Principle of Business Management
Unit-IV

Communication - It is transfer of information from the sender to the receiver with the information being understood by the receiver. Communication plays key role in the success of a manager. Directing abilities of manager mainly depend upon his communication skills. That is why organization always emphasizes on improving communication skills of managers as well as employees. Communication is important for the directing function because all other elements of directing become possible only when there is adequate communication.

Elements of Communication Process -

l. **Sender -** Who conveys his thoughts or ideas.
2. Message - Ideas, feelings, suggestions, order etc.
3. Encoding - Converting the message into communication symbols such as words / pictures etc.
4. Media- Path/ Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.
5. Decoding - Converting encoded symbols of the sender.
6. Receiver - Who receives communication of the sender.
7. Feed back - All those actions of receiver indicating that he has received and understood the message of the sender.
8. Noise - Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

Importance of Communication

l. Facilitates Coordination - between interrelated departments and sections thus creating a unity of purpose and action.
2. **Provides data necessary for decision makings** - When information is effectively and efficiently communicated to management.
3. **Increases managerial efficiency-** Every individual in the organisation is assigned a job or task. The employee must know clearly who has to report to whom, what part of total job they are expected to perform and what are their decisions. The clarity comes only with smooth flow of communication which keeps the organisation at work with efficiency.
4. **Promotes cooperation and Industrial Peace-** The two way communication promotes cooperation and mutual understanding between the management and workers and brings peace in the organisation.
5. **Establishes effective leadership -** Effective communication helps to influence subordinates - while influencing, a leader should possess good communication skills. If there is two way information flow between the superior and subordinates then there will be positive reaction of employees.

Communication taking place within an organisation may be broadly

Classified into two categories.

I. **Formal Communication -** refers to official communication which takes place following the chain of command. Classification of formal communication -
1. **Vertical communication -** Flows vertically i.e., upwards or downwards through formal channels
i) **Downward Communication -** Higher to lower level like plans, policies, rules etc.
ii) **Upward Communication -** Subordinate to superior like suggestions, grievances, reports etc.
2. **Horizontal / lateral Communication -** between persons holding positions at the same level of the organisation e.g., production manager may contact marketing manager about product design, quality etc.

Informal Communication: Communication that takes place without following the formal lines of communication is said to be informal communication. There is no fixed direction or path for the flow of information.
1. **Single Strand -** Each person communicates with the other in a sequence.
2. **Gossip -** Each person communicates with all on non-selective basis. A person shares the information with many other people in his social group.
3. **Probability -** The individual communicates randomly with other individuals.

4. **Cluster -** The individual communicates with only those people whom he trusts.

Difference between Formal & Informal Communication

Basis for Comparison	Formal Communication	Informal Communication
Meaning	A type of verbal communication in which the interchange of information is done through the pre-defined channels is known as formal communication.	A type of verbal communication in which the interchange of information does not follow any channels i.e. the communication stretches in all directions.
Another Name	Official Communication	Grapevine communication
Reliability	More	Comparatively less
Speed	Slow	Very Fast
Evidence	As the communication is generally written, documentary evidence is present.	No documentary evidence.
Time Consuming	Yes	No
Advantage	Effective due to timely and systematic flow of information.	Efficient because employees can discuss work related problems, this saves time and cost of the organization.
Disadvantage	Distortion due to long chain of communication.	Spread of rumors
Secrecy	Full secrecy is maintained.	It is difficult to maintain the secrecy.
Flow of Information	Only through predefined channels.	Can move freely.

Barriers to Effective Communication -

Semantic Barriers - Concerned with problems and obstructions in the process of encoding or decoding of message into words or impressions Semantic barriers are as follows:-

1. Badly expressed message. Sometimes intended meaning may not be conveyed.
2. Words with different meanings confuses the receiver.
3. Faulty translations may transfer wrong messages.
4. Unclarified assumption subject to different interpretations may result in confusion.
5. Technical Jargon - Technical words may not be understood by the workers.

Psychological / Emotional barriers

1. Premature evaluation - judgement before listening leads to misunderstanding.
2. Lack of attention / poor listening may disappoint the employees.
3. Loss by transmission and poor retention – When oral communication passes through various levels it destroys the structure of the message or leads to transmission of inaccurate message.
4. Distrust – If the parties do not believe each other. They can not understand each other's message in its original sense.

Organisational barriers : -

Factors related to organisation structure:-

1. If organizational policy does not support free flow of information it creates a problem.
2. Rules and regulations:- rigid rules and regulations may lead to red tapism and delay of action.
3. Status conscious managers may not allow subordinates to express their feelings freely.
4. Complexity in organization structure results in delay and distortion.

Personal Barriers - of superiors and subordinates.

1. Fear of challenge to authority may withhold or suppress a particular communication.
2. Lack of confidence of superior on his subordinates.
3. Unwillingness to communicate. e. g. fear of punishment / demotion.
4. Lack of proper incentives stops the subordinates to offer useful suggestions.

Improving communication effectiveness.

