationship through which authority flows. The line of authority (see fig 3.4) flows vertically downward from top to bottom throughout the organization. The quantum of authority is highest at the top and reduces at each successive level. Under line organization, each department is generally a complete self-contained unit. A separate person will look after the activity of the department and has full control over the department. The superior communicates his decision and orders to his subordinates. The subordinates, in turn, can communicate them to those who are immediately under them. This type of organization is followed in military.

The advantages of line organization are

(1) Simplicity
(2) Quick decision and speed of action.
(3) Unity of control.
(4) Clear division of authority and responsibility.
(5) Discipline and better coordination
(6) Direct communication.

Disadvantages

(1) The organization is rigid and inflexible
(2) Being an autocratic system, managers may become dictators and not leaders.
(3) There is scope of favor-ism and nepotism.
(4) Red-tape and bureaucracy.
(5) Lack of specialization.

General Manager

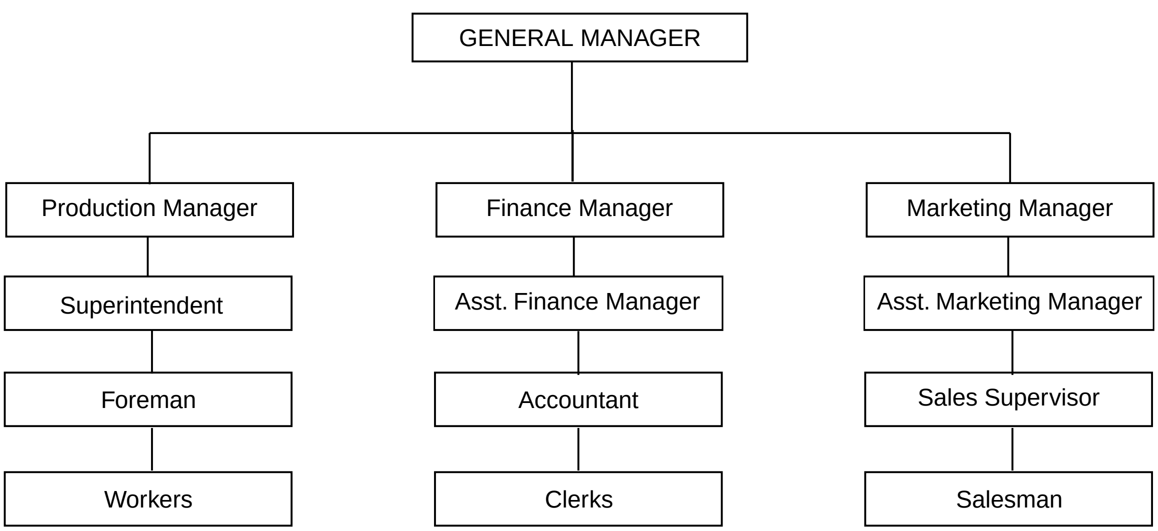

Fig. 3.4: Line organization

Functional Organization

The line organization does not provide specialists in the structure. Many jobs require specialized knowledge to perform them. In functional organization the specialists are made available in the top positions throughout the enterprise. It confers upon the holder of a functional position, a limited power of command over the people of various departments concerning their function. Functional authority remains confined to functional guidance of different department.

Under functional organization, various activities of the enterprise are classified according to certain functions like production, marketing, finance, personnel etc., and are put under the charge of functional specialists as show in fig.3.5. A functional incharge directs the subordinates throughout the organization in his particular area of business operation. That means that subordinates receives orders and instructions not from one superior but from several functional specialists.

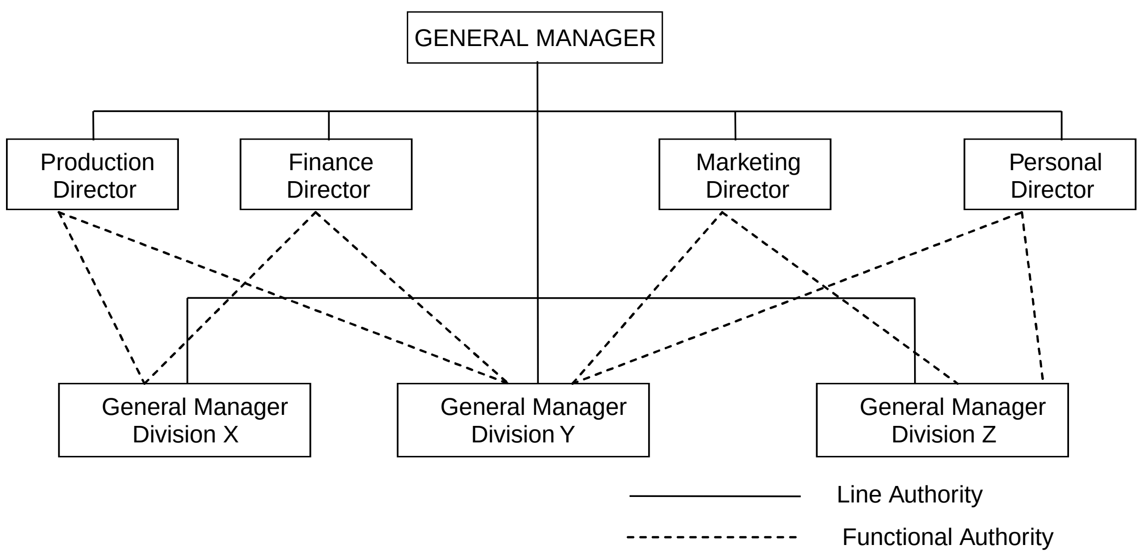

Fig. 3.5: Functional organization

The advantages of functional organization

(1) Specialization.

(2) Reduces the burden on the top executives.

(3) Offers greater scope for expansion.

(4) A functional manager is required to have expertise in one function only. This makes it easy for executive development.

Disadvantages

(1) Violates principles of unity of command.

(2) The operation of functional organization is too complicated.

(3) It develops specialists rather than generalists.
(4) Lack of coordination among functional executives which delays decision making.

Line and Staff Organization

In order to reap the advantages of both line organization and functional organization, a new type of organization is developed i.e., line and staff organization. In line and staff organization, the line authority remains the same as it does in the line organization. Authority flows from top to bottom. In addition, the specialists are attached to line managers to advice them on important matters. These specialists stand ready with their speciality to serve line men as and when their services are called for to collect information and to give help which will enable the line officials to carryout their activity better. The staff officials do not have any power of command in the organization as they are employed to provide expert advice to the line manager. In most of the organization, staff investigates and supplies information and recommendations to managers who takes decision. Specialized staff positions are created to give counsel and assistance in each specialized field of effort as show in fig 3.6.

