UNIVERSITY GRANTS COMMISSION

MANAGEMENT **CODE: 17**

Unit-I

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Module-1: Management – Concept, Process – Overview of Management

I. Concept & Definition of Management

Management as a concept may me approached under following heads:

A. Management, as a field of study:

i) Management includes management principles, techniques, functions, and problems, as these imply a branch of knowledge.

ii) It comprises management theory and principles for tackling management problems.

iii) It is taught as an applied, specialized discipline in higher educational institutions. Management, as a field of study, is a multi-disciplinary aspect drawn from various other disciplines such as economics, psychology, sociology, anthropology, etc.

iv) Conceptually, Management as a field of study includes: a) theory and principles b) techniques c) functions and d) limitations.

This approach, however fails to elaborate the appropriate nature of management covering all the important aspects.

B. Management, as a group or a class of people:

i) This approach includes every individual who is working in the organization. Every individual contributes to achieve the specified objectives of the organization. When these people contribute as a group to achieve the objectives of the organization, together they are called management.

ii) Frequently, the term management is used to denote a group or class of people, who are looking after (managing) the affairs of the organization. It means, the term management denotes only to those people who perform certain managerial functions for the accomplishment of certain objectives.

iii) Management as a group includes: a) group of managerial personnel b) top management c) managers and d) personnel who are looking after the affairs of the organization.

C. Management, as a process, includes a series of functions that lead to the achievement of stated objectives. A manager has to perform various functions to achieve the desired objectives. As a process, management manifests two essential features:

i) It is a continuous process
ii) Its functions are inter-dependent and inter-related.
Management is defined for conceptual, theoretical, practical, and analytical purposes as the process by which managers develop, direct, maintain, and control purposive organizations through systematic, coordinated, and cooperative human effort.

As a process, it refers to a series of inter-related elements or functions such as planning, organizing, staffing, directing, and controlling. The process of management involves the determination of objectives and putting them into action.

George R. Terry defined: "*Management is a distinct process consisting of activities of planning, organizing, actuating, and controlling, performed to determine and achieve stated objectives with the use of human being resources.*"

This definition clearly outlines the functions and processes of management.

As it may be observed, the above three viewpoints generate separate definitions and conceptual frameworks for management. However, a few definitions cutting across the barriers of concepts, by some management theorists have been provided here:

Robert Kreitner:
"*Management is a process of moving with and through others to achieve organizational objectives in a changing environment, central to this purpose is the effective and efficient use of limited resources.*"
According to Peter F Drucker;
"Management is a multi-purpose organ that manages a business and manages managers and manages worker and work".

In the words of Koontz and O'Donnel;
"Management is defined as the creation and maintenance of an internal environment in an enterprise where individuals working together in groups can perform efficiently and effectively towards the attainment of group goals."

Above discussion may be summarized into a comprehensive functional definition of management:
Management is planning, organizing, staffing directing and controlling of resources and processes in an organization to attain the predetermined set of objectives through their optimal utilization.

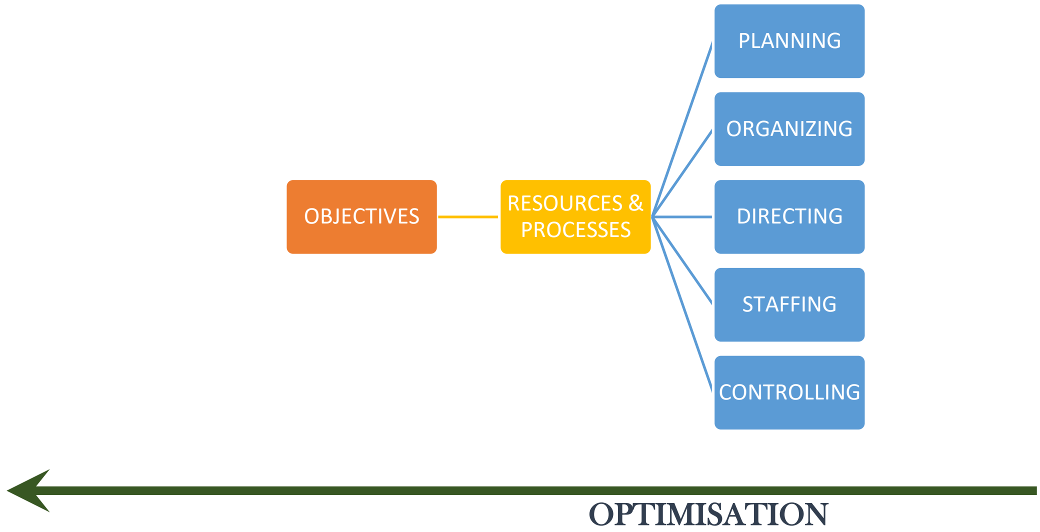


Figure: Concept of Management

II. Characteristics of Management

The salient characteristics which highlight the nature of management are as follows:

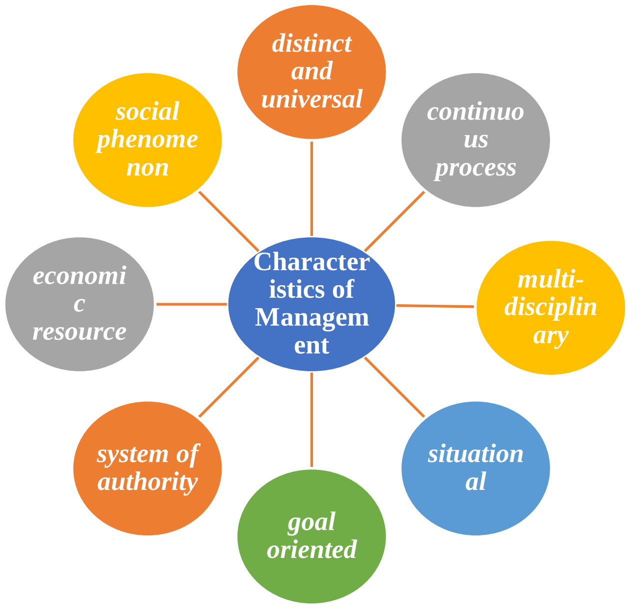


Figure: Characteristics of Management

1. ***Management is a distinct and universal process:*** Management is a distinct process consisting of functions such as planning, organizing, staffing, directing, and controlling. The process of management involves decision making and converting them into action. The basic principles of management are universal in character. They apply to every situation

and activity across different types of organizations. Managers perform more or less same functions irrespective of the nature, size, type, or location of the organization.

2. ***Management is a continuous process:*** The cycle of management continues to operate as long as there is organized action for the achievement of some objectives. It is an ongoing process that never ends for the organization. The cycle of management starts with planning, continues to operate till the goals are achieved, and enter into the new planning phase taking feedback from the control function. Thus, the cycle is dynamic.

3. ***Management is multi-disciplinary:*** Management techniques, principles, and theories are drawn from a number of disciplines such as engineering, economics, sociology, psychology, anthropology, etc. It depends upon a vast reservoir of multi-disciplinary concepts and draws frequently from them.

4. ***Management is situational:*** There is no best way of doing things. The effective management is always the best ways to achieve goals. Management, therefore, must take into account the existing conditions and situations to achieve the optimum result. Often, the objectives of the organization are defined by the internal as well as external situations. Management is therefore situational or contingent.

5. ***Management is goal oriented:*** People put coordinated effort by employing the various resources at their disposal to achieve the stated objective in the organization. This is how management works. It directs the effort towards the accomplishment of pre-determined goals. All the activities of the management, is therefore, goal oriented. Even the effectiveness of the management in the organization is measured by the extent to which the organizational goals are achieved. Objectives and goals provide justification for the existence of the organization.

6. ***Management is a system of authority:*** Management provides the direction of every activity of an organization. Management forms a system of authority or a hierarchy of command to control the activities. Authority enables the managers to perform their functions effectively. Management forms a chain of command and authority and delegates in the downward direction to perform the task effectively.

7. ***Management is an economic resource:*** Management is an important economic resource with land, labour, and capital. Efficient management is the most critical input in the success of any organized group activity as it is the force which assembles and integrates the resources and designs ways for optimum utilization.

8. ***Management is a social phenomenon:*** Management involves the use of group effort in the pursuit of the common objectives. It is the integrated efforts of human beings that make possible for the organization to achieve desired objectives. The integration of the human

effort for a common objective evolves from the society itself. Moreover, management concerns with interpersonal relationship and hence it is a social process.

III. Management: A Science or an Art

Management as a Science: Science is a systemized body of knowledge pertaining to an area of study and contains some general truth explaining the past events or phenomena. Science is an organized knowledge. The essential features of any science are the application of the scientific methods to the development of the knowledge. Thus science comprises a systematic process of developing a hypothesis, identifying an appropriate methodology, experimentation, analysis, and finally crating laws from the findings of the analysis. The observations are made on the basis of the scientific methods which involve determination of facts through these observations of events and verifying the truth of these facts through continued observation. Following features of management have identified itself as a science:

Management as a Science

- A systemized body of knowledge
- Practices developed on the basis of precise and defined methods of observation
- Management theories have developed with the hypothesis, testing, and analyses and findings
- Management principles offer predictable results
- Existence of cause effect relationship

Management as an art

- Personal motivation to perform a task
- Practical knowledge and know-how
- Performance and result oriented
- Creative in nature
- Constantly aimed at perfection

Figure: Management as Science or Art

a. Management can be identified as a systemized body of knowledge and its practice may be evolved on the basis of observations.

b. Management as a science uses precise and well-defined method of observation.

c. Most of the principles of management have been evolved on the basis of continued observation.

d. Most of the management theories have started with the hypothesis, have been tested, and finally have taken shape through analyses and findings.

e. Most of the management principles offer predictable results if the conditions are satisfied.

f. There exist cause-and-effect relationships between the variables in the management.

Management as an Art: Art is the knowhow to accomplish a desired result. People learn a particular art and through continuous practice they reach the level of perfection. Art is practice-based and accomplishment in it requires continuous practice over a long period of time. Management as art has the following features:

a. Requires personal motivation to perform a task.

b. Dependent on practical knowledge and know-how.

c. Performance and result oriented.

d. Creative in nature and it is practiced constantly aimed at perfection.

Management is an art, in the sense that it is highly dependent on practical knowledge, individual expertise, and constant practice. Moreover, application of certain management principles cannot be laboratory based or too much precision oriented. They leave ample room for tolerance to ambiguity and ingenuity which are essentially properties of art.

From the above discussion, it can be said that management is both a science and an art. It is considered as science because it is an organized body of knowledge. On the other hand, it is an art because it requires certain individual brilliance and skills which are personal possession of individuals.

IV. Functions of Management

There is enough disagreement among management writers on the classification of managerial functions. Newman and Summer recognize only four functions, namely, organizing, planning, leading and controlling.

Henri Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling.

Luther Gulick states seven such functions under the catch word "POSDCORB' which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting.

Warren Haynes and Joseph Massie classify management functions into decision-making, organizing, staffing, planning, controlling, communicating and directing.

Koontz and O'Donnell divide these functions into planning organizing, staffing, directing and controlling.

For our purpose, we shall designate the following six as the functions of a manager: planning, organizing, staffing, directing, coordinating and controlling.

1. Planning: Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, they should know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with 'what', 'how, and 'when' of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

(a) Determination of long and short-range objectives;

(b) Development of strategies and courses of actions to be followed for the achievement of these objectives; and

(c) Formulation of policies, procedures, and rules, etc., for the implementation of strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals. This is followed by the development of strategies and courses of action to be followed at various levels of management and in various segments of the organization. Policies, procedures and rules provide the framework of decision making, and the method and order for the making and implementation of these decisions.

Figure: Management Functions

2. Organizing: Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans; grouping of activities into jobs; assignment of these jobs and activities to departments and individuals; delegation of responsibility and authority for performance, and provision for vertical and horizontal coordination of activities. Every manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Organizing thus involves the following sub-functions:

(a) Identification of activities required for the achievement of objectives and implementation of plans.

(b) Grouping the activities so as to create self-contained jobs.

(c) Assignment of jobs to employees.

(d) Delegation of authority so as to enable them to perform their jobs and to command the resources needed for their performance.

(e) Establishment of a network of coordinating relationships.

Organizing process results in a structure of the organization. It comprises organizational positions, accompanying tasks and responsibilities, and a network of roles and authority-responsibility relationships.

Organizing is thus the basic process of combining and integrating human, physical and financial resources in productive interrelationships for the achievement of enterprise objectives. It aims at combining employees and interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner, and all efforts and activities pull together in the direction of organizational goals.

3. Staffing: Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmers, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmers, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several sub functions:

(a) Manpower planning involving determination of the number and the kind of personnel required.

(b) Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.

(c) Selection of the most suitable persons for the jobs under consideration.

(d) Placement, induction and orientation.

(e) Transfers, promotions, termination and layoff.

(f) Training and development of employees.

As the importance of human factor in organizational effectiveness is being increasingly recognized, staffing is gaining acceptance as a distinct function of management. It need hardly any emphasize that no organization can ever be better than its people, and managers must perform the staffing function with as much concern as any other function.

4. Directing: Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their optimum performance with zeal and enthusiasm. The function of directing thus involves the following sub-functions:

(a) Communication

(b) Motivation

(c) Leadership

5. Coordination: Coordinating is the function of establishing such relationships among various parts of the organization that they all together pull in the direction of organizational objectives. It is thus the process of tying together all the organizational decisions, operations, activities and efforts so as to achieve unity of action for the accomplishment of organizational objectives.

The significance of the coordinating process has been aptly highlighted by Mary Parker Follet. The manager, in her view, should ensure that he has an organization "with all its parts coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking and interrelation, that they make a working unit, which is not a congeries of separate pieces, but what I have called a functional whole or integrative unity". Coordination, as a management function, involves the following sub-functions:

(a) Clear definition of authority-responsibility relationships

(b) Unity of direction

(c) Unity of command

(d) Effective communication

(e) Effective leadership

6. Controlling: Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary.

Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management.

Thus, controlling involves the following process:

(a) Measurement of performance against predetermined goals.

(b) Identification of deviations from these goals.

(c) Corrective action to rectify deviations.

It may be pointed out that although management functions have been discussed in a particular sequence-planning, organizing, staffing, directing, coordinating and controlling – they are not performed in a sequential order. Management is an integral process and it is difficult to put its functions neatly in separate boxes. Management functions 18 tend to coalesce, and it sometimes becomes difficult to separate one from the other. For example, when a production manager is discussing work problems with one of his subordinates, it is difficult to say whether he is guiding, developing or communicating, or doing all these things simultaneously. Moreover, managers often perform more than one function simultaneously.

V. Levels of Management

An enterprise may have different levels of management. Levels of management refer to a line of demarcation between various managerial positions in an enterprise. The levels of management depend upon its size, technical facilities, and the range of production. We generally come across two broad levels of management, viz. (i) administrative management (i.e., the upper level of management) and (ii) operating management (i.e., the lower level of management). Administrative management is concerned with "thinking" functions such as laying down policy, planning and setting up of standards. Operative management is concerned with the "doing" function such as implementation of policies, and directing the operations to attain the objectives of the enterprise.