1. Clarify the ideas before communication.
2. Communicate according to the needs of receiver.
3. Consult others before communicating.
4. Be aware of language, tone and content of message.
5. Ensure proper feedback. Feedback provides opportunity for suggestions and criticism.
6. Follow up communication helps to remove hurdles, misunderstanding of information given by managers to subordination.
7. Be a good listener

Managerial Control

What do you mean by Managerial Control?

Meaning and Concept

Control is a fundamental managerial function. it is the process of regulating organizational activities so that actual performance conforms to expected organizational standards and goals and ensures that necessary corrective action is taken. There are different concepts of control which are used in different contexts. In the first concept control is an executive function. In the second concept it is intimately connected with planning. In the third concept it is a process which guides activity towards some pre-determined goals. In managerial terminology, control is ensuring work accomplishment according to plans. It is a process of ensuring that activities are producing desired results. In short, control is an executive function involving three elements, i.e., standards, evaluative and corrective action.

In the words of Dalton E. macfarland, "Control, in its managerial sense, can be defined as the presence in a business of that force which guise to a pre-determined objective by means of pre-determined policies and decisions."

In the words of Koontz and O'Donnell, "Controlling is the measuring and correcting the activities of subordinates to ensure that events conform to plans."

- **What are the basic steps in the process of controlling?**

Managerial control system involves four steps. First of all, the manager establishes the standards of performance to ensure that performance is in accordance with the plans. After this under the second step, the manager will measure the performance, and under the third step he will compare it with predetermined standards. This will lead the manager to know whether the actual performance has come up to the expected standards or if there is any deviation. In case of any deviation, the manager will take immediate corrective action which is the final step in the step of controlling.

Establishing Standards of Performance:

The first and the foremost step in the control process is the establishment of standards for the measurement of performance. They are the expression of goals of the enterprise or the department. Standards may be tangible or intangible, unclear or specific. But they must be established and expressed in such a way that people concerned can easily understand them and the accomplishment can be measured without any difficulty. Standards of performance should be simple, accurate, precise, flexible, acceptable, workable and capable of achievement with reasonable amount of cost, effort and time.

Measure of Performance:

The second step in the control process is the measurement of actual performance. In this connection, the management should not depend upon guesswork as far as meeting of standards is concerned. It should measure the actual performance and compare it with the standards. The quantitative measurement should be done in cases where standards have been set in numerical terms. This will make the evaluation quite easy and simple. In other cases, the performance should be measured in terms of qualities factors.

Comparing Performance with Standards:

The third step in the control process is the comparison of performance with established standards. Managers often base their comparisons on information provided in reports that summarize planned versus actual results. Such reports may be presented verbally or in written form or through computerized process. Management by exception principle suggests that managers should be informed of a situation only when control data shows a significant deviation from the set standards. It will save manager's time by bringing to their attention only those conditions which need their attention.

Taking Corrective Action:

The fourth and final step in the control process is taking corrective action. When significant deviation from standards are detected, corrective action obviously called for. This involves taking certain decisions by the management like re-planning or redrawing of goals or standards, reassignment or reclassification of duties. It may also necessitate reforming the process of selection and training of workers. Thus, control function may require change in all other managerial functions. If the standards are found to be defective, they will be modified or set up again in the light of observations. Joseph massie has pointed out that a manager may commit two types of mistakes at this stage: (i) taking action when no action is needed. (ii) failing to take action when some corrective action is needed. A good and effective control system should provide some basis for helping the manager estimate the risks of making either of these types of errors. Of course, the final test of control system is whether correct action is taken at the correct time.

Techniques of Managerial Control: Traditional and Modern Techniques!

1. Traditional Techniques:

Traditional techniques refer to the techniques that have been used by business organization for longer period of time and are still in use.

Such techniques are:

a. Personal Observation
b. Statistical Reports.
c. Breakeven Analysis.
d. Budgetary Control.

(a) Personal Observation:

This is the most traditional technique of control. It helps a manager to collect firsthand information about the performance of the employees. It also creates psychological pressure on the employees to improve their performance as they are aware that they are being observed personally by the manager. However, this technique is not to be effectively used in all kinds of jobs as it is very time consuming.

(b) Statistical Reports:

Statistical analysis in the form of percentages, ratios, averages etc. in different areas provides useful information regarding performance of an organisation to its managers. When such information is presented in the form of tables, graphs, charts etc., it facilitates comparison of performance with the standards laid and with previous years' performance.

(c) Breakeven Analysis:

The technique used by managers to study the relationship between sales volume, costs and profit is known as Breakeven Analysis. This technique helps the managers in estimating profits at different levels of activities.

The point at which the total revenue and total cost curves intersect is breakeven point. The figure shows that the firm will have the breakeven point at 60,000 units of output. At this point, there is neither profit nor loss. The firm starts earning profit beyond this point. Through breakeven analysis, a firm can keep a check on its variable cost and can also determine the level of activity at which it can earn its profit target.

(d) Budgetary Control:

Under this technique, different budgets are prepared for different operations in an organisation in advance. These budgets act as standards for comparing them with actual performance and taking necessary actions for attaining organisational goals.