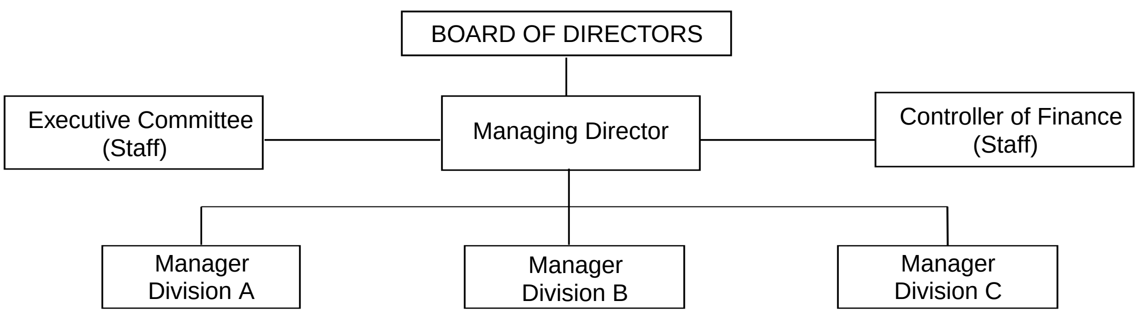

Fig. 3.6: Line and staff organization

Advantages

(1) Specialized knowledge
(2) Reduction of burden on line managers.
(3) Better decisions, as staff specialists help the line managers
(4) Unity of command
(5) Flexible when compared to functional organization.

Disadvantages

(1) Allocation of duties between line and staff is not clear.
(2) There is generally conflict between line and staff executives.

(3) Since staff is not accountable, they may not be performing well.

(4) Difference between orientations of line and staff. Line executive's deals with in problem in a more practical manner while staff, tend to be more theoretical.

Committee Organization

A committee is a body of persons appointed or elected to meet on an organized basis for the consideration of matters brought before it. "A committee is a group of persons performing a group task with the object of solving certain problems". The area of operation of a committee is determined by its constitution. A committee may formulate plans, review the performance of certain units or may only have the power to make recommendation. Committees help in taking corrective decision, coordinating the affairs of different departments and meeting communication requirements in the organization. Committees can be broadly classified into advisory committees and executive committees. Advisory committees have only a recommender's role and cannot enforce implementation of their advice or recommendation. The examples of advisory committees are works committees, finance committees etc., Whenever committees are vested with line authority, they are called as executive committees. Unlike advisory committee, executive committees not only take decisions but also enforce decisions and thus perform a double role of taking decision and ordering its executive. The board of directors of a company is an example of an executive committee.

Advantages of Committees

(1) Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.

(2) Committees are excellent means of transmitting information and ideas both upward and downward.

(3) Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts.

(4) When departmental heads are members of committee, people get an opportunity to understand each others problems and hence improve coordination.

Weaknesses of Committees

(1) In case a wrong decision is taken by committee, no one is held responsible which may results in irresponsibility among members.

(2) Committees delay action

(3) Committees are expensive form of organization.

(4) Decisions are generally arrived at on the basis of compromise and hence they are not best decision.

(5) As committee consists of large number of persons, it is difficult to maintain secrecy.

3.9 SPAN OF CONTROL

The span of control indicates the number of subordinates who can be successfully directed by a supervisor. It is often referred to as span of management, span of supervision, span of authority. Span of management is important because of two reasons. First is span of management affects the efficient utilization of managers and the effective performance of the subordinates. If the span is too wide, managers are overburdened and subordinates receive little guidance. If the span of management is too narrow, the managers are under utilized and subordinates are over controlled. The second reason is there is relationship between span of management and organization structure. A narrow span results in tall organization with many levels of supervision between top management and lowest organizational levels which creates more communication and cost problems. On the other hand, a wide span for the same number of employees results in flat organization with fewer management levels between top and bottom. Suppose a sales manager has 12 salesmen reporting to him, his span of management is 12. If he feels that he is not able to work closely enough with each salesman and decides to reduce the span by adding three assistant managers – each to supervise four salesmen then his span of management is three as shown in fig 3.7. In doing so, he has added a level of management through which communication between him and salesmen must pass and he has added the cost of three additional managers.

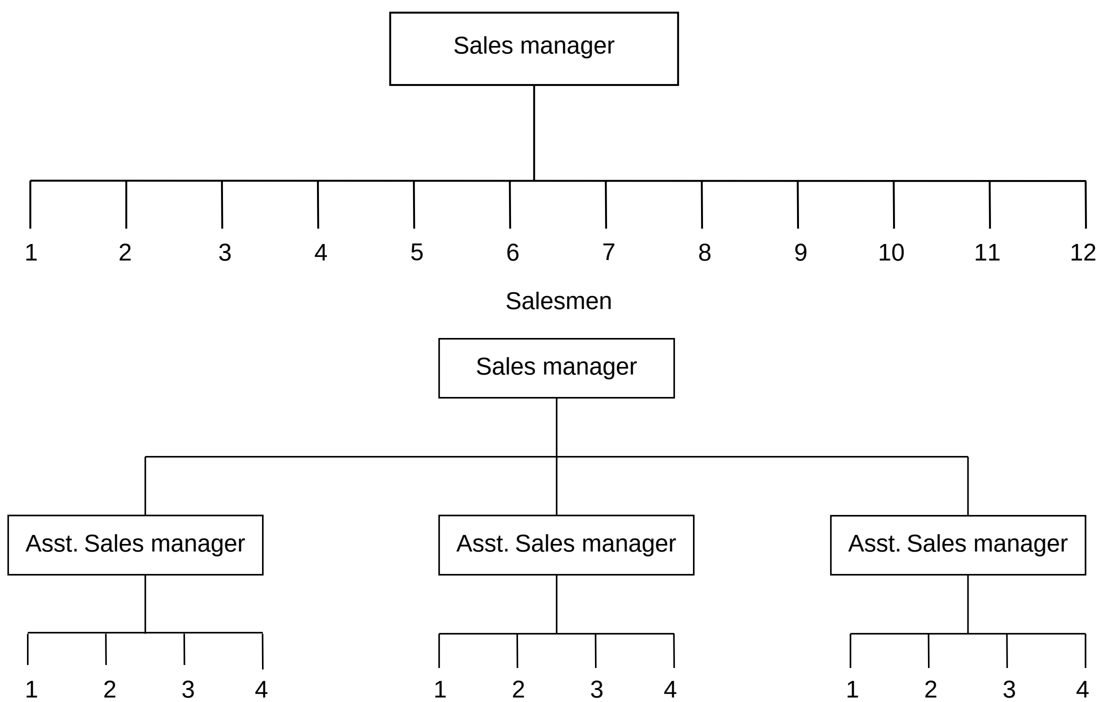

Fig. 3.7: Decrease in span of control increases the number of levels

Management experts suggest that the ideal number of subordinates is four in case of higher level management and eight to twelve in case of lower level management.

Factors Affecting the Span of Management

The following are some of the factors which influence the span of management:

(1) ***Ability of the manager*****:** Some managers are more capable than others and hence can handle a large number of subordinates.

(2) ***Ability of the employees*****:** If employees are more competent, less attention from the managers is required and a larger span of management can be used.