But in actual practice, it is difficult to draw any clear-cut demarcation between thinking function and doing function. The basic/fundamental managerial functions are performed by all managers irrespective of their levels or, ranks. For instance, wage and salary director of a company may assist in fixing wages and salary structure as a member of the Board of Directors, but as head of wages and salary department, his job is to see that the decisions are implemented.

The real significance of levels is that they explain authority relationships in an organization. Considering the hierarchy of authority and responsibility, one can identify three levels of management namely:

(i) Upper management of a company consists of owners/shareholders, Board of Directors, its Chairman, Managing Director, or the Chief Executive, or the General Manager or Executive Committee having key officers.

(ii) Middle management of a company consists of heads of functional departments viz. Purchase Manager, Production Manager, Marketing Manager, Financial controller, etc. and Divisional and Sectional Officers working under these Functional Heads.

(iii) Lower level or operative management of a company consists of Superintendents, Foremen, Supervisors, etc.

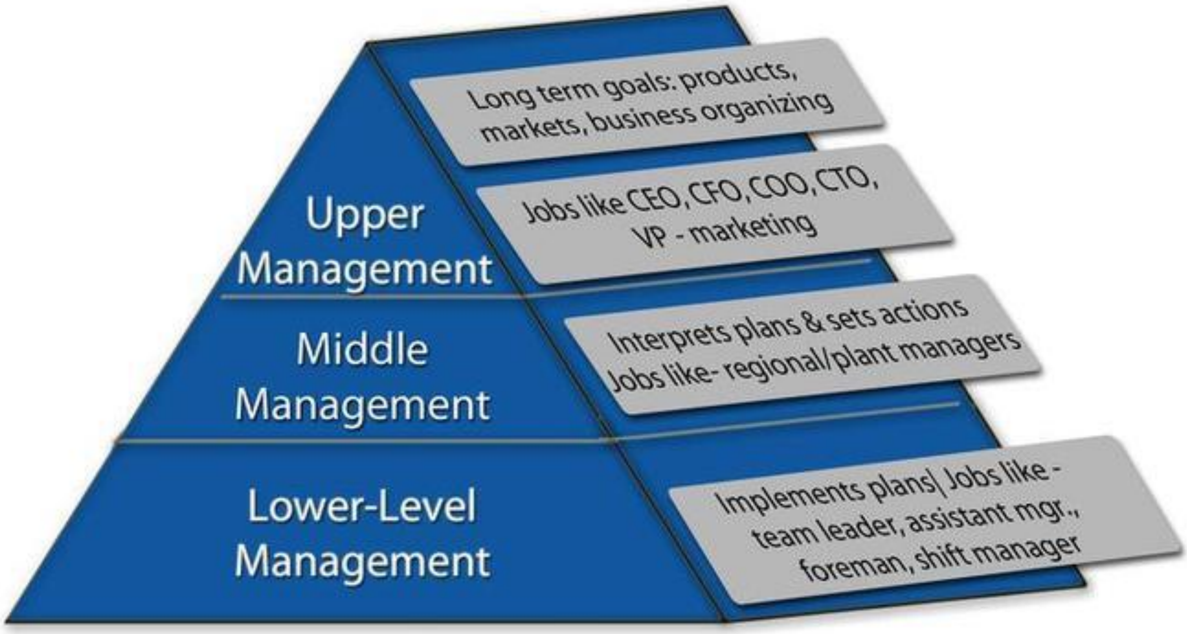


Figure: Levels of Management

1. Upper or top management: Top management is the ultimate source of authority and it lays down goals, policies and plans for the enterprise. It devotes more time on planning and coordinating functions. It is accountable to the owners of the business of the overall management. It is also described as the policy making group responsible for the overall direction and success of all company activities. The important functions of top management include:

(a) To establish the objectives or goals of the enterprise.
(b) To make policies and frame plans to attain the objectives laid.
(c) To set up an organizational frame work to conduct the operations as per plans.
(d) To assemble the resources of money, men, materials, machines and methods to put the plans into action.
(e) To exercise effective control of the operations.
(f) To provide overall leadership to the enterprise.

2. Middle management: The job of middle management is to implement the policies and plans framed by the top management. It serves as an essential link between the top management and the lower level or operative management. They are responsible to the top management for the functioning of their departments. They devote more time on the organization and motivation functions of management. They provide the guidance and the structure for a purposeful enterprise. Without them the top management's plans and ambitious expectations will not be fruitfully realized. The following are the main functions of middle management:

(a) To interpret the policies chalked out by top management.
(b) To prepare the organizational set up in their own departments for fulfilling the objectives implied in various business policies.
(c) To recruit and select suitable operative and supervisory staff.
(d) To assign activities, duties and responsibilities for timely implementation of the plans.
(e) To compile all the instructions and issue them to supervisor under their control.
(f) To motivate personnel to attain higher productivity and to reward them properly.
(g) To cooperate with the other departments for ensuring a smooth functioning of the entire organization.
(h) To collect reports and information on performance in their departments.
(i) To report to top management
(j) To make suitable recommendations to the top management for the better execution of plans and policies.

3. Lower or operative management: It is placed at the bottom of the hierarchy of management, and actual operations are the responsibility of this level of management. It consists of foreman, supervisors, sales officers, accounts officers and so on. They are in direct touch with the rank and file or workers. Their authority and responsibility is limited. They pass on the instructions of the middle management to workers.

They interpret and divide the plans of the management into short-range operating plans. They are also involved in the process of decisions-making. They have to get the work done through the workers. They allot various jobs to the workers, evaluate their performance and report to the middle level management. They are more concerned with direction and control functions of management. They devote more time in the supervision of the workers. The general activities of lower- level management include

a. Assigning of jobs and tasks to various workers.
b. They guide and instruct workers for day to day activities.
c. They are responsible for the quality as well as quantity of production.
d. They are also entrusted with the responsibility of maintaining good relation in the organization.
e. They communicate workers problems, suggestions, and recommendatory appeals etc to the higher level and higher-level goals and objectives to the workers.
f. They help to solve the grievances of the workers.
g. They supervise & guide the sub-ordinates.
h. They are responsible for providing training to the workers.
i. They arrange necessary materials, machines, tools etc. for getting the things done.
j. They prepare periodical reports about the performance of the workers.
k. They ensure discipline in the enterprise.
l. They motivate workers.
m. They are the image builders of the enterprise because they are in direct contact with the workers.

VI. Managerial Skills

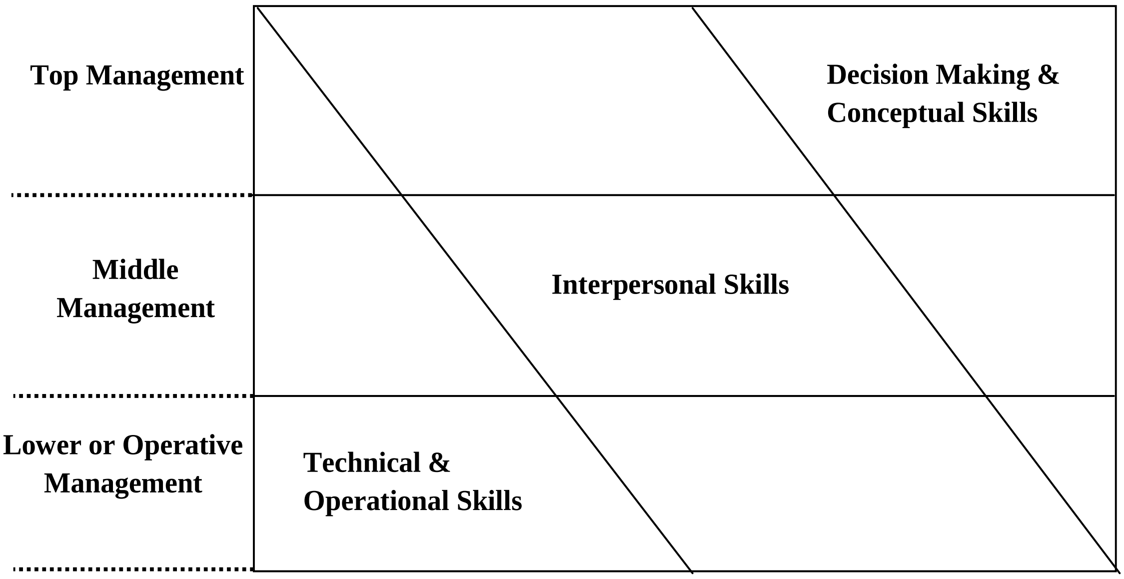


Figure: 1.6 Managerial Skills vs. Levels

A skill refers to an individual's ability to translate knowledge into action. It is, therefore, manifested in an individual's performance. Skill is not necessarily inborn. It may be developed through practice and through learning to one's own personal experience and background.

In order to be able to successfully discharge his roles, a manager should possess three major skills. These are conceptual skill, human relations skill and technical skill. Conceptual skill deals with ideas, technical skill with things and human skill with people. While both conceptual and technical skills are needed for good decision-making, human skill in necessary for a good leader.

i) The conceptual skill refers to the ability of a manager to take a broad and farsighted view of the organization and its future, his ability to think in abstract, his ability to analyze the forces working in a situation, his creative and innovative ability and his ability to assess the environment and the changes taking place in it. It short, it is his ability to conceptualize the environment, the organization, and his own job, so that he can set appropriate goals for his organization, for himself and for his team. This skill seems to increase in importance as manager moves up to higher positions of responsibility in the organization.

ii) The technical skill is the manager's understanding of the nature of job that people under him have to perform. It refers to a person's knowledge and proficiency in any type of process or technique. In a production department this would mean an understanding of the technicalities of the process of production. Whereas this type of skill and competence seems to be more important at the lower levels of management, its relative importance as a part of the managerial role diminishes as the manager moves to higher positions. In higher functional positions, such as the position of a marketing manager or production manager, the conceptual component, related to these functional areas becomes more important and the technical component becomes less important.

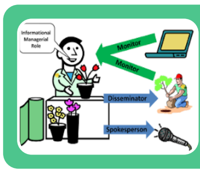
iii) Human relations skill is the ability to interact effectively with people at all levels. This skill develops in the manager sufficient ability (a) to recognize the feelings and sentiments of others; (b) to judge the possible actions to, and outcomes of various courses of action he may undertake; and (c) to examine his own concepts and values which may enable him to develop more useful attitudes about himself. This type of skill remains consistently important for managers at all levels.

The diagram above gives an idea about the required change in the skill-mix of a manager with the change in his level. At the top level, technical skill becomes least important. That is why, people at the top shift with great ease from one industry to another without an apparent fall in their efficiency. Their human and conceptual skills seem to make up for their unfamiliarity with the new job's technical aspects.

VII. Managerial Roles

Depending upon the tasks and the hierarchical level a manager has to perform multiple roles in an organization. Managerial role moreover, depends on the nature of the organization’s activities and the functional area. Such multiplicity of the role may however be classified under three broad categories:

1. Interpersonal Roles
- *Figurehead:*
- *Leader:*
- *Liaison:*



2. Informational Roles
- *Monitor:*
- *Disseminator:*
- *Spokesperson:*

3. Decisional Roles
- *Entrepreneur:*
- *Disturbance Handler:*
- *Resource Allocator:*
- *Negotiator:*

Figure: Managerial Roles

1. Interpersonal Roles

Figurehead: In this role, every manager has to perform some duties of a ceremonial nature, such as greeting the touring dignitaries, attending the wedding of an employee, taking an important customer to lunch and so on.

Leader: As a leader, every manager must motivate and encourage his employees. He must also try to reconcile their individual needs with the goals of the organization.

Liaison: In this role of liaison, every manager must cultivate contacts outside his vertical chain of command to collect information useful for his organization.

2. Informational Roles

Monitor: As monitor, the manager has to perpetually scan his environment for information, interrogate his liaison contacts and his subordinates, and receive unsolicited information, much of it as result of the network of personal contacts he has developed.

Disseminator: In the role of a disseminator, the manager passes some of his privileged information directly to his subordinates who would otherwise have no access to it.

Spokesperson: In this role, the manager informs and satisfies various groups and people who influence his organization. Thus, he advises shareholders about financial performance, assures consumer groups that the organization is fulfilling its social responsibilities and satisfies government that the origination is abiding by the law.

3. Decisional Roles

Entrepreneur: In this role, the manager constantly looks out for new ideas and seeks to improve his unit by adapting it to changing conditions in the environment.

Disturbance Handler: In this role, the manager has to work like a fire fighter. He must seek solutions of various unanticipated problems – a strike may loom large a major customer may go bankrupt; a supplier may renege on his contract, and so on.

Resource Allocator: In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.

Negotiator: The manager has to spend considerable time in negotiations. Thus, the chairman of a company may negotiate with the union leaders a new strike issue, the foreman may negotiate with the workers a grievance problem, and so on.

In addition, managers in any organization work with each other to establish the organization's long-range goals and to plan how to achieve them. They also work together to provide one another with the accurate information needed to perform tasks. Thus, managers act as channels of communication with the organization.

VIII. Significance or Importance of Management

Management is concerned with acquiring maximum prosperity with a minimum effort. Management is essential wherever group efforts are required to be directed towards achievement of common goals. In this management conscious age, the significance of management can hardly be over emphasized. It is said that, anything minus management amounts to nothing. Koontz and O' Donnel have rightly observed "there is no more important area of human activity than management since its task is that of getting things done through others."

The significance of management in business activities is relatively greater. The inputs of labour, capital and raw material never become productive without the catalyst of management. It is now widely recognized that management is an important factor of growth of any country. The following points further highlight the significance of management:

1. Achievements of group goals: Management makes group efforts more effective. The group as a whole cannot realise its objectives unless and until there is mutual co-operation and co-ordination among the members of the group. Management creates team work and team spirit in an organization by developing a sound organization structure. It brings the human and material resources together and motivates the people for the achievement of the goals of the organization.

2. Optimum utilization of resources: Management always concentrates on achieving the objectives of the enterprise. The available resources of production are put to use in such a way that all sort of wastage and inefficiencies are reduced to a minimum. Workers are motivated to put in their best performance by the inspiring leadership. Managers create and maintain an environment conducive to highest efficiency and performance. Through the optimum use of available resources, management accelerates the process of economic growth.