A budget can be defined as a quantitative statement of expected result, prepared for a future period of time. The budget should be flexible so that necessary changes, if need be, can be easily made later according to the requirements of the prevailing environment.

Needs/Importance of Control:

1. Guides the Management in Achieving Pre-determined Goals:

The continuous flow of information about projects keeps the long range of planning on the right track. It helps in taking corrective actions in future if the performance is not up to the mark.

2. Ensures Effective Use of Scarce and Valuable Resources:

The control system helps in improving organizational efficiency. Various control devices act as motivators to managers. The performance of every person is regularly monitored and any deficiency if present is corrected at the earliest.

Controls put psychological pressure on persons in the organization. On the other hand control also enables management to decide whether employees are doing right things.

3. Facilitates Coordination:

Control helps in coordination of activities through unity of action. Every manager will try to coordinate the activities of his subordinates in order to achieve departmental goals.

Similarly the chief executive also coordinates the functioning of various departments. The control acts as a check on the performance and proper results are achieved only when activities are coordinated.

4. Leads to Delegation and Decentralization of Authority:

A decision about follow-up action is also facilitated. Control makes delegation easier/better. Decentralization of authority is necessary in big enterprises. The management cannot delegate authority without ensuring proper control.

The targets or goals of various departments are used as a control technique. Various control techniques like budgeting, cost control; pre action approvals etc. allow decentralization without losing control over activities.

5. Spares Top Management to Concentrate on Policy Making:

For control processes management’s attention is not required every now and then. The management by exception enables top management to concentrate on policy formulation.

Benefits of the Control System

Managerial control is essential to efficient management. It helps the managers to measure actual performance and guide it towards the achievement of predetermined goals. It is important activity in any business enterprise.

1. Efficient Execution:

Control is an important pre-requisite for an effective and efficient implementation of the pre-determined plans. It assists in determining variations, pinpointing the factors responsible for them and taking remedial measures.

2. Helps Delegation:

Control can be meaningful only when it is preceded by proper delegation of authority and duties. Thus, it promotes delegation of authority to the employees at lower levels. In this way they develop a sense of involvement in the working of an organisation.

3. Aid to Decentralisation:

The modern trend of business organizations is towards decentralisation which calls for a systematic attempt for controlling. Under decentralisation, the authority of decision making is dispersed throughout the organisation. Management must keep control in its hands to know whether the authority is being used properly. Without adequate controls, decentralisation cannot succeed.

4. Assists Co-ordination:

The size of modern business enterprises is increasing. A huge amount of capital and large number of people are employed in them. This creates the problem of adequate control as there are many divisions producing and distributing different products. In order to co-ordinate their activities, an efficient system of control is required.

5. Simplifies Supervision:

Control simplifies supervision by pinpointing significant deviations. It keeps the employees under check and brings discipline among them. A good system of control detects the weak points very quickly. This helps the expansion of span of control at all levels.

6. Aids to Efficiency:

Basically, control is concerned with ensuring that all the important factors in the enterprise move along the right lines and at the right pace. This assists in promoting efficiency all rounds.

7. Boosts Morale:

Control techniques help in finding the deviations and identifying the factors responsible for the same. This boosts the morale of the employees because they know the work for which they are to be held responsible.

Problems with Management Control Systems

1. **Magnitude of Change:** Management control system is designed to cope with changes of a limited magnitude. While designing the control system certain as assumptions are made concerning the variables expected to change and the degree of change. Corrective actions are decided on the basis of-these-assumptions. For example, overtime may be decided on the assumption that five per cent of the employees will on an average be absent. When the magnitude of change is too high, the corrective action cannot work. For example, if 90 per cent of the employees remain absent, on a particular day due to a strike, management can do little to correct the change. Thus, the control system fails when the variables go outside the range, which the system was designed to handle.
2. **Time Rate of Change.** Control system in any organization depends upon accurate and timely feedbacks on actual performance. Such feedback largely comes through written reports. It takes time to write and transmit the control reports. When an activity is changing very fast, the feedback becomes outdated by the time reports reach the higher authorities. Such time lag in feedback slowdowns the adaptive process. The control system takes greater time to respond.
3. **Faulty Standards.** When the control standards are erroneous, it becomes difficult to discriminate between proper and improper performance be decision-maker is not certain whether the deviation in performance is due to the activity being out of control or due to the improperly set standards.
4. **Information Overload**. Too much information is harmful for control, as incomplete information. When managers, at all levels receive identical information they may be overburdened and may suggest remedies before giving subordinates an opportunity to take action. Therefore, management must decide the quantity and type of information that should reach to every manager.
5. **Resistance.** Employees often consider any control system as a tool to exert pressure on them. They complain that the targets, are non-feasible, time Span of appraisal is too short to permit a fair assessment and control staff lacks objectivity. Employees may also resent the control department to sit in judgment. They may question the location of the decision level regarding corrective action. Therefore, a control system must first be 'sold' to employees before it is installed.n major changes in the organization are brought about.