(3) ***Type of work*****:** If employees are doing similar jobs, the span of management can be large. If their jobs are quite different, a small span may be necessary.

(4) ***Geographic location*****:** If all subordinates are located at the same place span of management can be large. If subordinates are geographically distributed, a lower span is essential.

(5) ***Well-defined authority and responsibility*****:** Clear-cut authority and responsibility helps a manager to supervise large number of subordinates.

(6) ***Level of management*****:** The span of management is narrow at higher level of management, and span can be wider at lower levels.

(7) ***Economic considerations*****:** Narrow the span, taller is the structure is more is the cost. On the other hand, wider span reduces the number of levels and cost.

Learning activity 3.2: Visit a government department and find the span of control at each level of the organization.

3.10 AUTHORITY, POWER AND RESPONSIBILITY

In all organized efforts, managers actually do not perform the jobs; they simply get the things done by others. It means that the managers should have some right by which they get the things done. This 'right' is technically known as what we call 'Authority', which every manager must have to perform his function effectively. Without authority a manager cannot function. Authority is a legal or rightful power, a right to command or to act. According to Henry Fayol "Authority is the right to order or command and is delegated from the superior to the subordinate to discharge his responsibilities. The authority may be exercised through persuasions or sanctions. If the subordinates does not obey, the superior has right to take disciplinary action.

The power may be defined as the capacity or ability to influence the behaviour of other individuals. If a person has a power, it means that he is able to influence the behaviour of others. The essence of power is control over the behavior of others. The difference between authority and power are given in table 3.1.

Table 3.1: Difference between authority and power

Authority	Power
(1) It is the institutionalized right of a superior to command and compel his subordinates to perform a certain act.	It is ability of a person to influence others.
(2) It rests in the position	It rests in the individual.
(3) It is delegated to an individual by his superior.	It is earned by individual
(4) It is well defined	It is undefined and infinite.
(5) It is what exists in the eye of law.	It is what exists in fact. It is a de facto concept.

Just an authority is the right of a superior to issue commands; responsibility is the obligation of a subordinate to obey those commands. Responsibility is defined as the obligation of a subordinate, to whom a duty has been assigned, to perform the duty. The essence of responsibility is then obligation. Responsibility arises from a superior-subordinate relationship, from the fact that some one has the authority to require specified service from another person.

Responsibility may be specific or continuing. It is specific when on being discharged by a subordinate, it does not arise again. Thus, a consultant's responsibility is specific, which ceases when the assignment is completed. The responsibility of a foreman is however continuing nature.

Responsibility cannot be delegated or transferred. The superior can delegate to a subordinate the authority to perform and accomplish a specific job. But he cannot delegate responsibility. Responsibility is divided into two parts namely operating responsibility and ultimate responsibility. The subordinates assumes only operating responsibility and superior retains ultimate responsibility. If the subordinate fails to perform the job (operating responsibilities) the superior is held responsible for this failure (Ultimate responsibility)

3.11 DELEGATION OF AUTHORITY

A manager in an enterprise cannot do all the tasks necessary for the accomplishment of group goals. His capacity to do the work and to take decisions is limited. He therefore assigns same part of his work to his subordinates and grants them necessary authority to make decisions within the area of their assigned duties. This downward pushing of authority to make decisions is known as delegation of authority. According to Louis Allen "If the manager requires his subordinate to perform the work, he must entrust him with part of the rights and powers which he otherwise would have to exercise himself to get that work done". By delegating authority, a manager does not surrender his authority or give this authority away. The delegating manager always retains the overall authority which was assigned to him to perform his functions. It is something like imparting knowledge. Teacher shares knowledge with student who then possess the knowledge, but still the teacher retains the knowledge. The following are the advantages of delegation of authority.

(1) It relieves the manager of his heavy work load.

(2) It leads to better decision. This is because, the subordinates are closest to the situation and have the best view of the facts, are in better positions to make decision.

(3) It speeds up decision-making.

(4) It helps to train the subordinates and builds moral.

(5) It helps to create formal organization structure.

3.12 CENTRALIZATION AND DECENTRALIZATION

Centralization refers to systematic reservation of authority at central points within the organization. Centralization means retention or concentration of managerial authority in few key managerial positions at the nerve centre of an organization i.e., at the top level. Everything that goes to reduce the subordinate's role in decision making is centralization.

Decentralization means dispersal of decision-making power to lower levels of the organization. In decentralized setup, ultimate authority to command and ultimate responsibility for the results is localized as far down in the organization. According to Allen "Decentralization refers to the systematic effort to delegate to the lower levels all authority except that which can only be exercised at central points". In decentralized setup large number of decision, important decisions in large number of areas are made consulting few people.

In the words of Henry Fayol, "Everything that goes to increase the importance of subordinates role is decentralization and everything that reduces it is centralization".

The following are the advantages in decentralization:

(1) It eases the burden of top level managers.

(2) Decentralization permits quicker and better decision making.

(3) With decentralization capable managers can be developed

(4) Promotes participation in decision making and improves morale and motivation.

(5) Decentralization facilitates diversification of products.

Disadvantages of decentralization:

(1) It increases administrative expenses.

(2) It may create problems in bringing coordination among various units.

(3) It may bring about inconsistencies in the company, because uniform procedures may not be followed for the same type of work in various divisions.

Learning activity 3.3: Visit the state road transportation corporation office of your city and find the degree of decentralization.

3.13 DELEGATION VS DECENTRALIZATION

Delegation and Decentralization are not same; the differences between them are given below:

(1) Delegation is a process while decentralization is the end result of a deliberate policy of making delegation widespread in the organization.

(2) Delegation takes place between a superior and a subordinate while decentralization is company wide delegation as between top management and the departments or division of the organization.

(3) In delegation, delegator exercises supervision and control over the delegate, while in decentralization, top management exercises broad minimum control.

3.14 MANAGEMENT BY OBJECTIVES [MBO]

Management by objectives or results is an important practice for accomplishing the objectives of an enterprise in an effective way. The concept of MBO was introduced by Peter Drucker and later developed by various experts like John Humble, Dale and George Ordiome. In recent years MBO has become philosophy of managing in many enterprises and is recognized as most dynamic and exciting in the area of management.

John Humble defined managing by objectives as a dynamic system which integrates the company's need to achieve it's goals for profit and growth with manager's need to contribute and develop himself. In the words of George S. Ordiome the system of MBO can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members. He also stressed that MBO is not a set of rules, a series of procedures or methods, but it is a way of thinking about management.

Management by objectives calls for regulating the process of managing in terms of meaningful, specific and variable objectives at different levels of management hierarchy. MBO moulds planning, directing and controlling in a number of ways. It stimulates meaningful action of better performance and higher accomplishment. It is closely associated with the concept of decentralization because decentralization cannot work without the support of management by objectives.

Features of MBO

(1) An attempt is made by the management to integrate the goals of an organization and individuals. This will lead to effective management.

(2) MBO emphasize not only on goals but also on effective performance.