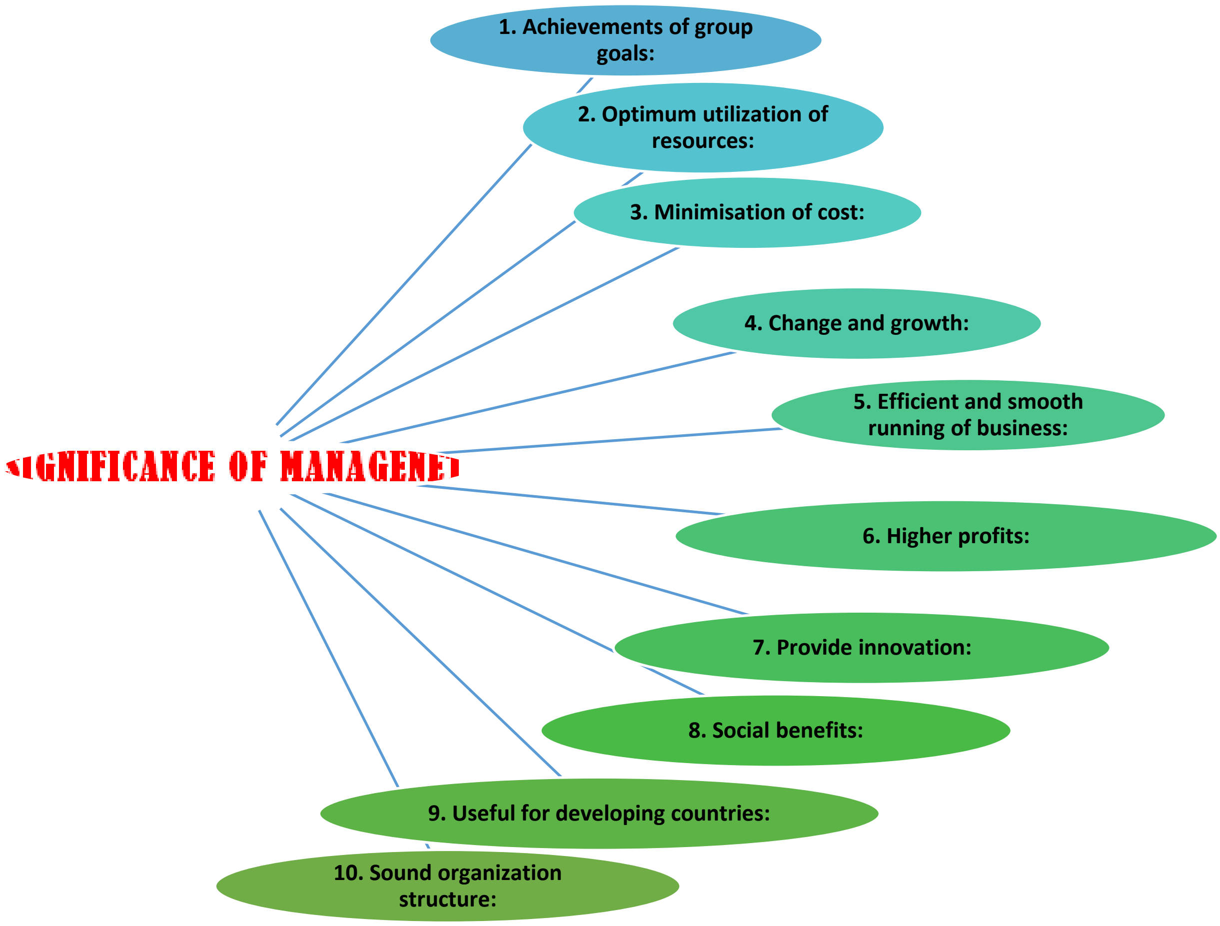


Figure: Significance or importance of Management

3. Minimization of cost: In the modern era of intense competition, every business enterprise must minimize the cost of production and distribution. Only those concerns can survive in the market, which can produce goods of better quality at the minimum cost. A study of the principles of management helps in knowing certain techniques used for reducing costs. These techniques are production control, budgetary control, cost control, financial control, material control, etc.

4. Change and growth: A business enterprise operates in a constantly changing environment. Changes in business environment create uncertainties and risk and also produce opportunities for growth. An enterprise has to change and adjust itself in the ever-changing environment. Sound management moulds not only the enterprise but also alters the environment itself to ensure the success of the business. Many of the giant business corporations of today had a humble beginning and grew continuously through effective management.

5. Efficient and smooth running of business: Management ensures efficient and smooth running of business, through better planning, sound organization and effective control of the various factors of production.

6. Higher profits: Profits can be enhanced in any enterprise either by increasing the sales revenue or reducing costs. To increase the sales revenue is beyond the control of an enterprise. Management by decreasing costs increases its profits and thus provides opportunities for future growth and development.

7. Provide innovation: Management provides new ideas, imagination and visions to an enterprise.

8. Social benefits: Management is useful not only to the business firms but to the society as a whole. It improves the standard of living of the people through higher production and more efficient use of scarce resources. By establishing cordial relations between different social groups, management promotes peace and prosperity in society.

9. Useful for developing countries: Management has to play a more important role in developing countries, like India. In such countries, the productivity is low and the resources are limited. It has been rightly observed, "There are no under-developed countries. They are only under-managed ones".

10. Sound organization structure: Management establishes proper organization structure and avoids conflict between the superiors and subordinates. This helps in the development of spirit of cooperation and mutual understanding, and a congenial environment is provided in the organization.

IX. An Overview of Functional Areas of Management:

Traditionally there are four major functional areas of management. All activities of any business organization may be grouped under these four functions. These are:

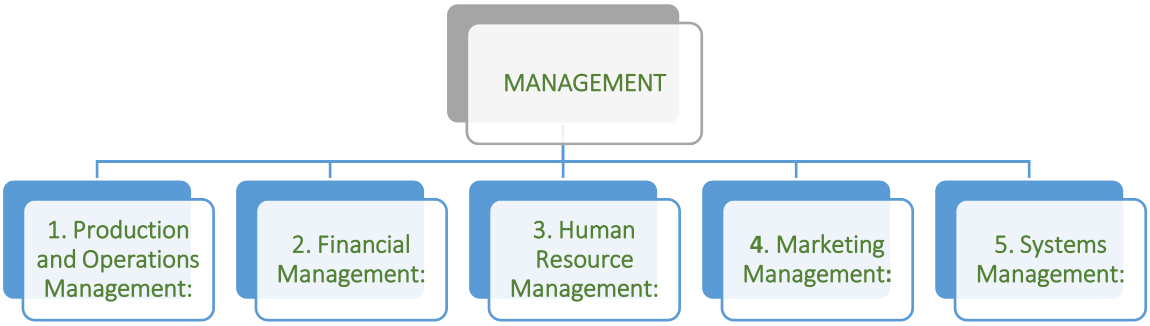


Figure: Functional Areas of Management

1: Production and Operations Management:

The term 'production' was closely associated with manufacturing physical goods and, therefore, production management was also known as manufacturing management. Today, goods are not only physical goods but also services.

Production is related to both goods and services and, therefore, production management is known as operations management. It deals with conversion of inputs into outputs. It is a "set of components whose function is to transform a set of inputs into some desired output."

It is the management of productive processes that convert inputs into goods and services." The inputs are the men, material, equipment, technical knowledge etc. The conversion process that transforms the inputs can be physical transformation in manufacturing operations, locational transformation in transportation, exchange transformation in retailing, storage transformation in warehousing, informational transformation in legal firms, physiological transformation in medicine, and gratification transformation in entertainment.

Outputs are the goods and services produced through the conversion process. Outputs also include by-products of goods, whether in the form of pollutants or wastes. This input-output conversion process is also affected by the environmental forces like Government regulations, economic-political-legal framework of the country, policies of competitors, international policies, etc. The feedback mechanism helps to know effectiveness of the conversion process and whether or not it requires changes in its components.

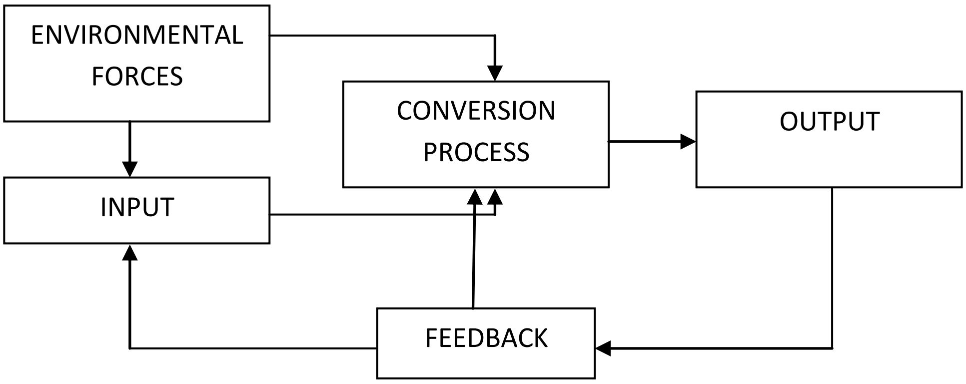


Figure: Operation Process of Management

2. Financial Management:

All activities (production, marketing or human resource) require constant flow of funds. Finance department takes care of financial requirements of the enterprise. It makes arrangements for acquisition and effective utilization of funds.

With increase in the size of business, its relationship with the internal and external environment, product diversification and differentiation, Government regulations and technological developments, finance manager assumes important role in management of finance. Financial management deals with management of finance. It is “the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.”

FUNCTIONAL AREAS OF FINANCIAL MANAGEMENT

1.	Determination of Financial Needs
2.	Selecting the Sources of Funds
3.	Financial Analysis and Interpretation
4.	Cost – Volume Profit Analysis
5.	Capital Budgeting
6.	Working Capital Management
7.	Profit Planning & Control
8.	Dividend Policy

3. Human Resource Management:
Traditionally what was known as personnel management is now replaced with human resource management (HRM) today. Initially, in small organizations all the managerial functions of planning, organizing, staffing, directing, and controlling (for all the functional areas of management) were performed by the managers but with increase in size of the organizations, managers could not look after all the functional areas. Personnel specialists or senior managers were appointed to look into matters related to personnel policies and separate departments called personnel departments were created.

FUNCTIONAL AREAS OF HUMAN RESOURCE MANAGEMENT

1.	Human Resource Planning
2.	Recruitment & Selection
3.	Human Resource Development
4.	Performance Management
5.	Compensation Management
6.	Human Resource Research & Information System

7.	Organization & Job Design
8.	Organizational Development
9.	Employee Relations
10.	Career Planning
11.	Human Resource Audit & Accounting

4. Marketing Management:

Traditionally, markets were a place for exchange of goods and services between sellers and buyers to the mutual benefit of both. Today, marketing is exchange of values between the seller and the buyer. Value implies worth related to the goods and services being exchanged. The buyer will pay for the goods if they have value for him.

Marketing management is "planning, organizing, controlling and implementing of marketing programmers, policies, strategies and tactics designed to create and satisfy the demand for the firms' product offerings or services as a means of generating an acceptable profit." It deals with creating and regulating the demand and providing goods for which customers are willing to pay a price worth their value.

FUNCTIONAL AREAS OF MARKETUING MANAGEMENT

1.	Developing Marketing Strategies and Plans
2.	Collecting Information and Forecasting Demand
3.	Conducting Marketing Research
4.	Creating Long-term Loyalty Relationships
5.	Analyzing Consumer Markets
6.	Analyzing Business Markets
7.	Identifying Market Segments and Targets
8.	Creating Brand Equity

9.	Crafting the Brand Positioning 2
10.	Developing Competitive Strategies
11.	Setting Product Strategy
12.	Designing and Managing Services
13.	Developing Pricing Strategies and Programs
14.	Designing and Managing Integrated Marketing Channels
15.	Managing Retailing, Wholesaling, and Logistics
16.	Designing and Managing Integrated Marketing Communications
17.	Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations
18.	Managing Personal Communications: Direct and Interactive Marketing, Word of Mouth, and Personal Selling
19.	Introducing New Market Offerings
20.	Tapping into Global Markets
21.	Managing a Holistic Marketing Organization for the Long Run

Apart from the above-mentioned functional areas modern organizations have introduced another functional area based on the extensive use of the information technology. This fifth function is:

5. Systems Management:

A system consists of several components or subsystems which depend on each other. A system is defined as a unified whole or set of interrelated and interacting elements/ components. A system processes input into outputs. Therefore, Therefore, each system consists of boundaries, components, interactions between components, inputs and outputs.

Three main categories of information systems serve different organizational levels: operational-level systems, management-level systems, and strategic-level systems. Operational-level systems support operational managers by keeping track of the elementary activities and transactions of the organization, such as sales, receipts, cash deposits, payroll, credit decisions, and the flow of materials in a factory. The principal purpose of systems at this level is to answer routine questions and to track the flow of transactions through the organization. To answer different kinds of questions, information generally must be easily available, current, and accurate. Examples of operational-level systems include a system to record bank deposits from automatic teller machines or one that tracks the number of hours worked each day by employees on a factory floor.

Because there are different interests, specialties, and levels in an organization, there are different kinds of systems. No single system can provide all the information an organization needs. Figure illustrates one way to depict the kinds of systems found in an organization. In the illustration, the organization is divided into strategic, management, and operational levels and then is further divided into functional areas, such as sales and marketing, manufacturing and production, finance and accounting, and human resources. Systems are built to serve these different organizational interests.

Module 2A PLANNING

2. Planning: Concept, Nature, Importance, Steps in Planning, types and premises, Decision making – concept, process and techniques; Management by objectives (MBO); Corporate planning; Environment analysis; Strategy formulation; strategic planning-concept; Types of Decision Making –concept, techniques; barriers to effective planning and remedial measures.

1. WHAT IS PLANNING?

A plan is usually a statement of the things to be done and the sequence and timing in which they should be done in order to achieve a given end. Planning involves developing goals and objectives, selecting correct strategies and programmers to achieve the goals, determining and allocating the limited resources of organization to the activities for achieving goals and objectives. It is also required that plans are communicated to all concerned. Planning thus precedes all efforts and action, as it is the plans and programmers that determine the kind of decisions and activities required for the attainment of the desired goals. It lies at the basis of all other managerial functions including organizing, staffing, directing and controlling.

According to Stoner, “Planning means that managers think their actions in advance. Their actions are usually based on some method or logic rather than on a hunch.” In the context of the formal organizations, the concept of planning has a specific connotation. It means deciding in advance what is to be done in future for a determined period (called planning period) and then considering necessary steps to do the things decided upon. Planning means visioning ahead into the far and near future and trying to anticipate the appropriate course of action.

Formally, planning may be defined *as the process by which managers set objectives, make an overall assessment of the future and develop various courses of action to achieve the short as well, as the long term objectives of the organizations.*

From the definition it follows that the planning process simply involves:

i) the determination of appropriate goals and objectives and

ii) the optimum period of time to achieve them.

According to Koontz, O'Donnell and Weihrich, *"Planning is an intellectually demanding process; it requires the conscious determination of courses of action and the basing of decisions on purpose, knowledge and considered estimates".*

2. Importance or Benefits of Planning

Planning is the key to an organization's success. In fact, most the organization's achievements can be attributed to the successful planning. Almost all types of organizations develop plans and work closely following it in order to accomplish their goals. The importance may be outlined as follows:

Planning---------

1. Provides direction: Planning provides a clear sense of direction to the activities of the organization. It guides the groups of activities in the chosen paths for the achievement of desired goals.

By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organization has to do and what they must do to achieve those goals. Departments and individuals in the organization are able to work in coordination. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its desired goals.

2. Planning facilitates decision making: Planning provides opportunities to examine and analyses the various alternative courses of action and identifies their optimality and consequences. This expands the decision-making horizon of the managers in the organization.

Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

3. Allocates resource optimally: Planning provides absolute opportunity of allocation of resources that ensures optimal utilization and minimizes cost and wastage. Planning gives details starting from the procurement, maintenance and finally utilization of the resources.

4. Reduces uncertainties and ambiguities: Planning provides the necessary guidelines for the activities in the organization. It not only tells what to do and when to do but also answers why to do. In a way it clarifies the uncertainties and confusions regarding the complex functioning of the organization.

Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance, the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

5. Planning reduces overlapping and wasteful activities: Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimized or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

6. Minimizes unstructured and impulsive decisions: Planning provides structure to the managerial decision making process. In the course it reduces the unstructured decisions and the impulsive actions taken in the organization.

7. Planning promotes innovative ideas: Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

8. Brings systems and disciplines: Planning eliminates any possibility of arbitrary actions devoid of any direction. Planning also insists on systemized and discipline functions towards the selected goals and objectives. Thus, it also increases the efficiency of the process.

9. Planning establishes standards for controlling: Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organizing, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

3. Nature of Planning

The planning function of the management has certain special features. These features throw light on its nature and scope. The nature of planning can be understood by focusing on its following aspects:

1. Planning is a Continuous Process:

Planning deals with the future, and future, by its very nature, is uncertain. Although the planner bases his plans on an informed and intelligent estimate of the future, the future events may not turn out to be exactly as predicted. This aspect of planning makes it a continuous process.

2. Planning focuses on achieving objectives: Organizations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organizational goals.

3. Planning is a primary function of management: Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.

4. Planning is pervasive: Planning is required at all levels of management as well as in all departments of the organization. It is not an exclusive function of top management nor of any particular department.

5. Planning is futuristic: Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organization. It implies peeping into the future, analyzing it and predicting it. Planning is, therefore, regarded as a forward-looking function based on Types of Decision Making.

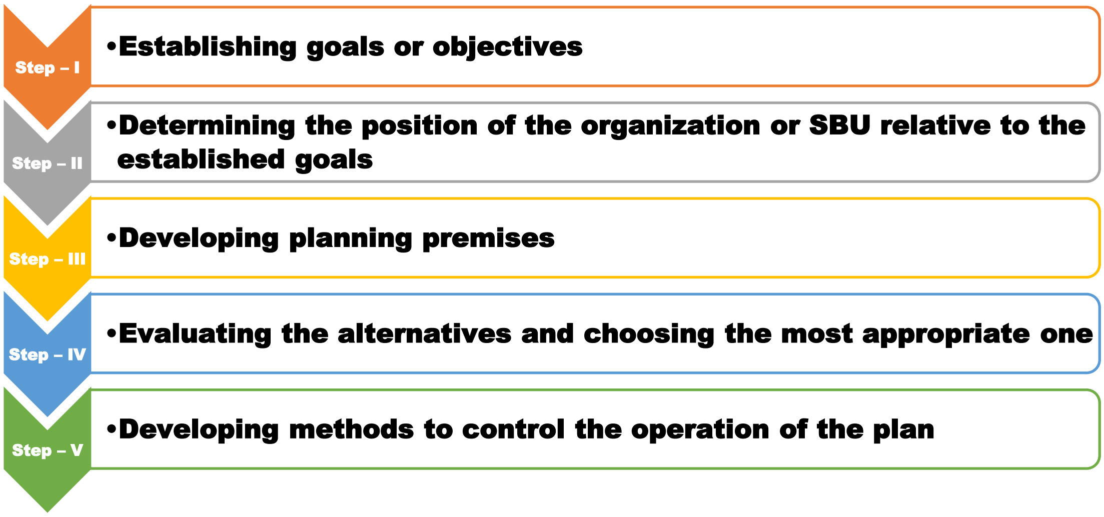
6. Planning involves decision making: Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available. In actual practice, planning presupposes the existence of alternatives. Planning, thus, involves thorough examination and evaluation of each alternative and choosing the most appropriate one.

7. Planning is a mental exercise: Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking. In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.

4. The Planning Process

Planning has undoubtedly been proved to be a very important activity at all the levels of the organization. There are a few definite steps that the management should follow in order to develop a comprehensive plan for the organization. These steps formulate the basic planning process in the organization. The basic process of planning involves the following steps:

Step – I. Establishing goals or objectives: Objectives may be referred as the derived outcomes that the organization expects to achieve e. This refers to the determination of the short term and the long term wants or needs of the organization and the strategic business unit (SBU). Organizational objectives are often considered as the final destination since they serve as the focal point for all the decisions and activities of the organization. Corporate growth, profitability, market expansion etc. are some of the important organizational objectives.



Step – II. Determining the position of the organization or SBU relative to the established goals: Corporate goal cannot exist in vacuum. Goals are needed to be evaluated in terms of organization's actual and potential abilities. Thus, once the goals are established, the organization must evaluate it in the light of the capacity of the organization or SBU. There are number of tools and processes available to conduct this evaluation "Strength-Weakness-Opportunities-Threats" (SWOT) analysis, Capacity Audit are some of the effective processes. Organization is also required to make forecasts and projections of the future trends of the organizational activities in all the areas.

Step – III. Developing planning premises: Premises are the assumptions about the organizational environment, i.e. about the environment in which the organization exists. The activities of the organization are continually influenced by the changing business environmental factors compelling it to consider alternative courses and reviews. Environmental factors may be either internal or external. Internal factors develop within the organization or due to the consequences of the past actions of the organization. On the other hand, external factors develop outside the organization and often beyond the control of the organization.

Organizational planning must have provisions of anticipation of such factors and also must have several alternate plans to cope such contingencies.

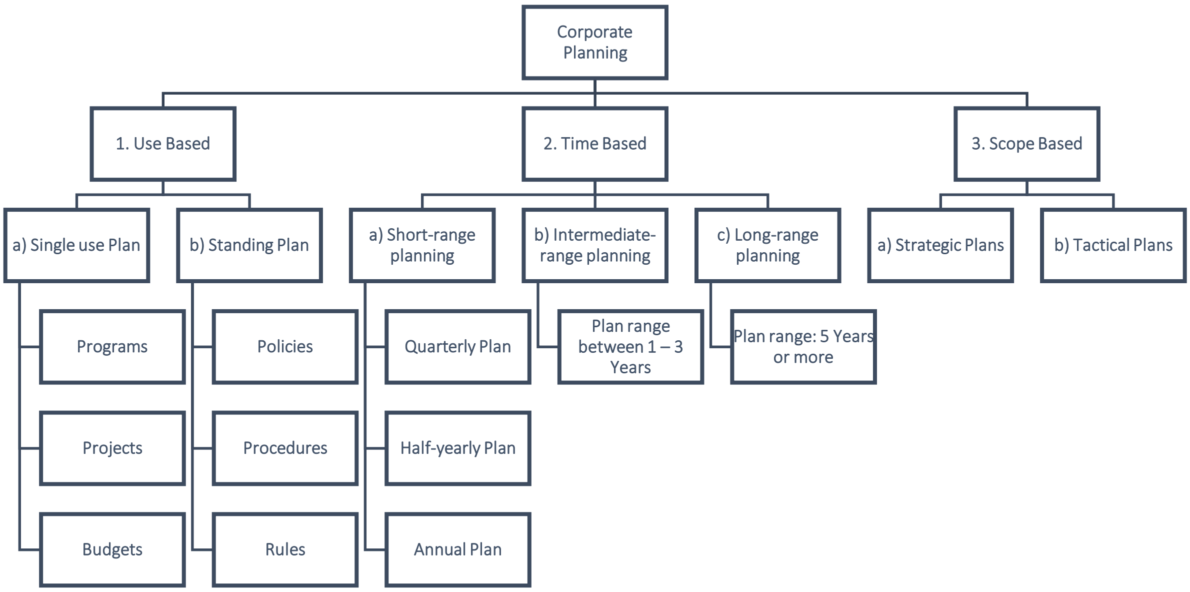
Step – IV. Evaluating the alternatives and choosing the most appropriate one: When the existing plan is found not feasible, the managers must develop several alternatives from the provisions made in the former step. These alternatives must be realistic and each one should able to cop the cause for which the alternative has been adopted.

After drawing up a set of feasible alternatives a manager has to evaluate and compare them. The comparison should be done on the basis of optimization, realistic approach, available resources, and maximum derived benefits. The most appropriate alternative is usually selected on the basis of the above-mentioned parameters.

Step – V. Developing methods to control the operation of the plan: The progress of the implementation of the plan must be closely monitored. This is done by controlling the activities of the organization in the light of the plan. Controlling refers to the process of measuring and monitoring the actual happenings in comparison with pre-determined objectives, plans, and standards for taking any required corrective actions. It involves round-the-clock analysis and measurement of the operations and comparing with the standards. It ensures that the plans are properly implemented and executed.

5. Types of Planning:

Every business manager will have to plan for the future to some extent. Company planning go under the name **corporate planning.** This planning enables the business manager to eliminate uncertainty regarding the future and thus take relational decision on the basis of such forecast. Corporate or strategic planning is classified on the basis of the followings (1) use, (2) time, & (3) scopes. Different types of plans are represented in the figure below:



Classification of Planning

i) Use-based Planning: Plans are often divided into two broad categories on the basis of their usage: a) single use plans and b) standing plans.

a) Single use plans: These are basically predetermined courses of actions developed for non-recurring situations. Programs, Projects, Budgets are the examples of these types of plans.

Programmed: A programmed is a large-scale single use plan involving numerous interrelated activities.

i) Projects: project is a single-use plan, i.e. a component of a programmed and that is on a much smaller scale than a programmed.

ii) Budget: A budget is simply a statement in quantitative and usually financial terms of the planned allocation and use of resources. It may be defined as a financial plan listing the detail of the resources and funds assigned to a particular programmed, project, product, or division.

b) Standing plans: These are predetermined courses of action developed for frequently recurring situations. Policies, procedures, and rules are the examples of standing plans.

i) Policies: Policies refer to statements of purpose, aims, principles, or intentions which serve as continuing guidelines for management in accomplishing objectives. It may be defined as the general guidelines for decision making in organization. Some of the policies of the business organizations are so important that they are imbedded in the corporate charter, in its by-laws, or articles of association.

ii) Procedures: Procedures are guides to action which specify in detail the manner in which activities are to be performed. They emerge from the needs to establish chronological sequences of detailed instructions necessary for the successful carrying out of any activity.

Policies are relatively general, reasonably permanent managerial plans. Procedures are relatively more specific but comparatively permanent managerial plans.

A policy details a field of action determining the objectives and limiting the areas of action. Procedures are stipulated sequences of definite acts. They have chronological sequences.

iii) Rules: Rules are the simplest kind of standing plans. They are statements that a specific action must or must not be taken in a given situation, defined by definite parameters. They act as substitutes to thinking and decision making and thus serve as guides to behavior. Rules state specific actions or non-actions for particular situations.

ii) Time-based Planning: Time enters as an important variable in the process of planning for business organizations. The time required to develop a new product, or to adopt new technology, to expand business in new markets, to construct a new plant varies widely. Plans for the above-mentioned cases may be classified based on time. The length of the planning period is determined by the "commitment principle" proposed by Harold Koontz & Cyril O'Donnell (1955). The principle states that an organization should plan for a period of time in the future sufficient to fulfil the commitments of the organization which result from current decisions.

Depending on the approximate length of the time period planning can be classified into three types: a) short-range planning, b) intermediate range planning c) long-range planning.

a) Short-range planning: When the objectives of the plans are to be met within the year or less, the plans are said to be short-range plans. Business organizations may have production targets, sales targets on the basis of the quarter of a year, half year, or for the whole year.

b) Intermediate-range planning: For certain types of plans the time frame for attaining the objectives may vary from one to three year. These are intermediate-range plans. Modernization of production facilities, introduction of new methods, processes, and technologies and development of new products are some of the classic examples of intermediate-range planning.

c) Long-range planning: Some of the plans of the organizations do not focus on the achievement of the immediate objectives. They try to predict the future trends and align the objectives accordingly. These are termed as long-range plans. A long-rang plan is superimposed upon the foundations of short and intermediate-range plans, all attainable with specified time period.

iii) Scope-based Planning: Plans may also be categorized by scope or breadth. Some of the plans are very broad with variety of scopes, focusing on crucial organizational objectives. Other category of plans tries to specify how the organization will mobilize itself to accomplish the objectives. In the above-mentioned context scope-based plans may be classified as a) strategic planning and b) tactical planning.

a) Strategic Planning: Strategic planning may be defined as "the process of determining the major objectives of an organization and adopting the courses of action and allocating the resources necessary to achieve the objectives.

Strategic planning is the process that includes a set of interactive and overlapping decisions leading to the development of an effective strategy for a firm. The process of strategic planning includes the following factors:

1. the determination of the firm's mission;
2. the selection of goals or objectives the firm wishes to pursue;
3. the identification of opportunities and threats arising out of the firm's external environment;
4. an assessment of the internal strengths and weaknesses of the firm;
5. the choice of alternatives the firm wish to pursue;
6. the development of an operational plan to facilitate achievement of the firm's objectives; and
7. the design of a control or feedback system to monitor the firm's performance while the strategic plan is being implemented.

b) Tactical Planning: The tactical planning of an organization mainly focuses on how the predetermined objectives may be accomplished. The term 'tactics' refers to detailed plans and approaches to the implementation of decisions and the best way of achieving results. Similarly, "tactical planning" refers to the implementation of activities and the allocation of resources necessary to achieve organizational objectives. It helps to formulate more specific, functional, sub-plans to implement the strategies of the enterprise. It is limited in its scope and consists of detailed decisions and actions initiated at the lower managerial levels of the organization to tackle the operational functioning of the organization

The end result of strategic planning is to provide the organization with an overall context for the development of more specific plans, policies, forecasts, and budgets. The strategic planning focuses upon what the organization will be doing in the future. On the other hand, tactical planning process emphasizes on how those activities will be carried out with a view of accomplishing organizational goals.

Although the two types of planning are different, there is need to integrate the two into one overall system with a view to accomplishing organizational objectives. The development of tactics is largely based on the strategic planning. The managers should keep both strategic and tactical plans sufficiently flexible to allow adjustments for the changing environmental factors.

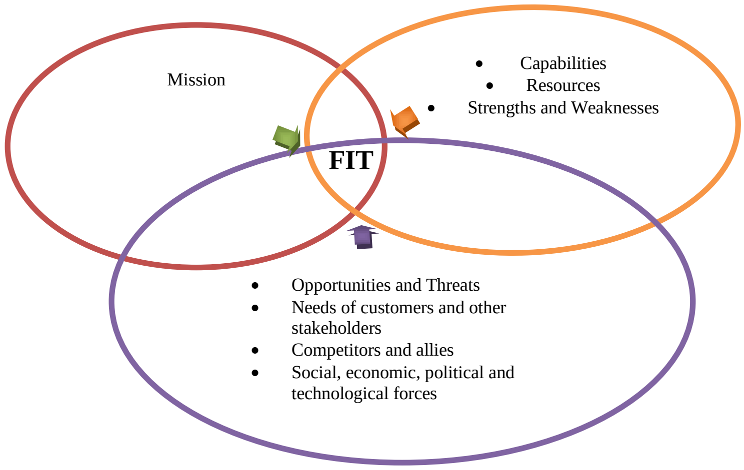
6. A Detailed Anatomy of Corporate Strategic Planning

Strategic planning is one of the most challenging – and exciting – exercises an organization can undertake. Strategic planning allows an organization to make fundamental decisions or choices by taking a long-range view of what it hopes to accomplish and how it will do so.