(3) It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.

(4) It increases organizational capability of achieving goals at all levels.

(5) A high degree of motivation and satisfaction is available to employees through MBO.

(6) Recognizes the participation of employees in goal setting process.

(7) Aims at replacing the exercise of authority with consultation.

(8) Encourages a climate of trust, goodwill and a will to perform.

Steps in Management by Objectives

The following steps are involved in MBO—

(1) ***Setting of organizational objectives*: ** The first step in MBO is defining organizational objectives. The definition of organizational objectives states why the business is started and exists. Long-term objectives followed by short-term objectives are framed taking into account the feasibility of achieving them. The objectives are framed on the basis of availability of resources.

(2) ***Setting departmental objectives*:** Objectives for each department, division and section are framed on the basis of overall objectives of the organization. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.

(3) ***Fixing key result areas*:** Key result areas are fixed on the basis of organizational objectives premises. Key result areas are arranged on the basis of priority. Key result areas indicate the strength of an organization. The examples of key result areas are profitability, market standing, innovation etc.

(4) ***Setting subordinate objectives or targets*:** Departmental objectives are then set by departmental managers, and get them approved by the top management. This process of setting the objectives is repeated at the lower levels of management. At each level, objectives are set in verifiable unit so that performance of every department and individual may be reviewed after the end of a particular period.

(5) ***Appraisal of activities*:** In this step, superiors periodically review the progress and the subordinate's performance is evaluated against the specified standards and initiates corrective action. The superior should identify the reasons for failure of achieving objectives and should tackle such problems.

(6) ***Reappraisal of objectives*:** An organization has to operate in a dynamic world. So the top management should review the organizations objectives to frame the objectives according to the changing condition.

Benefits of MBO

The following are the benefits of MBO—

(1) Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.

(2) MBO process helps the managers to understand their role in the total organization.

(3) MBO provides a foundation for participative management. Subordinates are also involved in goal setting.

(4) A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organization.

(5) Systematic evaluation of performance is made with the help of MBO.

(6) MBO gives the criteria of performance. It helps to take corrective action.

(7) MBO motivates the workers by job enrichment and makes the jobs meaningful.

(8) The responsibility of a worker is fixed through MBO.

3.15 MEANING OF STAFFING

Earlier staffing was considered to be a part of organization function of management. It is now recognized as a separate management function. The reason for separating the staffing from organizing is to give proper emphasis to the actual meaning of managerial roles. Today the staffing function has assumed greater importance because of rapid advancement of technology, increasing the size of the organization and complex behaviour of human beings. The enterprise has to give due importance to human resource planning.

It is the tendency in modern enterprises to create a separate department. It is for this purpose medium and large organizations have separate department known as personnel department or human resource department to perform staffing function.

The organization structure spells out various positions of the organization. Filling and keeping these positions with right people is the staffing phase of the management function. Staffing involves the determination of manpower requirements of the enterprise and providing it with adequate competent people at all levels. The staffing function performs the following sub functions:

(1) Manpower planning.

(2) Recruitment

(3) Selection of the best qualified from those who seeks job,

(4) Training and Development.

(5) Performance appraisal and compensation.

3.16 NATURE AND IMPORTANCE OF STAFFING

The staffing function has assumed greater significance these days because of various factors. Staffing is also a pervasive function. Through separate department exist for this yet every manager is engaged in performing the staffing function, when they participate in selection, training and evaluating their subordinates. The various reasons which have increased the significance of staffing functions are discussed below:

(1) ***Increasing size of organization*:** Advancement in science and technology has given rise to large scale companies employing thousands of employees. The performance of the company depends on the quality and character of the people. This has increased the importance of staffing.

(2) ***Advancement of technology*:** In order to make use of latest technology, the appointment of right type of persons is necessary.

(3) ***Long-range needs of manpower*:** In some industries, labour turn-over is high. The management is required to determine the manpower requirement well in advance. Management has also to develop the existing personal for future promotion. The role of staffing has also increased because of shortage of good managerial talents.

(4) ***Recognition of human relations*:** The behaviour of individuals has become very complicated and hence human aspect of organization has become very important. Employees are to be motivated by financial and non-financial incentives. Right kind of atmosphere should also be created to contribute to the achievement of organizational objectives. By performing the staffing function, management can show the significance it attaches to the man power working in the enterprise.

3.17 RECRUITMENT

Recruitment is the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. It is a linking activity that brings together those offering jobs and those seeking jobs. Recruitment refers to the attempt of getting interested applicants and providing a pool of prospective employees so that the management can select the right person for the right job from this pool.

The various sources of recruitment are divided into two categories:

(1) Internal Sources.

(2) External Sources.

Internal sources involve transfer and promotion. Transfer involves the shifting of an employee from one job to another. Many companies follow the practice of filling higher jobs by promoting employees who are considered fit for such positions. Filling higher positions by promotion motivates employees, boots employee's morale.

External Sources

(1) ***Direct recruitment*: An important source of recruitment is direct recruitment by placing a notice on the notice board of the enterprise by specifying the details of the jobs available. This is also known as recruitment at factory gate.

(2) ***Unsolicited applications***: Many qualified persons apply for employment to reputed companies on their own initiative. Such applications are known as unsolicited applications.

(3) ***Advertising***: Large enterprises particularly when the vacancy is for higher post or there are large number of applications use this source where advertisements are made in local and national level newspapers. This helps in informing the candidates spread over different parts of the country. The advertisement contains information about the company, job description, and job specialization etc.

(4) ***Employment agencies***: This is the good source of recruitment for unskilled and semiskilled jobs. In some cases, compulsory notification of vacancies of employment exchange is required by the law. The employment exchanges bring job givers in contact with job seekers.

(5) ***Educational institutions***: Many jobs in business and industries have become increasingly varied and complex which need a degree in that particular area. That is why many big organizations maintain a close liaison with the colleges, vocational institutes and management institutions for recruitment of various jobs.

(6) ***Labour contractor***: Often unskilled and semiskilled workers are recruited through labour contractors.

(7) ***Recommendations***: Applicants introduced by friends, relatives and employees of the organization may prove to be a good source of recruitment. Many employers prefer to take such persons because something about their background is known.

3.18 SELECTION

The process of selection leads to employment of persons having the ability and qualifications to perform the jobs which have fallen vacant in an organization. It divides the candidates into two categories; those will be offered employment and those who will not be. The basic purpose of the selection process is choosing right type of candidates to man various positions in the organization. In order to achieve this purpose, a well, organized selection procedure involves many steps and at each step more and more information is obtained about the candidates. The steps involved in selection procedure are discussed below.

(1) ***Receipt of applications*****:** Whenever there is vacancy, it is advertised or enquires are made from suitable sources and applications in standard form are received from the candidates. The applications give preliminary idea of the candidates like age, qualifi- cations, experience etc., Standard forms make the application processing very easy.

(2) ***Screening of applications*****:** Applications received from the candidates are screened by the screening committee and a list of candidates to be interviewed is prepared. Applicants can be called for interviews on some specific criterion like sex, desired age group experience and qualification. The number of candidates to be called for interview is five to seven times the number of vacant positions to be filled.

(3) ***Employment tests*****:** Employment tests help in matching the characteristics of individuals with the vacant jobs so as to employ the right kind of people. Intelligent tests, Aptitude tests, proficiency tests, personality tests, interest tests etc. may be used for this purpose.

(4) ***Interviews*****:** The employment tests do not provide the complete set of information about the candidate. Interview may be used to secure more information about the candidate. The main purpose of interview is to find out the suitability of the candidate, to seek more information about the candidate, to give an accurate picture of the job with details of terms and conditions. In addition, interview help to check the information given by the applicant in the application and to assess the capability and personality of the applicant. For senior positions, interviews may be in several stages. The preliminary interview is conducted by head of the department and the final interview is conducted by the selection committee consisting of chairman of the organization, head of the department, personal manager and outside experts. After all the candidates have been interviewed, a panel is proposed. The number of persons in the panel is generally about two to three times the number of vacancies to be filled up.

Background investigation and medical examination: Prior to final selection, the prospective employer normally makes an investigation about applicants past employment, education, personal reputation, police record etc., Medical and physical examination has three objectives:

(1) It serves to ascertain applicant's capabilities to meet the job requirement.

(2) It serves to protect organization against the unwarranted claims under works-man compensation.

(3) It helps to prevent communicable deceases entering the organization.

A proper medical examination will ensure standards of health and physical fitness of the employees and reduce the rates of accidents, labour turnover and absenteeism

Final selection**:** After a candidate has cleared all the hurdles in the selection procedure, he is formally appointed by issuing him an appointment letter or by concluding with him a service agreement. The appointment letter contains the terms and conditions of employment, pay scale and other benefits associated with the job.

Learning activity 3.4: Identify the steps involved in selection process of your institution.

CHAPTER SUMMARY

Organization involves identification and grouping of activities to be performed and dividing them among individuals and creating authority and responsibility relationship among them for the accomplishment of organizational objectives. An organization structure shows the authority and responsibility relationship between the various positions in the organization. In order to facilitate the achievement of objectives, management thinkers have laid down certain principles of organization which provide guidelines for planning organization structure. The horizontal differentiation of tasks into discrete segments is known as Departmentation. There are various methods of Departmentation namely Departmentation by functions, Departmentation by products, Departmentation by process, Departmentation by customers and Departmentation by territory. Deferent types of organization are Line organization, Functional organization and Line, Staff organization and Committee organization. The span of control indicates the number of subordinates who can be successfully directed by a superior. The ability of manager, ability of employee, type of work, geographical location and level of management affects the span of control.

The authority is the institutionalized right of a superior to command and compel the subordinates to perform a certain act. The power is defined as the capacity or the ability of an individual to influence the behaviour others. The downward pushing of authority to subordinates to make decisions is known as delegation of authority. Centralization refers to systematic reservation of authority at few key managerial positions. Decentralization means the disposal of decision making power to the lower level of organization.

MBO is defined as dynamic system which integrates the company's need to achieve its goals for profit and growth with which managers need to contribute and develop him self. Filling and keeping various positions of organization with right people is known as staffing. The staffing function performs many sub functions namely manpower planning, recruitment, selection, training and development, performance appraisal and compensation. Recruitment is the process of identifying the sources of prospective candidates and to stimulate them to apply for the jobs. The sources of recruitment are divided into internal and external sources. The basic purpose of selection process is choosing right type of candidates to man various positions in the organization.

CHAPTER 5

ENTREPRENEURSHIP

Learning Objectives:

- To introduce the concept of entrepreneur and entrepreneurship.
- Discuss characteristics and functions of entrepreneur.
- Present the classifications of entrepreneurs.
- Introduce the concepts of intrapreneur, ultrapreneur and technical entrepreneur.
- Trace the evolution of entrepreneurship.
- Present the role of entrepreneurship in economic development.
- Discuss the stages in entrepreneurial growth.
- Present the barriers to entrepreneurship.

5.1 EVOLUTION OF CONCEPT OF ENTREPRENEUR

The word 'entrepreneur' is derived from French word 'Entreprendre' which was used to designate an organizer of musical or other entertainments. Later in 16^{th} century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17^{th} century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices". Entrepreneur, according to Cantillon, an entrepreneur is a bearer of risk, which is non-insurable. SchumPeter gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

5.2 CONCEPT OF ENTREPRENEUR

As said above entrepreneur is used in various ways and various views. These views are broadly classified into three groups, namely risk bearer, organizer and innovator.

***Entrepreneur as risk bearer*:** Richard Cantilon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a former who pays contractual incomes, which are certain to land owners and laborers, and sells at prices that are 'uncertain'. He includes merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production.

P.H. Knight described entrepreneur to be a specialized group of persons who bear uncertainty. Uncertainty is defined as risk, which cannot be insured against and is incalculable. He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

***Entrepreneur as an organizer*:** According to J Baptist Say "an entrepreneur is one who combines the land of one, the labor of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit". Say made distinction between the role of capitalist as a financer and the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of coordination, organisation and supervision.

***Entrepreneur as an innovator*:** Joseph A SchumPeter in 1934 assigned a crucial role of 'innovation' to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

(a) Introduction of new product in the market.

(b) Use of new method of production, which is not yet tested.

(c) Opening of new market.

(d) Discovery of new source of raw materials.

(e) Bringing out of new form of organisation.

SchumPeter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations.

Hence the concept of entrepreneur is associated with three elements risk-bearing, organizing and innovating. Hence **an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise**.

Some more important definitions of entrepreneur

1. ***According to F.A.Walker*:** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

2. ***Marx*** regarded entrepreneur as social parasite.

3. ***According to Gilbraith*:** "An entrepreneur must accept the challenge and should be willing hard to achieve something".

4. ***Peter F. Drucker*** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

5. ***According to E.E.Hagen*:** "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".

6. ***According to Mark Casson*:** "An entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources".

7. ***Frank Young*** defined entrepreneur as a change agent.

8. ***According to Max Weber*:** "Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs".

9. ***International Labour Organization (ILO)*** defines entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success.

10. ***Akhouri*** describes entrepreneur as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence, and who is persistent in achieving the goal.

5.3 CHARACTERISTICS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities. Table 5.1 gives core competencies.

Table 5.1: Personal entrepreneurial characteristics

	Core competencies	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.

Contd...

5.	Concern for quality work	States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	Persuasion	Persuades customers and financiers to patronize his business.
14.	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16.	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18.	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19.	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21.	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

5.4 DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER

Often the two terms namely entrepreneur and manager are considered as synonym. However the two give different meaning. The major points of distinction between the two are presented in table 5.2.