A strategic plan is built on a thorough analysis of the organization's existing structure, governance, staff, program or service mix, collaborations, and resources (financial, human, technical, and material). This analysis is vital because it allows an organization to perceive which of its above aspects it must change in order to achieve its goals. A well-developed strategic plan serves as a blueprint for making these changes because it describes the following:

- A vision for the future
- Strengths and weaknesses of the organization
- The nature of the changes contemplated for future sustainable growth and development
- The sequence of these changes
- Those who are responsible for guiding change
- The resources required, whether they currently exist within the organization or must be generated from external sources.

A strategic plan represents an organization-wide consensus among staff, directors, and other stakeholders concerning what represents success and how it is to be achieved. It therefore allows a manager to approach the strategic plan's activities with confidence. Strategic plans must be institutionalized so that they serve as the basis for performance standards, decision-making, planning, and resource mobilization and allocation. Strategic plans must also be systematically reviewed and revised so they remain topical, relevant, and "cutting edge."



i) benefits of strategic planning

Motivating employees:

Thinking about the future is a stimulating and energizing process. It can create a shared vision, with concrete ideas about how to surmount obstacles in order to achieve that vision.

Building a planning team with a common vision:

The strategic plan that emerges from the process is generally more realistic and achievable, and working or interdependent relationships within the organization are strengthened.

Confronting key issues and solving problems:

Strategic planning sets in motion a dynamic process that allows the organization to continually reassess, confront change, and grow within an agreed-upon framework.

Defining roles and responsibilities:

Measurable performance objectives are set and the person(s) who is responsible for specific activities is identified.

Challenging the status quo:

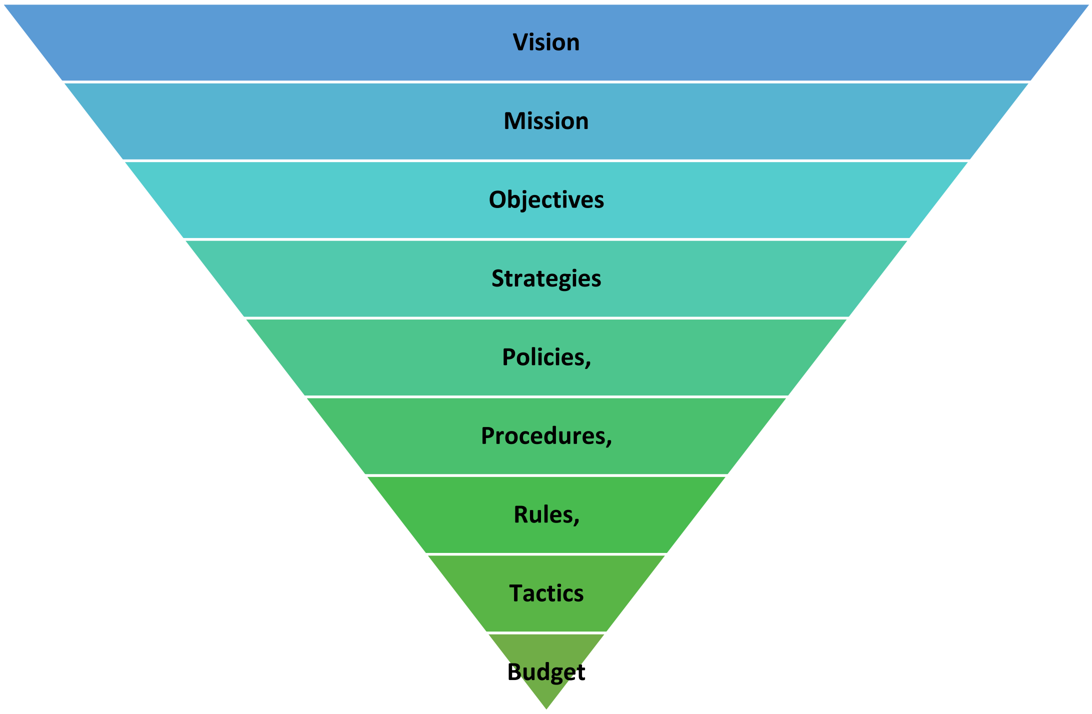
The strategic planning process creates an open atmosphere, stressing the interests of the whole organization. It often answers the question "How can we do things better?" in a more systematic and thorough way.

Futuristic Movement:

It allows managers and policy makers to concentrate exclusively on the organization's future for a short period of time, meaning that they will be able to focus their expertise and insights on self-assessment and planning future directions.

Marketing Tool:

A thoughtful and clear strategic plan is often a good marketing tool and can encourage investor support for the organization and its future directions.



ii) The Hierarchy of Strategic Plan

The above Figure explains the hierarchical structure of the strategic plan The Hierarchy starts with the vision of the organization and end with the financial outlay that is the budget.

1. Vision:

A vision articulates the position that an organization would like to attain in the distant future. It helps in creating a common identity and a shared sense of purpose. A good vision is one which foster risk taking and experimentation. It answers the question: 'What will success look like?'

The vision of an organization must possess the following characteristics:

It is created by consensus.

- It forms a company's future mental image.
- It forms the basis for formulating the mission statement.

It should be inspiring.

- It should foster long term thinking.
- It should be original and unique.
- It should be competitive.
- It should be realistic.

2. Mission

Mission refers to the purpose of an organization. Mission states the business reason for the organization's existence. It relates the organization to the society. The mission of an organization should aim high and at the same time it must be realistic. It should provide a strategic direction for the organization.

According to Koontz & Q' Ponnell "Mission is the fundamental work given by the society to an organization".

In order to be effective, a mission statement should possess the following characteristics:

(i) A mission statement should be realistic and achievable. Impossible statements do not motivate people.

(ii) It should neither be too broad not be too narrow. If it is broad, it will become meaningless. A narrower mission statement restricts the activities of organization. The mission statement should be precise.

(iii) A mission statement should not be ambiguous. It must be clear for action. Highly philosophical statements do not give clarity.

(iv) A mission statement should be distinct. If it is not distinct, it will not have any impact. Copied mission statements do not create any impression.

(v) It should have societal linkage. Linking the organization to society will build long term perspective in a better way.

(vi) It should not be static. To cope up with ever changing environment, dynamic aspects should be considered.

(vii) It should be motivating for members of the organization and of society. The employees of the organization may enthuse themselves with mission statement.

(viii) The mission statement should indicate the process of accomplishing objectives. The clues to achieve the mission will be the motivating factor.

3. Objectives

Objectives are the end results of a planned activity. They are stated in quantifiable terms. Objectives are stated differently at various levels of management. Objectives play a very important role in enhancing the efficiency and effectiveness of an organization. Objectives in a corporate plan must follow SMART criteria:

a) They must be specific (**S**)

b) They must be measurable (**M**)

c) They must be attainable (**A**)

d) They must be reliable (**R**) and

e) They must be time bound (**T**)

There are many factors which have an impact on the formulation of objectives in an organization. These factors are kept in mind before making objectives. These factors are mentioned as below:

- Size of the organization.
- Level of management
- Organization culture
- Social responsiveness

Objectives for a business organization may be of various types. Some of these are explained as below:

1. Profit Objective: It is the most important objective for any business enterprise.

In order to earn a profit, an enterprise has to set multiple objectives in key result areas (KRA) such as market share, new product development, quality of service etc. These may also be termed as performance objectives.

2. Marketing Objective: may be expressed in terms of percentage increase or decrease in market share. They are related to a functional area.

3. Customer Satisfaction: Satisfying customers with their products and services is one of the principle objectives of the organizations.

4. Productivity Objective: may be expressed in terms of ratio of input to output. This objective may also be stated in terms of cost per unit of production.

5. Product Objective: may be expressed in terms of product development, product diversification, branding etc.

6. Social Objective: may be described in terms of social orientation. It may be tree plantation or provision of drinking water or development of parks.

7. Financial Objective: relate to cash flow, debt equity ratio, working capital, new issues, stock exchange operations, collection periods, debt instruments etc.

8. Human resources objective: may be described in terms of absenteeism, turnover, number of grievances, strikes and lockouts etc. For example: the objective may be to decrease the rate of absenteeism.

4. Strategies

Organizations need roadmap to attain the pre determined set of objectives. Strategies are alternative paths or avenues to achieve a particular goal or objective. Over a period of time academicians as well as practitioners provided a number of definitions for strategies. However, the definition provided by Ansoff & McDonnell (1990) appears to be most comprehensive to express the essence of corporate strategy:

"Strategy is a set of rules for decision making to guide the behaviour of an organization. There are four distinct types of rules: standards by which the present and future performance of the company is measured (objectives, targets); rules for the development of relationships with the

external environment (product strategy and marketing, or business strategy), rules for establishing relations and internal processes in the organization (organizational concept); and rules by which the company shall conduct its activities in the day-to-day (operational policies).”

5. Policy, Procedure & rules:

Policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Policy also deals with acquisition of resources with which organizational goals can be achieved. Corporate policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

Procedures are fixed, step-by-step sequence of activities or courses of action (with definite start and end points) that must be followed in the same order to correctly perform a task. Repetitive procedures in organizations are called routines.

Rules are Authoritative statement of what to do or not to do in a specific situation, issued by an appropriate person or body. It clarifies, demarcates, or interprets a law or policy.

6. Tactics:

Tactics are the practical actions to implement the formulated strategies. These are goal directed actions which may be optimized through corporate planning.

7. Budget:

Budget is the time bound estimate of the income and expenditure of the business. A budget systematically represents various areas where expenses are to be made and identifies the sources from where income will generate.

iii) Steps in Strategy Formulation

- Step-1 • **Setting Organizations' objectives**
- Step-2 • **Evaluating the Organizational Environment -**
- Step-3 • **Setting Quantitative Targets -**
- Step-4 • **Aiming in context with the divisional plans -**
- Step-5 • **Performance Analysis -**
- Step-6 • **Choice of Strategy -**

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. The process of strategy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

Step-1: Setting Organizations' objectives - *The* key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

Step-2: Evaluating the Organizational Environment - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position.

After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

***Step-3: Setting Quantitative Targets* -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

***Step-4: Aiming in context with the divisional plans* -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

***Step-5: Performance Analysis* -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization.

***Step-6: Choice of Strategy* -** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

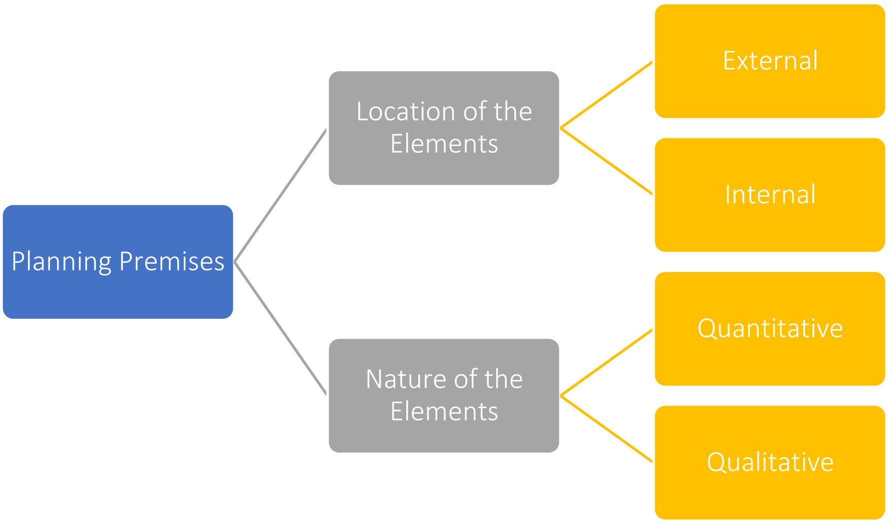
7. Planning Premises:

Premising is the formal recognition that managing organization is an open-system approach to organized activities. Traditionally, business organizations used to focus only on the economic and demographic factors of the environment. Little emphasis was given on the technological, social, political, and ethical factors of the environment. Only in the recent times managers have started to recognize that all the elements of the environment have considerable influence the implementation of the plans. Hence the management must be responsive to the present environment.

i) Types of Premises

Planning premises may be classified as those which are internal to the organization and those which are external to the organization. At the same time premises may also be classified as quantitative and qualitative.

External premises may be classified into three groups: the general environment consisting of economic, technological, political, and social conditions; the consumer market, which includes conditions influencing demand for the goods and services offered by the organization, ; the factor market consisting of land, location, labor, materials, parts and capital.



Internal planning premises include items like capital investment in plant and equipment, strategies, policies, and major programs, anticipated changes in the organization structure, change in production capacity etc.

The tangible planning premises that can be measured and quantified in definite numbers may be called ***quantitative premises***. Revenue or profit margin in rupees, labor and machine hours, definite type of technology, quantity of materials etc. are examples of these.

Factors those are difficult or impossible to be quantified may be called ***qualitative premises***. Attitude of the consumers, political and cultural changes, ethical shift, etc. are examples of qualitative premises.

8. Management by Objectives (MBO):

It may be noted at the outset that the technique known as *management by objectives* is based on the term ‘objectives’. Very few management techniques have received as much publicity and popularity in the last three or four decades as *management by objectives* (MBO).

i)Meaning & nature of MBO

Although the ideas that led to MBO were contributed by Donaldson Brown and Alfred P. Sloan in the 1920s and Edward Hagen in the 1930s, it was Peter Drucker who first used the term in 1954."

MBO also goes by various other names such as management by results, managing fir results, goals management, and work planning and review. From a large number of concepts and ideas, MBO can be defined as "*a process whereby the superior and subordinate managers of an organization identify common and mutual goals, define areas of responsibility in terms of expected outcomes, use these measures as guides for operating the unit and assessing the contribution of each member, and to formulate a new set of goals in the light of the feedback from the process."*

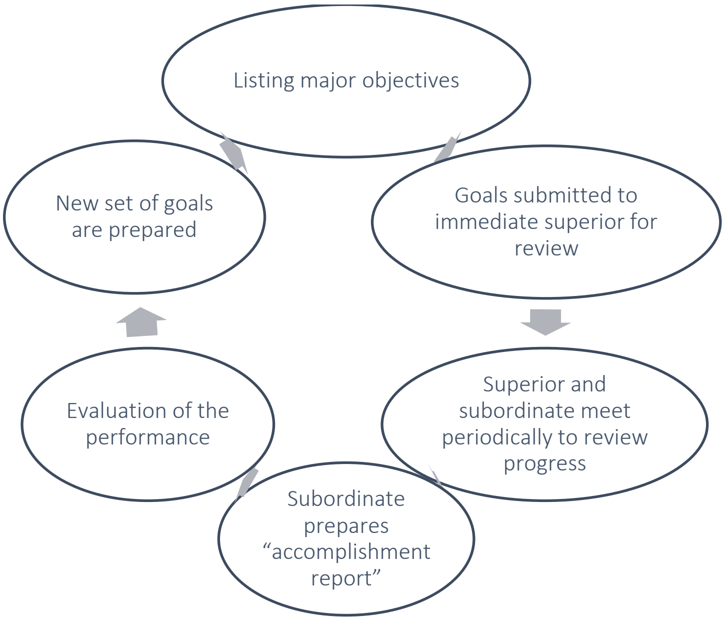
Following characteristics can be identified of an MBO process:

a) Objectives are determined in terms of measurable outcomes.
b) The indicator of the outcomes or the methods of measuring the outcomes are specified as the part of the objectives.
c) The time period for accomplishing the predetermined goals must be specified.
d) The objectives should be documented and they must be revised at a regular interval of time.
e) A set of objectives should include regular and routinized goals along with new development goals.
f) Each of the objectives must be weighted or prioritized.
g) Objectives must also contain a plan of action for accomplishing desired outcomes.