Table 5.2: Distinction between entrepreneur and manager

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture for his personal gratification.	Main motive of a manager is to render services in an enterprise already set by someone else.
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty	Manager does not bear any risk involved in enterprise.
4. Rewards	Profits, which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of the customers. Hence he acts as innovator / change agent.	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability etc.	A manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

5.5 TECHNICAL ENTREPRENEUR

There are large number of technical institutions at the degree and diploma level producing large number of technical personnel. The standard of our technical education is comparable with international standards. India has the third largest pool of technical and scientific personnel in the world. However, we are not able to utilize its full potential and on the other hand there is surplus technical manpower that are unemployed. This large pool of technical manpower can be best utilized for developing small-scale industries in the hi-tech areas using improved technologies and scientific methods of production. They can be trained to use latest management techniques to manage the projects they set up.

A technically qualified and experienced person can make a more competent entrepreneur as he acquires special knowledge of science, engineering materials and machines, production planning and control, manufacturing technologies and management techniques for successful launching and smooth running of an industrial unit. Also through training, he develops an aptitude for objective considerations and evaluation of issues involved in the process of an enterprise.

A technical entrepreneur develops characteristics of quality consciousness, adoption of modern technology and management technique and realization of the importance of research and innovation for productivity improvement, the absence of which can lead to industrial sickness.

In this regard many technical universities made it mandatory for technical institute to have Entrepreneurship Development Cell (EDC). Moreover a core subject on 'Entrepreneurship Development' is introduced for all disciplines of engineering and technology.

5.6 CHARMS OF BEING AN ENTREPRENEUR

The most exiting part of Entrepreneurship is that you are your own master. When you are an employee, you work for others according to their plans, whims and finances. In an Entrepreneurship, it is you who set the goal, plan the action and reap the satisfaction and rewards of having achieved the goal.

Why should you become an Entrepreneur?

- You will be your own boss and boss to other people and make decisions that are crucial to the business success or failure.
- You will make money for yourself rather than for someone else.
- You may participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- You will have the chance to work directly with your customers.
- You will have the personal satisfaction of creating and running a successful business.
- You will be able to work in a field of area that you really enjoy.
- You will have the chance to build retirement value.

Rewards for an Entrepreneur

1. Freedom to work.
2. Satisfaction of being own boss.
3. Power to do things as he likes.
4. Rewards of ownership and retirement assurance.
5. Respect of family and friends.

Penalties for an Entrepreneur

1. Constraints of financiers, laborers, customers, suppliers, and debtors curtail his freedom.
2. Frustration due to availability of limited capital and other resources.
3. Social and family life is affected due to hard long hours of working.
4. Frustration due to non-achievement of full objectives.
5. Risk of failure.

5.7 FUNCTIONS OF AN ENTREPRENEUR

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

1. ***Idea generation*****:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.
2. ***Determination of business objectives*****:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.
3. ***Rising of funds*****:** All the activities of the business depend upon the finance and hence fund rising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.
4. ***Procurement of machines and materials*****:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.
5. ***Market research*****:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
6. ***Determining form of enterprise*****:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock

Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. ***Recruitment of manpower*:** To carry out this function an Entrepreneur has to perform the following activities.
   (a) Estimating man power requirement for short term and long term.
   (b) Laying down the selection procedure.
   (c) Designing scheme of compensation.
   (d) Laying down the service rules.
   (e) Designing mechanism for training and development.
8. ***Implementation of the project*:** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur.

All the above functions of the Entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

5.8 TYPES OF ENTREPRENEUR

Today various types of Entrepreneurs are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize Entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

Clearance Danhof's Classifications

Danhof classifies Entrepreneur into four types.

1. ***Innovative entrepreneur*:** This category of Entrepreneur is characterized by smell of innovativeness. This type of Entrepreneur, sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations. Such Entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such Entrepreneur are very much helpful for their country because they bring about a transformation in life style.
2. ***Adoptive or imitative entrepreneur*:** Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, may just adopt the technology and methods innovated by others.

Such types of entrepreneur are particularly suitable for under-developed countries for imitating the new combination of production already available in developed countries.

3. ***Fabian entrepreneurs***: Fabian entrepreneurs are characterized by great caution and skepticism, in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprises.
4. ***Drone entrepreneurs***: Such entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

Arthur H Cole Classification

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur.

Empirical**:** He is entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.

Rational**:** The rational entrepreneur is well informed about the general economic conditions and introduces changes, which look more revolutionary.

Cognitive**:** Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

Classification Based on the Scale of Enterprise

Small scale**:** These entrepreneurs do not posses the necessary talents and resources to initiate large-scale production and to introduce revolutionary technological changes.

Large scale**:** They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

Other Classification

Following are some more types of entrepreneurs listed by behavior scientists.

Solo operators**:** These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

Active partners**:** Such entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simply 'Partners'.

***Inventors*:** Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

***Challenge*:** According to such entrepreneurs, if there is no challenge in life, there is no charm in life. Such entrepreneurs plunge into industry/business because of the challenge it presents. When one challenge seems to be met, they begin to look for new challenges. They convert odds and adversities into opportunities and make profit.

***Buyers*:** These are the entrepreneurs who do not like to face the hassles of building infrastructure and other facilities. They simply purchase the existing one and by using their experience and expertise try to run the enterprise successfully.

***Life timers*:** Such entrepreneurs take business as an integral point of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

***Industrial entrepreneurs*:** Such entrepreneurs engage in manufacturing and selling products.

***Service entrepreneurs*:** Such entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc where entrepreneurs provide service to people.

***Business entrepreneurs*:** They are also called as trading entrepreneurs which buy and sell goods.

***Agricultural entrepreneurs*:** They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

***Corporate entrepreneurs*:** Corporate entrepreneurs undertake their business activities under legally registered company or trust.

***Rural entrepreneurs*:** Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs. According to khadi and village industry commission (KVIC) Village or rural industry means any industry located in rural area, population of which do not exceed 10,000 which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

***Women entrepreneurs*:** According to government of India an entrepreneurs is defined as an enterprise owned and controlled by 16 a woman and having minimum financial interests of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women. Women entrepreneurs play an important role in economy especially in rural areas.

Learning activity 5.1: Visit industrial estate of your city/district, survey the industries and classify them.

5.9 INTRAPRENEURS

A new breed of entrepreneurs is coming to the fore in large industrial organizations. They are called as 'Intrapreneurs'. In large organizations, the top executives are encouraged to catch hold of new ideas and then convert them into products through R and D activities within the framework of organizations. It is found in developed countries that such Intrapreneurs in large number are leaving the organization and started their own enterprises. Many of such Intrapreneurs have become exceedingly successful in their ventures. The difference between entrepreneurs and Intrapreneurs is given in table 5.3.

5.10 ULTRAPRENEURS

Through the entrepreneurship has been there for a long time, its performance and execution evolve with the prevalent economic conditions of the day. The entrepreneurs of the 90s are a different breed in relation to their immediate predecessors from the 80s. Thus, the path of successful entrepreneurship is ever changing as the art and science of entrepreneurship, is taking a new colors. Now-a-days new products and services are conceived, created, tested, produced and marketed very quickly and with great speed. Therefore today's entrepreneurs need to have different mindset about establishing and operating a company. This mindset is what is called ultrapreneuring.