MBO processes are basically designed to "improve employees' motivation through their participation in setting their individual goals and knowing in advance precisely how they will be evaluated."

ii) Process of MBO

MBO refers to a formal procedure in which a manager (subordinate) and his immediate superior periodically reach mutual agreement on specific and measurable goals or objectives which the subordinate manager is expected to attain in the next planning period. The set of objectives are documented. At the end of the specific period, the subordinate and superior meet again to conduct the appraisal of the activities. The set of objectives are revised and agreed upon. Following are the steps of the MBO process:



Step-I: Individual lists major objectives for coming period with target dates for accomplishing them.

Step-II: Goals are submitted to immediate superior for review. Discussions are held between superior and subordinate and result in mutually agreed-upon set of goals.

Step-III: Superior and subordinate meet periodically to review progress and make revisions or update goals as required.

Step-IV: At the end of the stipulated plan period subordinate prepares "accomplishment report" sating major achievements and observation on deviances between expected and actual performance.

Step-V: The complete evaluation of the performance is done in the meeting between subordinate and superior. The reasons for the success or the failure to achieve targets are explored and documented.

Step-VI: New set of goals are prepared for the next stipulated plan period.

iii) Benefits of MBO:

A. For the organization

a) It improves the potential for achieving objective and organizes managers' effort on the right set of objectives.
b) It assists to identify human resource development needs and provides data on the basis of which the employees can be rewarded.
c) It enables the organization to identify the internal strengths and weaknesses and facilitates the ability to introduce appropriate changes.
d) It coordinates between planning, organizing and controlling process, maintains formal, vertical communication channels, and works as the motivational tool of managers.

B. For the subordinates

a) MBO enhances job satisfaction and motivates the employees.
b) MBO clearly defines the duties, responsibilities, authority, and accountability associated with the job and acts as classic on-the-job training for the employees.
c) It provides the formal commutation opportunities to employees with their bosses.
d) MBO encourages leadership and team-building qualities of the employees.

C. For the superiors

a) It sharpens the coaching, mentoring, and leadership ability of the superiors.
b) It helps the superior to identify the training need of the employees and provides a clear and objective basis for appraising their performance.
c) MBO helps to retain control over the work process.
d) It enhances communication with the subordinates.

iv) Weaknesses of MBO:

However, experiences with MBO programs are not always satisfactory. Empirical evidences available so far indicate that MBO programs can make significant contribution to the organization if used with proper judgement and adequate preparation. The weakness of MBO can be traced to the following areas:

a) Inadequate top-management support: Often top-management introduces MBO without adequate experience to handle the process. Both the parties involved become equally confused what to and how to do. It ultimately results in loss pf man-hour and productivity.

b) Poorly defined objectives: The objectives must be measurable, realistic, and significant to the organization. If they do not have these properties the programme loose stem in the midway and both superior and subordinate get disinterested. Moreover, unrealistic and insignificant objectives will have negative impact in organizational functions.

c) Lack of faith and commitment: The parties involved must believe in MBO. The programme can only be successful when both the parties are committed to the programme itself.

9. Limitations of Planning

Despite the fact that planning is a very comprehensive process to manage any organization it has a few limitations like any process. Following limitations can be identified for the process:

1. Based on certain assumptions: Planning is based on certain assumptions or premises derived from forecasts about the likely behaviour or relevant future events and variables. If such assumptions or premises turn out to be wide off the mark, the very basis of the plans gets affected.

2. Incoming information: The information required for planning is often incomplete. It may not be available in time and its reliability tends to be doubtful. In several situations, managers are forced to make planning decisions on the basis of the partial knowledge because of time lags and credibility gaps in information flow.

3. Lack of control: Managers have little knowledge and less control over several elements of external environment. There is often no way to bring external situations under the discipline of planning. Several external events tend to influence organizational activities and plans in random and perverse ways, as for example, natural disasters, strikes, government policy changes, and so on.

4. Difficult to change with changing environment: Planning, under the conditions changing in the external environment becomes difficult. Plans become quickly outdated and irrelevant, even before they are incorporated. Despite the fact that there are options of flexible and contingency plans, there are also limits to the degree of flexibility and contingency.

5. Fluid process: Planning is essentially a 'fluid process' in the sense that it is always in a state of flux. This is due to the fact that with the passing of time there are subtle changes and adjustments which characterizes a plan. However, it is not easy to visualize an integrated view of the past, present, and future for planning purposes.

***6. Delay in actions*:** Elaborate plans often delay the real actions. Particularly, in some unprecedented, emergency situations there seldom exist any scopes for planning. Many action-oriented managers express their reservation on planning as it tends to retard the work process and becomes barrier to take immediate decision.

7. Rigidity: Organizations, which strictly follow the copybook process of planning often, introduce rigidity in the functioning of the organization. These organizations show inclination on strict compliance with the pre-determined plans. This may sometimes result in missed opportunities and vulnerability to threats. A faithful conformity with plans would stifle initiatives beyond the established ways and routines.

8. Difficulty in implementation: It may be easy to formulate elaborate plans. Problems usually arise when managers try to implement them at the functional and unit levels. In day-to-day functioning of the organizations there are a number of tactical moves and actions that may fundamentally contradict with the documented plans. In those cases, implementation of plans certainly becomes difficult if not impossible.

10. Barriers to Effective planning

Various barriers can inhibit successful planning. In order for plans to be effective and to yield the desired results, managers must identify any potential barriers and work to overcome them. The common barriers that inhibit successful planning are as follows:

Dynamic and Complex Environments:

Perhaps the most important barrier to effective planning is the nature of an organization's environment. When, for instance, an electronics firm develops a long-range plan, it tries to take into account how much technological innovation is likely to occur during the time period of planning.

Reluctance to Establish Goals:

The second barrier to effective planning is the reluctance on the part of some managers to establish goals for themselves and their units of responsibilities. The main reason for this reluctance is lack of confidence or fear or failure.

Resistance to Change:

This is the third major barrier to the planning process. Any type of organizational planning involves changing one or two aspects of its current situation. Managers resist change for three main reasons, viz., fear of the unknown, a preference for familiar goals and plans, and, economic insecurity.

Inability to plan or inadequate planning: Managers are not born with the ability to plan. Some managers are not successful planners because they lack the background, education, and/or ability. Others may have never been taught how to plan. When these two types of managers take the time to plan, they may not know how to conduct planning as a process.

Lack of commitment to the planning process: The development of a plan is hard work; it is much easier for a manager to claim that he or she doesn't have the time to work through the required planning process than to actually devote the time to developing a plan. (The latter, of course, would save them more time in the long run!) Another possible reason for lack of commitment can be fear of failure. As a result, managers may choose to do little or nothing to help in the planning process.

Inferior information: Facts that are out-of-date, of poor quality, or of insufficient quantity can be major barriers to planning. No matter how well managers plan, if they are basing their planning on inferior information, their plans will probably fail.

Focusing on the present at the expense of the future: Failure to consider the long-term effects of a plan because of emphasis on short-term problems may lead to trouble in preparing for the future. Managers should try to keep the big picture — their long-term goals — in mind when developing their plans.

Too much reliance on the organization's planning department: Many companies have a planning department or a planning and development team. These departments conduct studies, do research, build models, and project probable results, but they do not implement plans. Planning department results are aids in planning and should be used only as such. Formulating the plan is still the manager's responsibility.

Concentrating on controllable variables: Managers can find themselves concentrating on the things and events that they can control, such as new product development, but then fail to consider outside factors, such as a poor economy. One reason may be that managers demonstrate a decided preference for the known and an aversion to the unknown.

Constraints: Another major obstacle to planning arises due to constraints that limit what an organization can do. For example, an organization may have such a heavy investment in plant and equipment that it cannot acquire new equipment. Labor contracts can also be major constraints. Other possible constraints include governmental regulations, a shortage of managerial talent, and a scarcity of raw materials.

Time and Expense: Another barrier to effective planning is that good planning is time-consuming and expensive. Good planning often fails for lack of funds. A planning system often requires for instance, technical expertise or a database that are to be acquired at a cost.

Psychological Difficulties: These difficulties mainly arise from lack of confidence among planners. If there is a fear of the future and unknown there may be a preference for day-to-day activities as opposed to looking into a dim future. Moreover, the fear to adding to one's work load may also inhibit the desire to plan.

Technical Problems:

Such problems which occur frequently are a major source of difficulty for the managerial planner. If the manager is deficient in organizing ability he will be unable to understand or solve some of the technical organizational problems which accompany planning.

Alternatively, if he lacks training in the effective utilization of this time, he cannot solve the technical demands of arranging time in order to cope with the burdens of planning. In addition, a manager may lack the technical skills necessary to understand the nature of the objectives for which planning is needed.

Misunderstanding:

A misunderstanding of the planning process can lead to other kinds of difficulty for the manager. Some managers feel that planning is not really necessary. They often believe that planning relies on inexact techniques of prediction, which seem, in effect, to be little better than guesswork. Still others believe that it stifles initiative and requires total adherence to others' estimates of the future.

Lack of an Appropriate 'Planning Climate':

Other difficulties associated with managerial planning arise due to lack of an appropriate 'planning climate' within the organization as a whole. There may be lack of top management support. The manager's superiors may, for instance, be perceived as being uncommitted or even hostile to planning and to the use of objectives.

11. Remedial Measures

1. Starting at the Top:

Most plans fail largely due to lack of top management support. So, it logically follows that to make the planning process a success effective planning must start at the top of the organization.

2. Recognizing the Limits to Planning:

"Planning is not a panacea that will solve all of an organization's problems, nor is it an iron-clad set of procedures to be followed at any cost. Managers should recognize that good planning does not necessarily ensure success and that adjustments and expectations are to be expected as the plan unfolds".

3. Communication:

It is not enough that planning be initiated at the top. It must also be properly communicated to others in the organization.

What is really important is that everyone involved in the planning process should know what the overriding organizational strategy is, what the various functional strategies are, and how they are all to be integrated and coordinated to avoid unnecessary overlapping of planning effects or duplication of planning exercises.

4. Participation:

Line and functional managers have always some valuable and useful information to contribute. And since they are the people who execute the plans, their involvement and participation is absolutely vital for the success of planning.

Moreover, since all people are more committed to plans that they have helped to shape, even in a centralized organization or in an organization that uses a planning staff, managers from various levels in the organization should be involved in the planning process.

5. Revision and Updating:

With changing business environment there is need for constant control plan revision and updating. This means that planning has to be treated as a dynamic process in which long-range and intermediate plans are frequently revised and updated in response to new information and the completion of short-range plans.

6. Contingency Planning:

This type of planning is especially useful when environmental turbulence is likely. As Peter F. Drucker has pointed out, proper contingency planning enables the organization to avoid 'crisis' management. As he put it – "in case a contingency occurs, the prepared organization will be able to make a smooth to the appropriate contingency plan rather than having to react hastily by throwing a new plan altogether on short notice".

7. Discussion:

The manager must be helped to understand that the intuitive approach to his problems cannot always resolve present problems or prevent future difficulties.

A discussion with the manager — in which the fundamentals of planning are outlined, with emphasis on the solution of day-to-day and long-term problems — may go some way towards removing psychological barriers to planning. Illustration of successes achieved by planning, at all levels, may be given to the manager.

8. Training:

Technical barriers to effective planning can be overcome through proper training in planning techniques, particularly in relation to the definition of managerial problems and the analysis of alternative courses of action.

Practice in the interpretation of data and in simple forecasting techniques will assist in overcoming some types of difficulty. A training programmed designed to improve a manager's level of numeracy can bring about a more positive approach to the process of planning.

9. Explanation of Planning Objectives:

Misunderstanding of the nature of planning can be removed by an explanation of its objectives in terms related to the manager's own practical experience. It has to be explained to the manager that planning is but one function of management, although an important one.

10. Creation of a Planning Climate:

Fourthly, where the manager's supervisors are able to show their own involvement with planning, where they are able to formulate and publicize objectives, a 'planning climate' can be created in which the manager is stimulated to examine the nature of his difficulties and to take steps in overcoming them.

11. Use of Aids of Planning:

Finally, to make planning effective, the manager should know about some aids for developing effective plans. These are in addition to the four suggestions but forward above for overcoming the barriers. The traditional aids to planning are collecting as much information as possible, using various sources of information (internal and external) and involving others who can be helpful in the planning process.

(a) As much information as possible:

The manager can enhance the probability of having both the proper quality and quantity of information needed by acquiring as much information (data) as possible within the limits set by money and time.

(b) Multiple sources of information:

Thus, by developing multiple sources of information he can overcome the limitations brought about by focusing on a goal from one view-point only. Additional critical information can be gathered from accounting, legal, personnel and engineering departments. It is necessary to cultivate all potential sources.

The generalization is that planning is most effective when managers at all levels of the organization recognize the purposes, values and limitations of planning and when they understand the importance of treating planning as a major function of management. When this basic message is forgotten easily and quickly most plans fail.

Module-2B: ORGANIZING

1. WHAT IS ORGANIZING?

Organizing is the second managerial function after Planning. While Planning decides what to do, organizing decides how to do it. In other words, once a plan is finalized, resources are required to implement the plan. The function of organizing helps in proper allocation of resources – both man and material – in an orderly manner such that the organizational objectives are met. Clear-cut lines of authority and responsibility are spelt out so that the employees are clear about their roles, responsibilities, reporting relationships, work groups, coordination among own and other work groups, etc.

According to Koontz and Weihrich, the term Organizing is defined as:

1. The identification and classification of required activities.
2. The grouping of activities necessary to attain objectives
3. The assignment of each grouping to a manager with authority (delegation) necessary to supervise it and
4. The provision for coordination horizontally (on the same or similar organizational level) and vertically (for example, corporate headquarters, division and department in the organization structure

2. CONCEPT OF ORGANIZING

The process of organizing gives rise to a network of authority-responsibility relationships among members of the organization. This network of authority-responsibility relationships is called 'organization structure'. These various aspects of the organizing function of management are discussed here under the following two broad heads:

I. Organizing as a process; and
II. Organizing as a structure.

I. Organizing as a process

As a process, organization evolves as an executive function. The process encompasses the following activities:

(i) Determining activities necessary for the accomplishment of the business objectives,
(ii) Division of work,
(iii) Grouping of inter-related activities,
(iv) Assigning duties to persons with requisite competence,
(v) Delegating authority, and
(vi) Co-coordinating the efforts of different persons and groups.