Table 5.3: Difference between entrepreneurs and intrapreneurs

	Entrepreneurs	**Intrapreneurs**
1. Dependency	He is independent in his operation.	He is dependent on the entrepreneurs i.e. owner.
2. Raising of funds	He himself raises funds required for the organization.	He does not raise funds for the organization.
3. Risk	Entrepreneurs bears the risk involved in the business.	He does not fully bear the risk involved in the organization.
4. Operation	An entrepreneur operates from outside.	An intrapreneur operates from inside.
	Entrepreneurs converts the ideas into viable opportunities.	Intrapreneurs takes the responsibility of creating innovation.
	Entrepreneurs takes the profit of the business.	He is provided with a variety of perquisite for his innovation.

According to James B Arkebaur, the concept of ultrapreneuring is to identify business opportunity, determine its viability and form a company. It requires assembling a super competent management team who then develop, produce and market the product or service. They then sell the majority interest of the company, all of this with maximum resource leverage of both talent and money in the shortest optimum time period. Ultra growth companies are not made to pass on to the next generation.

Ultrapreneurs create them and then sell out, merge or combine. Their life long challenge is to do it again and over again.

Learning activity 5.2: with respect to industries surveyed for previous activity find out whether technology used is an imported one or indigenous. Describe the reasons for the use of imported /indigenous technology.

5.11 CONCEPT OF ENTREPRENEURSHIP

Entrepreneurship is an elusive concept. The concept of entrepreneurship has been a subject of much debate and is defined differently by different authors. Some of them view it as 'risk-bearing'; others call it as 'innovations', yet others consider it as 'thrill-seeking'. In a conference of entrepreneurship held in USA, it is defined, as "**Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition**".

A.H. Cole has defined entrepreneurship as "the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services".

According to Heggins "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top manager's of day-to-day operations.

According to Joseph A Schempeter entrepreneurship is essentially a creative activity. It consists of doing such things as are not generally done in ordinary course of business. An entrepreneur is one who innovates i.e., carries out new business.

According Mc Clelland, there are two characteristics of entrepreneur: first is doing a thing in a new and better way, second is decision making under uncertainty.

The various definitions of entrepreneurship identify two basic elements of entrepreneurship namely innovation and risk bearing.

Innovation: Innovation is doing something new or something different. Entrepreneurs constantly look out to do something different and unique to meet the changing requirements of the customers. Entrepreneurs need not be inventors of new products or new methods of production or service, but may possess the ability of making use of the inventions for their enterprises. For example, in order to satisfy the changing needs of the customers, now-a-days fruit juice (mango, fruits etc.) in being served in tins, instead of bottles so that customers can carry it and throw away the containers after drinking the juice. Ratan Tata did not invent automobile. Foreseeing the peoples desire to have small cars at lower price, he applied new methods of mass manufacturing, made use of new, lights and relatively cheaper materials. Hence entrepreneurship needs to apply inventions on a continuous basis to meet customers changing demands for products.

***Risk bearing*:** Giving birth to a new enterprise involves risk. Doing something new and different is also risky. The enterprise may earn profit or incur loss, which depends on various factors like changing customer preferences, increased competition, shortage or raw materials etc. An entrepreneur needs to be bold enough to assume the risk involved and hence an entrepreneur is a risk-bearer not risk-avoider. This risk-bearing ability keeps him to try on and on which ultimately makes him to succeed. The Japanese proverb "Fall seven times, stand up eight" applied to entrepreneur.

Though the terms entrepreneur and entrepreneurship are used interchangeable, yet they are conceptually different. The relationship between the two is indicated in fig. 5.1 and table–5.4.

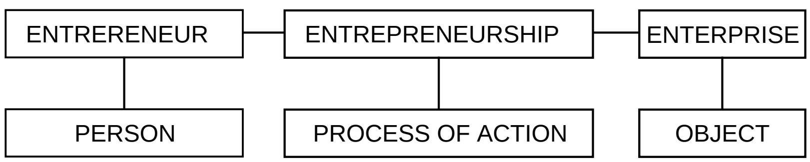

Fig. 5.1: Concept of entrepreneurship

Table 5.4: Relationships between entrepreneur and entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualizes	Vision
Leader	Leading
Imitator	Imitation

Learning activity 5.3: Meet two to four entrepreneurs and list their competencies which helped their enterprises.

5.12 EVOLUTION OF ENTREPRENEURSHIP

Emergence of entrepreneurial class is as old as our ancient history itself. It dates back to the Pre-Vedic period when Harappan culture flourished in India. History of entrepreneurship and emergence of entrepreneurial class in India may be presented in two sections viz. entrepreneurship during pre-independence and post-independence.

***Entrepreneurship during pre-independence*:** In the excavation in Harappan and Mohanjodaro the handcraft items and metal molded items were found. It is also found that the craftsmen of the time made, handicraft items as part of their contribution to the society in which they lived. The entrepreneurship to make handicraft items existed in India around 2500 B.C. People developed their own social system and village economy in India. India also developed cast-based divisions of work, which helped in the development of skills of artisans.

The artisans in different parts of India grouped together and developed their own artifacts and were well known for their quality. The cities like Banaras, Gaya, Puri, Allahabad and Mirzapur, which were on the banks of Ganga River, established their own type of handicrafts work. The royal patronage by the local kings of that period helped artisan industries to flourish. The handicrafts industry of the time was basically skill based and started as tiny sector.

The population in India grew in the middle age and spread to the full geographical area. The local kings gave patronage to the handicrafts, silk, cotton-ware and development of other cottage based industries for consumption of higher section of the society. The development of agriculture products like spices, Ayurvedic medicines also flourished in some parts of the country and started export them. Spices from kerala, Corah from Bengal, Shawls from Kashmir and Banaras, brass and Bidriware, Silk from Nagpur and Mysore enjoyed prestigious status in international market till earlier years of 18^{th} century. The craftsmen gathered together in halls, which were called 'Karkhanas'.

Unfortunately the prestigious Indian handicrafts industries which were basically a cottage and tiny sector declined at the end of 18^{th} century, because of the following reasons.

1. Disappearance of royal patronage to the handicrafts
2. Lukewarm attitude of British colonial towards Indian crafts
3. Imposition of heavy duty on imports of Indian crafts
4. Low priced British made goods
5. Changes in the tastes and habits of developing Indian citizens etc.

In other words East India Company handicapped Indian cottage and tiny sectors. The company injected various changes in the Indian economy by exporting raw materials and import of finished goods in India. 'Parsis' established good report with company. The company established the first shipbuilding industry in Surath and from 1673 Parsis started manufacturing vessels for the company. In 1677 Manjee Dhanjee was given the contract of building large gun-powder-mill in Bombay. In 1852 a Parsi foreman who was working in the gun factory started steel industry in Bombay. That is to say East India Company made some contribution toward entrepreneurial growth in India.