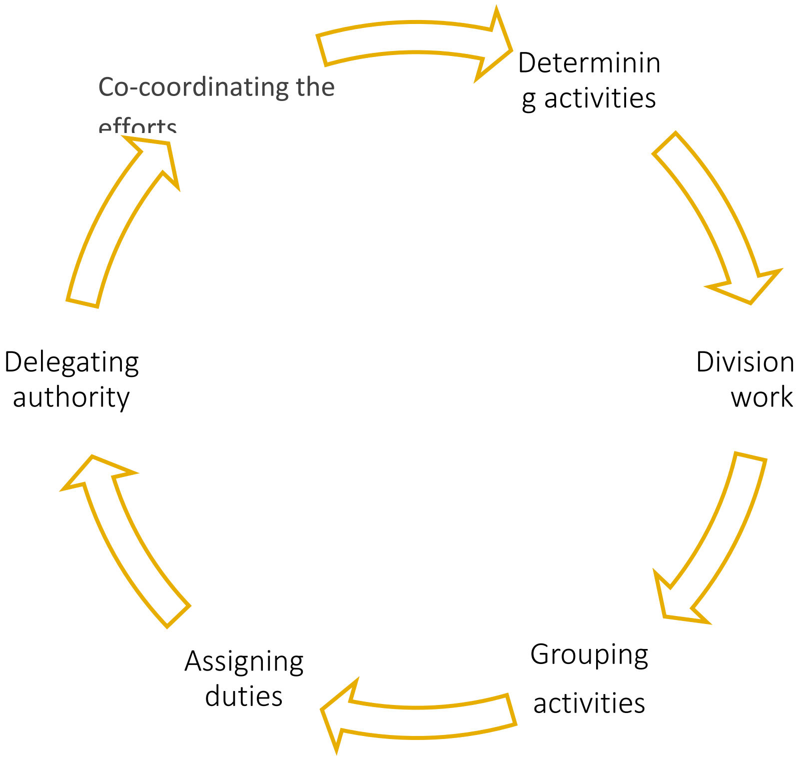


Figure-Organization as a process

Organizing is a continuous process and goes on throughout the life-time of an enterprise. Whenever there is a change in the circumstances or material change in situation, new type of activities springs up.
So, there is a need for constant review and re-assignment of duties. Right persons have to be recruited and necessary training imparted to make them competent to handle the jobs.
The process of organization thus, involves dividing the work in a rational way and integrating the activities with work situations and personnel. It also represents humanistic view of the enterprise since it is the people who are uppermost in the process of integration of activities. Continuous review and adjustment make it dynamic as well.

II. Organizing as a structure

As a structure, organization is a network of internal authority and responsibility relationships. It is the framework of relationships of persons operating at various levels to accomplish common objectives. An organization structure is a systematic combination of people, functions and physical facilities.
It constitutes a formal structure with definite authority and clear responsibility. It has to be first designed for determining the channel of communication and flow of authority and responsibility. For this, different types of analysis have to be done. Peter F Drucker suggests following three types of analysis:
(i) Activities analysis

(ii) Decision analysis
(iii) Relations analysis
A hierarchy has to be built-up i.e., a hierarchy of positions with clearly defined authority and responsibility. The accountability of each functionary has to be specified. Therefore, it has to be put into practice. In a way, organization can be called a system as well.
The main emphasis here is on relationships or structure rather than on persons. The structure once built is not liable to change so soon. This concept of organization is, thus, a static one. It is also called classical concept. Organization charts are prepared depicting the relationship of different persons.
In an organization structure, both formal and informal organizations take shape. The former is a pre-planned one and defined by the executive action. The latter is a spontaneous formation, being laid down by the common sentiments, interactions and other interrelated attributes of the people in the organization. Both formal and informal organizations, thus, have structure.

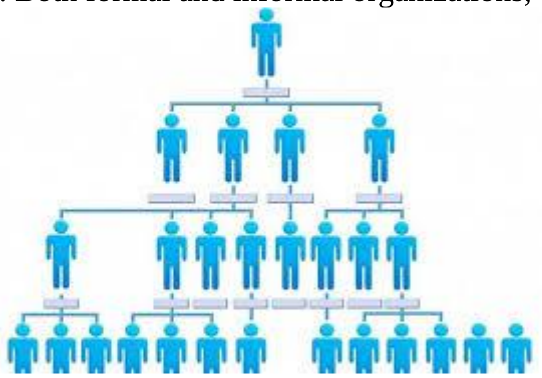


Figure-Organization as a structure

3. Nature of Organizing

The Organizing function has certain special features that throw light on its nature, as given below:

Figure-Nature of Organizing

1. Basic Function and Sub-Process of Management: Organizing follows the function of Planning and precedes Directing. Hence, it is sub-process of Management. However, Organizing is a basic function and is an indispensable component in the main process of management.

2. Continuous Process: Organizing is a function that needs to be used whenever new functions or activities are introduced or existing ones are changed.

3. Function of all Managers: All managers practice Organizing, though the level of engagement may vary according to the position they hold in the organization structure.

4. Coordination: Organizing coordinates the activities of all members in the organization structure.

5. Goal-oriented: All the activities that are part of Organizing tries to achieve the organizational goals that are set.

6. Group Effort: Organizing coordinates the efforts given by various groups to achieve the organizational goal.

7. Authority-Responsibility Relationship: Organizing establishes a network of authority and responsibility relationships among all members in the organization structure.

4. Principles of Organizing

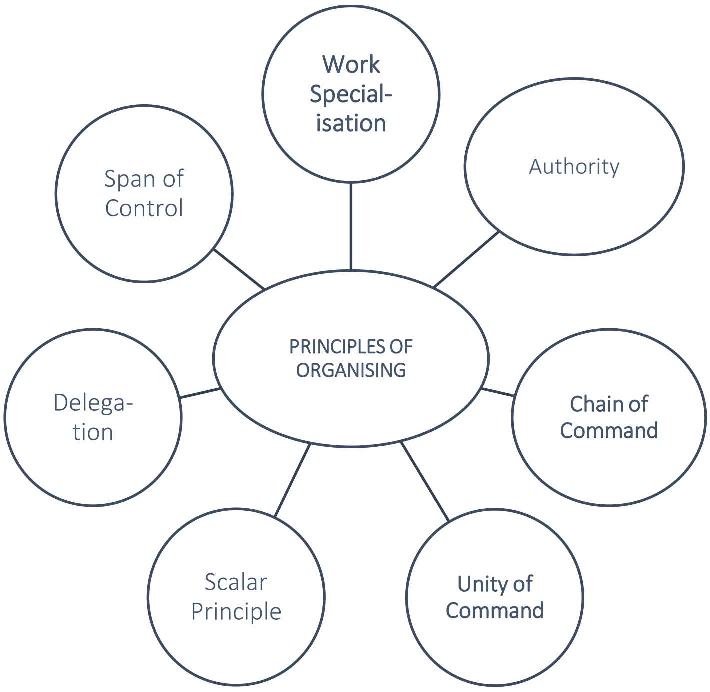


Figure-Principles of organizing

1. Work Specialization: Also known as division of labour, it means employees' tasks are divided as per their specialized functional knowledge and skill. People having similar skills are grouped together. Every department or section tries to specialize in its assigned activity. This is also known as ***Unity of Direction***. However, there is tendency to move away from such specialized groups by increasing the knowledge and skill of employees through job rotation.

2. Authority: As discussed earlier, authority is the formal and legitimate power given to a manager to issue orders to his subordinates to accomplish organizational objectives. The extent to which authority can be administered depends on the level and role of the manager. Higher the manager in the organizational hierarchy, greater is his level of authority.

3. Chain of Command: This is the unbroken line of authority that runs from the top to the bottom level of the organization, establishing the reporting relationships and a clear understanding of the expected responsibilities at each position. Responsibility and accountability are enforced through the Chain of Command.

4. Unity of Command: According to this principle, a subordinate should have only one reporting authority to whom he is accountable. Multiple reporting relationships bring in confusion and conflict among the multiple supervisors.

5. Scalar Principle: This principle states that there should be a clear line of authority from the top to the bottom level. This will keep all managers linked. However, subordinates can break the hierarchy of control only in case of emergency, using a gang plank, which is a short cut to facilitate communication without delay.

6. Delegation: Delegation is the process by which subordinates are empowered with authority that a superior has. Expected outcomes, assignment of tasks, authority and responsibility to complete the given task are delegated or passed on to the subordinate through this process.

7. Span of Control: This refers to the number of employees who report directly to one manager/supervisor. The superior is responsible for the performance of his reporting subordinates. Span of control may vary from department to department. It may be wide, i.e., a large number of employees may report to one manager or narrow, i.e., few employees have reporting relationship with a manager.

5. Process of Organizing

As stated earlier, Organizing follows the process of Planning. Therefore, before Organizing starts, organizations must ensure the following two steps of Planning have been accomplished:

1. Formulation of objectives and sub-objectives

2. Policies and plans that can be implemented
The basic process of Organizing involves the following steps:

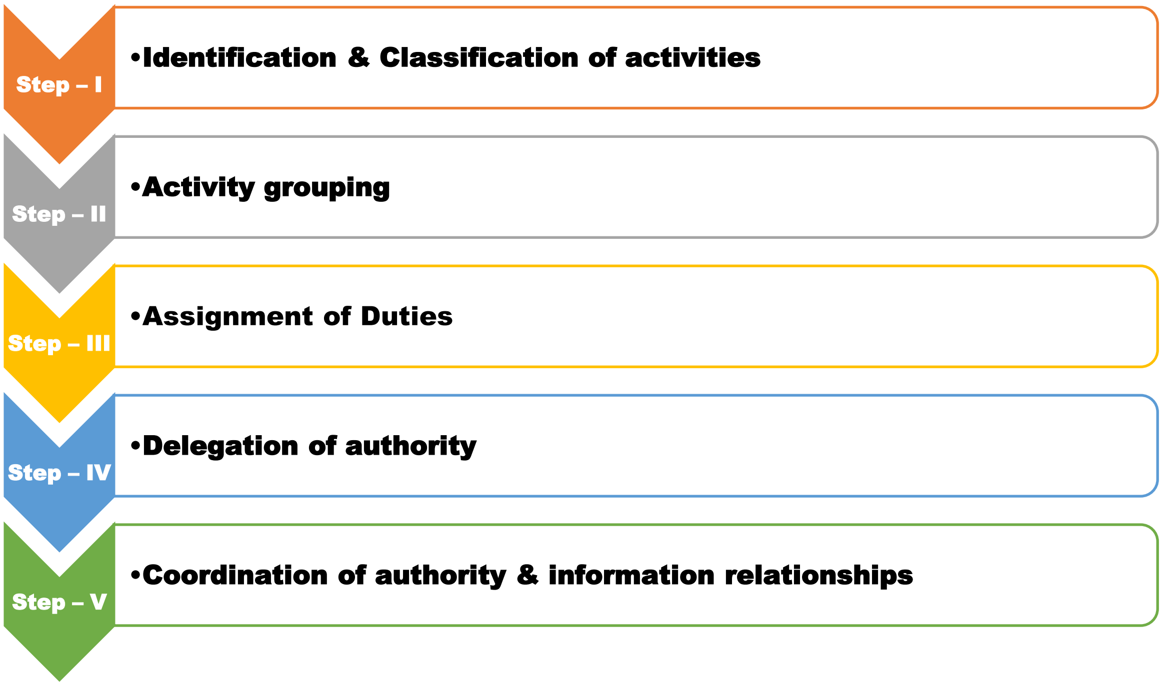


Figure-Steps in Organizing

Step – I. Identification & Classification of activities: A number of activities together make a task in any organization. It is not possible for an individual to complete all the tasks that are required to be done to meet the set objectives. Therefore, the total work needs to be divided or classified in a systematic manner, like production, finance, sales, human resources, etc. The advantages of doing so are that the managers are able to:

- Identify the important activities
- Ensure that the necessary activities are not overlooked
- Avoid duplication of activities
- Coordinate different activities

Step – II. Activity Grouping: Grouping of activities is generally done based on similarity of activities. Even closely-related activities are grouped together. Grouping can also be done based on functions, products, territories, customers, etc. Such grouping leads to formation of departments, divisions or sections. This entire process of grouping of activities is called Departmentation, e.g., all activities related to production or marketing can be grouped together to form Production Department or Marketing Department.

Step – III. Assignment of Duties: The objective of Assignment of Duties is allocation of jobs to the most competent person in terms of requirement of the job, holding a particular position in the organization. This process runs from the top to the bottom-most level of the organization. Assignment of duties to individuals brings in a sense of responsibility and thereby a mental compulsion to perform and complete the assigned task.

Step – IV. Delegation of Authority: Authority is defined as the power given to few employees to take decisions and guide the action of other employees. It helps the employees to perform their assigned duties. Delegation of authority happens when the top manager confers operational decision-making power to the subordinate manager. The later then becomes the 'superior' or the person who gives authority and the person to whom authority is given are known as 'subordinate'.

Step – V. Coordination of Authority &Information Relationships: Delegation of authority is done to a few employees who in turn communicates to employees reporting to them so that there is coordination among all employees and the assigned work is completed on time. Superior-subordinate relationship is created and channels of communication are established. Each employee should be aware of this organizational relationship that has been established which determines from whom he will take directions and to whom he will be accountable for his performance. This network of authority-responsibility relationships is called 'organization structure'.

6. Significance of Organizing

It is indeed a great challenge to the management to utilize its available resources – man, material, money and machine – efficiently, leading to the production of a quality product at a minimum time with minimum cost. The significance may be outlined as follows:

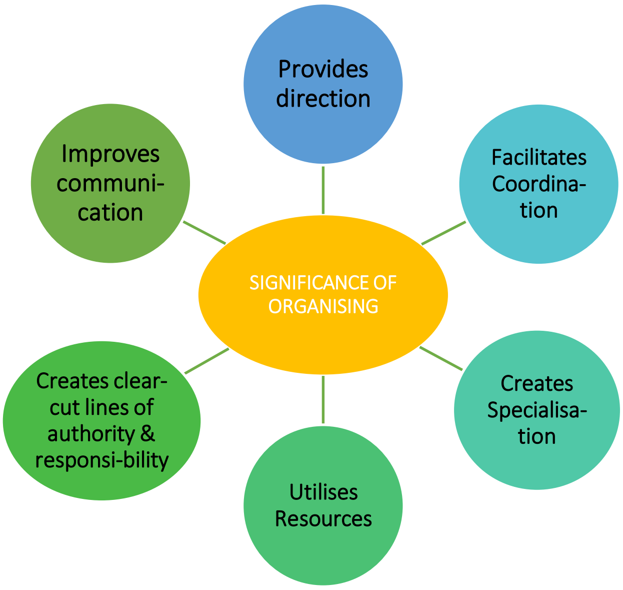


Figure-Significance of organizing

1. Provides Direction: Organizing creates relationship among superior and subordinates, as exhibited through organization structure. Subordinates are directed and controlled by managers efficiently within this framework.
2. Facilitates Coordination: Organizing coordinates activities of employee with departmental functions and functioning of different departments with organizational goals.
3. Creates Specialization: Organizing creates specialization as employees with similar skills are grouped together to create specialized departments.
4. Utilizes Resources: The objective of Organizing is proper utilization of all resources, thereby achieving higher organizational efficiency.
5. Creates clear-cut lines of authority and responsibility: Delegation of authority promotes employee development and empowerment as employees learn to make decisions, handle problems and complete assigned tasks within stipulated time.
6. Improves Communication: In order to coordinate with different departments, communication is done through specified channels.