The actual emergence of manufacturing enterprise can be noticed in the second half of nineteenth century. In 1854 Cowasjee Nanabhoy started textile mill at Bombay, R. Chotelal started textile mill in 1861 in Ahamdabad, and in 1880 Nawrojee Wadia opened a mill in Bombay. Jamshadjee Tata established first steel industry in 1911. Though late, other commercial community namely jains, vaishyas changed their attitude from commercial entrepreneurship to industrial entrepreneurship.

The 'swadeshi' campaign provided a seed bed for inculcating and developing nationalism in the country. Jamshadjee Tata was influenced by this and named his first mill 'swadeshi mill' and Krishna in its advertisement made the appeal "our concern is financed by native capital and is under native management throughout".

After the first world war the Indians agreed to 'discriminating' protection to certain industries and made companies should be registered in India with rupees capital and have a proportion their directors as Indians. These measures helped in establishing and extending the factory manufacturing in India during the first four decades of 20th century during which the relative importance of Parsis declined and Gujarati's, Marawaris, and Vaishyas gained their importance in India's entrepreneurial scene.

The emergence of managing agency system triggered Indian entrepreneurship. In 1936 Carr, Tagore & Co assumed the management of Calcutta steam tug association. Dwarakanath Tagore encouraged others to form joint-stock companies in which management remains in the hands of 'firm' rather than 'individual'. The European management agency houses, after East India Company loosing its monopoly entered business, trade and banking. It is stated that the managing agency houses were the real entrepreneurs and these agency houses emerged to overcome the limitations imposed by shortage of venture capital and entrepreneurial acumen.

***Entrepreneurship during post-independence*:** In 1948 Indian government came forward with the first Industrial policy, which was revised from time to time. The government identified the responsibility of the state to promote, assist and develop industries in the national interest and recognized the role of private sector in accelerating industrial development.

The government took three important measures namely:

1. To maintain a proper distribution of economic power between private and public sector.
2. To encourage industrialization from existing centers to other cities, towns and villages.
3. To disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social state.

To achieve this, government accorded emphasis on development of small scale industries in the country by providing various incentives and concessions in the form of capital, technical know-how markets and land to the entrepreneurs in the potential areas to remove the regional imbalances in development. To facilitate the new entrepreneurs in settings up their enterprises, Government established several institutions like Directorate of Industries, Financial Corporations, small scale industries corporations, small industry service institutes etc. Because of this small-scale units emerged very rapidly and their number increased from 1,21,619 in 1966 to 1,90,727 in 1970. There are also examples that some entrepreneurs grew from small to medium-scale and from medium to large scale manufacturing units during the period.

With the invention of digital computer, information technology era started in 1970. IBM was one of the pioneers in this field. The software developments created new opportunities and the service industries started growing faster than manufacturing industry after 1980. The high growth of new industries also had high risks. The new top rated entrepreneurship opportunities arose such as communication, food services, entertainment, merchandising, cosmetics, and apparel with the electronic communication reducing the distances to a Global Village. The market size is growing and the entrepreneur has to benchmark himself with the global standards.

5.13 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Economic development essentially means a process of upward change whereby the real per capita income of a country increases for a long period of time. The economic history of the presently developed countries, for example, USA and Japan tends to support the facts that the economy is an effect for which the entrepreneurship is the cause. The crucial role played by the entrepreneurs in the western countries has made the people of underdeveloped countries conscious of the significance of entrepreneurship in economic development. After the Independence, India has realized that, for achieving the goal of economic development, it is necessary to increase the entrepreneurship both qualitatively and quantitatively in the country. Parson and Smelter described entrepreneurship as one of the two necessary conditions for economic development, the other being increased output of capital. Y.A. Say high describes entrepreneurship as a necessary dynamic force for economic development. The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
3. It provides balanced regional development.
4. It helps reduce the concentration of economic power.

5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulated the process of economic development in the country.
8. It promotes country's export trade i.e. an important ingredient for economic development.

Learning activity 5.4: Visit a technical entrepreneur and find the benefits/advantages of technical entrepreneur over others.

5.14 STAGES IN THE ENTREPRENEURIAL PROCESS

Entrepreneurship is a process of comprising several distinct stages. The first stage in the entrepreneurial process is some change in the real world. For example, a war may destroy country's manufacturing facilities but spare its trained work force that has happened in West Germany during Second World War. Such a change leads to changes in every aspect of life in the country. It creates needs for new goods and services. The distraction of Japan's industry during the Second World War allowed the country to rebuild its industry from scratch.

The second stage in the entrepreneurial development is the 'idea'. For example, microprocessor, the brain of personnel computer had been in the American market since the early 1970s. A company called 'Altair' had put out a computer that was so personal that one had to put it together oneself. But it was Apple Computer, which perceived that computer market was potentially very big.

One may become an entrepreneur in various ways. He may start a new enterprise. Alternatively he may acquire a franchise. Franchising is an entrepreneurial system whereby an individual runs a business based on the right to make a product or service granted by a manufacturer or other organization. Intrapreneuring is another strategy. It is the process of extending the firms domain of competence by exploiting new opportunities through new combinations of its existing resources.

5.15 BARRIERS TO ENTREPRENEURSHIP

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. The greatest barrier to entrepreneurship is the failure of success. Karl. H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept
2. Lack of market knowledge

3. Lack of technical skills
4. Lack of seed capital
5. Lack of business know how
6. Complacency—lack of motivation
7. Social stigma
8. Time presence and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

CHAPTER SUMMARY

An entrepreneur is a person who buys factor services at certain prices with a view to selling its products at uncertain prices. Entrepreneur is a dynamic agent of change. An entrepreneur is a person of telescopic faculty, drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess some core competencies like innovative, perceiving opportunities, persistence, information gathering, concern for quality, planning, problem solving etc. a clear distinction can be made between an entrepreneur and a manager. An entrepreneur has to perform various functions like idea generation, determination of business objectives, raising of funds, procurement of machines and materials, market research, deciding forms of ownership, recruitment of man power etc. entrepreneurs can be classified based on various factors. Intrapreneurs take the responsibility of innovation.

Entrepreneurship is purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods or services. It is an act of starting and running an enterprise. Entrepreneurship is as old as ancient history itself and dates back to pre-Vedic period when Harappan culture flourished in India. The artisans and royal patronage of Indian kings have contributed for the entrepreneurship in the early ages of Indian history. East India Company handicapped the Indian tiny and cottage industries. Later Parsi's, Jain's and Vaishya's have contributed for the growth of entrepreneurship. The managing agency system and the Swadeshi movement have contributed for the growth of entrepreneurship in India.

After independence, the Government of India has taken measures for growth of industries through her Industry Policy Resolutions. There are many barriers to the entrepreneurship. They may be lack of viable concept, lack of market knowledge, lack of skills, lack of seed capital etc.