7. Responsibility & Authority Relationships

i) Authority

Authority is defined as "the legal right to command action by others and to enforce compliance" (French & Raven). Persuasion, request, force, etc. may be used to ensure compliance.

Chester Barnard has defined authority as a character of "an order in the informal organization by virtue of which it is accepted by the members of that organization as governing the action, that is governing or determining what they are to do or not to do, so far as the organization is concerned."

Authority is one of the thickest semantic jungles in management literature. The meaning of authority is neither simple nor clear. Some scholars identify authority with competence, others with right and leadership. Some scholars say that authority is the power to make decisions and some opinion that it is a right and power to influence others. Some say it right to act. So here are some specific definitions of authority given by eminent scholars to understand the meaning of authority in different angles.

According to Koontz and O'Donnell- "Authority is the power to command others to act or to act in a manner deemed by the possessor of the authority to further enterprise or departmental purpose".
According to Henry Fayol, "Authority is the right to give orders and power to exact obedience".
Thus, studying the definitions it may be said that authority involves three elements viz., a) power to use directions, b) make decisions, the right to compel for its obedience and c) the power to influence the behavior or actions of the sub-ordinates.

ii) Features of Authority:

On the basis of above definitions, the following features of authority can be identified:

1. It is the power to make the decisions and to see that they are carried out in the right time in the right way.
2. It is the relationship between two individuals i.e., superior and sub-ordinate.
3. Authority is exercised to achieve organizational goals.
4. It is a legitimate right and given to position i.e., formal.
5. Authority is the key to the managerial job.
6. Authority can be delegated.
7. The exercise of authority is always subjective.

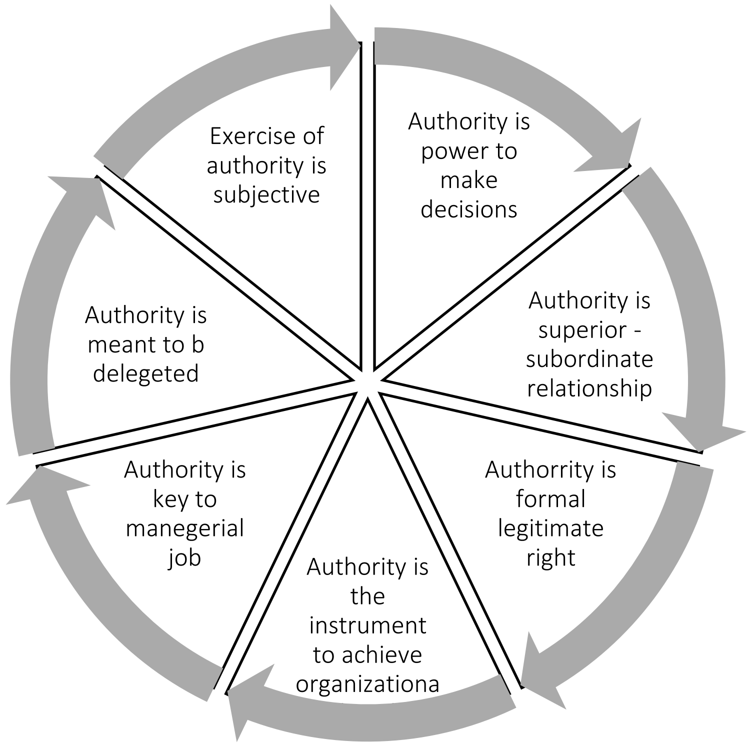
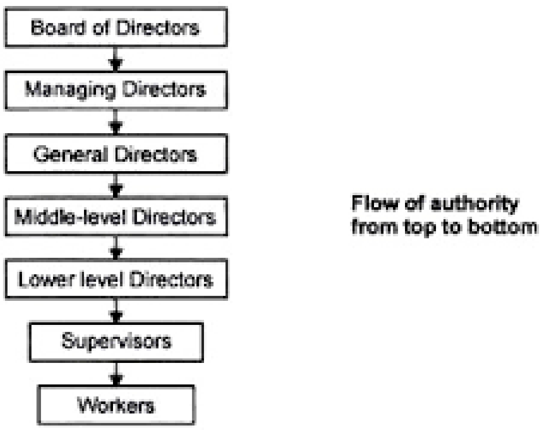


Figure-Nature of organizing

iii) Theories of Authority:

Theories of authority essentially try to identify the source of the authority. There are four major theories proposed:

1. Formal or Classical Authority Theory:

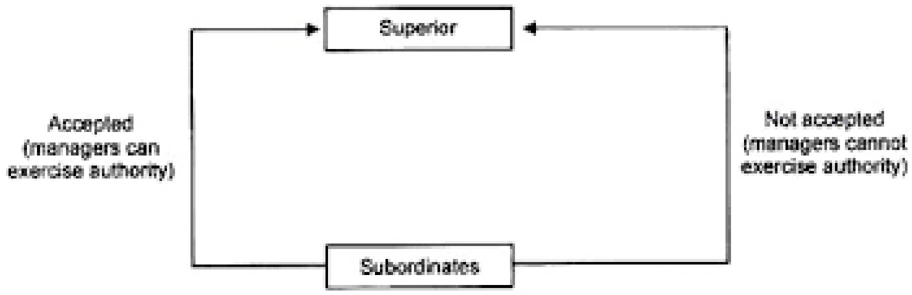


Classical Theory of Authority

Figure

This theory is also known as top - down authority theory. According to this theory, authority originates at the top of an organization and flows downward through the process of delegation. Every manager in the organization has only that much authority which has been delegated to him by his superior. He derives his authority from his formal position in the organization. Authority is concentrated at the top.

It traverses down the scalar chain and each person enjoys formal authority is known as formal authority in the scalar chain. Therefore, the authority is known as formal authority. Such authority may be called traditional and legitimate. It always flows downwards from top to bottom of the organization. It creates superior sub-ordinate relations.



Acceptance Theory of Authority

Figure

2. The Acceptance Theory:

This theory was first proposed by Mary Parker Follett and later popularized by Chester Barnard and Simon. They hold the view that the authority is the relationship that exists between individuals when one accepts the directive of another. In other words, a communication carries authority if it is accepted by the recipients as authoritative. Thus, this expression of the source of authority of the manager is the acceptance by his sub-ordinates.

This expression of the source of authority is based on the behavioral approach of management. It shows that the manager has no real authority until the individual sub-ordinate confers it upon him. A sub-ordinate accepts the authority of his superior because of certain factors obeying out of superiority, responding to the quality of leadership representing the duly constituted authorities, obtaining rewards and incentive from his superior, contribution to the realization of organization objective.

Thus, the acceptance theory permits attention to the legal and social basis for authority. It depends to a large extend on the personal traits of leadership, ability to persuade others to work well to accomplish organization goals. The value of the acceptance theory lies in its recognition of the individual's decision on whether he will act on a communication he receives.

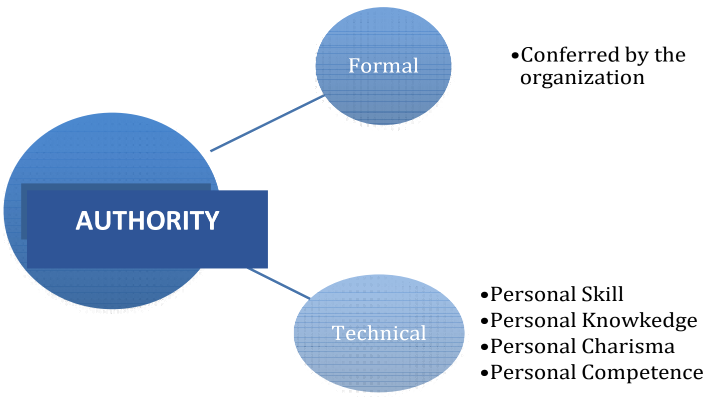


Figure Competence theory of authority

3. Competence Authority Theory:
According to this theory, an individual derives authority from his personal competence and charisma. According to Urwick, formal authority is conferred by organization; technical authority is implicit in a special knowledge or skill whereas personal authority is conferred by superiority or popularity. Thus, a person may get his order accepted not because he is having any formal authority, but because of his personal qualities. These qualities include technical competence and social prestige in the organization.
For example, if a person is expert in a particular field of knowledge, other people seek his guidance and follow his advice as if that were an order. Similarly, in other social groups people with charisma have the same authority.

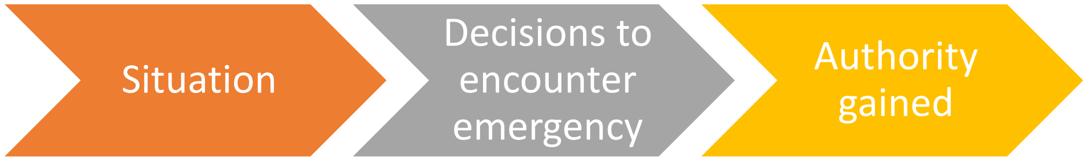


Figure Situation authority theory

4. Authority of Situation:
This theory was also proposed by Follett. It applies to situations of emergency or crisis where decision is to be taken immediately. The person who is involved in that contingency situation exercises the authority to handle that situation, though it is not formally delegated to him through the chain of command.

For example, if there is fire in the office, the workers present at that situation can use the alarm bell to indicate the emergency situation without having a formal authority to use the bell. Thus, here the worker is using bell without formal authority.

iv) Types of Authority

Present day organizations make considerable use of line, staff and functional authorities. All the three types may be found in almost every organization. The nature of various types of authority is discussed below:

Type 1. Line Authority:

Line authority may be defined as the authority of those managers in the organization who are directly responsible for achieving these objectives. They are represented by the standard chain of command.

Louis. A. Allen. Defined line authority as Line authority "refers to those positions and elements of the organization which have responsibility and authority and accountable for accomplishment of primary objectives."

Dalton McFarland has defined line authority as "the basic authority in an organization, is the ultimate authority to command act, decide, approve or disapprove—directly or indirectly all the activities of the organization."

It is the authority to direct the work of others and to require them to confirm to decisions, plans, policies, systems, procedures and goals. Line authority is the heart of the relationship between superiors and subordinates. Line authorities are also directly responsible for the material and tangible output of the organizations.

Line authority is therefore, the direct authority which a superior exercise over his subordinates to carry out orders and instructions. This authority creates a direct relationship between a superior and his subordinates. Such relationship exists in all the departments.

There are three important features of line authority:

(a) It Acts as a Chain of Command:

Line authority provides authority to decide and direct and it acts as a control means for the flow of communication through a scalar chain of authority. Line officials are in the chain of command from the highest executives to the lowest position in the organization. Each successive manager exercises direct line authority over his subordinates.

(b) Line Authority is a Carrier of Accountability:

Line authority is not absolute. They are responsible for how they exercise authority and for its consequences. They are accountable for performance of their activities to their superiors and two subordinates are accountable to their superiors for performance.

(c) As a Channel of Communication:

The primary purpose of line authority is to make the organization work. It facilitates leadership process by establishing authentic channels of communication. The flow of communication up and down the organization is facilitated by line relationship. Each subordinate in a formal organization reports to his superior. The line authority is to facilitate the functioning of the organization.

Type 2. Staff Authority:

Staff managers provide advice to the line authorities in the performance of duties. They also render advisory service to the line departmental heads.

Henri Fayol emphasized the importance and necessity of providing a suitable arrangement of staff authority in organizations. He described the staff as an adjunct reinforcement and a sort of extension of the manager's personality.

Louis. A. Allen has defined staff authority "refers to those elements which have responsibility and authority for providing advice and services to line" in the attainment of objectives.

Dalton McFarland has defined staff authority as the best authority "whose scope is limited, by the absence of the right to direct or command, to such auxiliary and facilitating activities as planning, recommending, advising or assisting."

These definitions focus on the following characteristic features:

(a) The nature of staff authority is advisory.

(b) They are appointed to provide special counsel and assistance to the line managers who are unable to carry out certain typical jobs in the line of their duty.

(c) The staff authority is best suited for dealing with peculiar problems by line managers in large organizations.

(d) There is indirect relationship between the staff authority and primary objectives of the organization. The achievement of primary objectives is entrusted to the line authorities.

(e) The staff officials advise and counsel and they do not have any authority to command the Line authority. The line authority has been the power to accept, reject or modify the advice given by staff authority.

The staff authority is classified as a) pure staff, b) personal staff and c) specialized staff.

Pure staff authority has no right to command except within the department. They cannot issue orders to Line authority. They possess specialized knowledge and skills. They can provide only solutions to organizational problems in their areas.

Personal Staff refer to staff officers attached to the chief Executive to assist him in carrying out his reserved responsibilities.

Special staff means the staff authority who has been appointed to assist executives in some specific branch or in the performance some aspect of their responsibilities are called special assistants.

The differences between Line authority and staff authority are as follows:

Attributes	Line Authority	Staff Authority
Nature	Line authority takes operational decisions and executes them	Staff authority provides advice, suggestions, assistance and information
Objectives	Line authority's functioning contributes directly to the accomplishment of organizational objectives.	The staff authority's functioning contributes indirectly to the achievement of organizational objectives by assisting the staff.
Scope of Authority	The scope of line authority is general and unlimited	The scope of staff authority is restricted to a particular function.
Flow of Authority	The flow of authority is vertical in the case of line	The flow of staff authority can be in any direction depending on the need of advice.
Relationship	Line authority creates superior-subordinate relations.	Staff authority is an extension of line and supports line.
Performance:	The performance of line authority is to command, execute and exercise of control	The performance of staff authority is to study, investigate and submit reports.
Decisions	Line authority is responsible for operating decisions	Staff authority provides ideas for decision.
Results	The Line authority is directly responsible for results	staff authority does not have direct responsibility for performance
Function	Line authority performs execution function	staff authority performs thinking function
Communication	Line authority provides a detailed channel for communication.	Staff authority is not providing for channel of communication except within the department.

Type 3. Functional Authority:

Functional Authority means the authority of staff department members to control the activities of other departments that are related to specific staff responsibilities. It occupies a midway position between line and staff authority. It is a means of putting the staff specialists in top positions for the entire enterprise and it confers upon the holders a limited power to command over the people of their departments concerning their function.

According to Koontz and O'Donnell, "Functional authority is the right which an individual or department has delegated to it over specialized processes, practices, policies or other matters relating to activities undertaken by personnel in department other than its own."

The functional authority is granted to people for maintaining quality and uniformity of functions in an organization. This remains confined to functional guidance of different departments. The functional manager has line authority over his department and over the activities of other departments that pertain to his functional area.

Functional authority is subordinate to line authority and it is a way of putting specialists to work in the organization. The greatest weakness of functional authority is that it may subject subordinates to the conflict of multiple supervision. This multiplicity may not always be undesirable. As and when conflict arises there should be proper evaluation to reconcile the conflict.

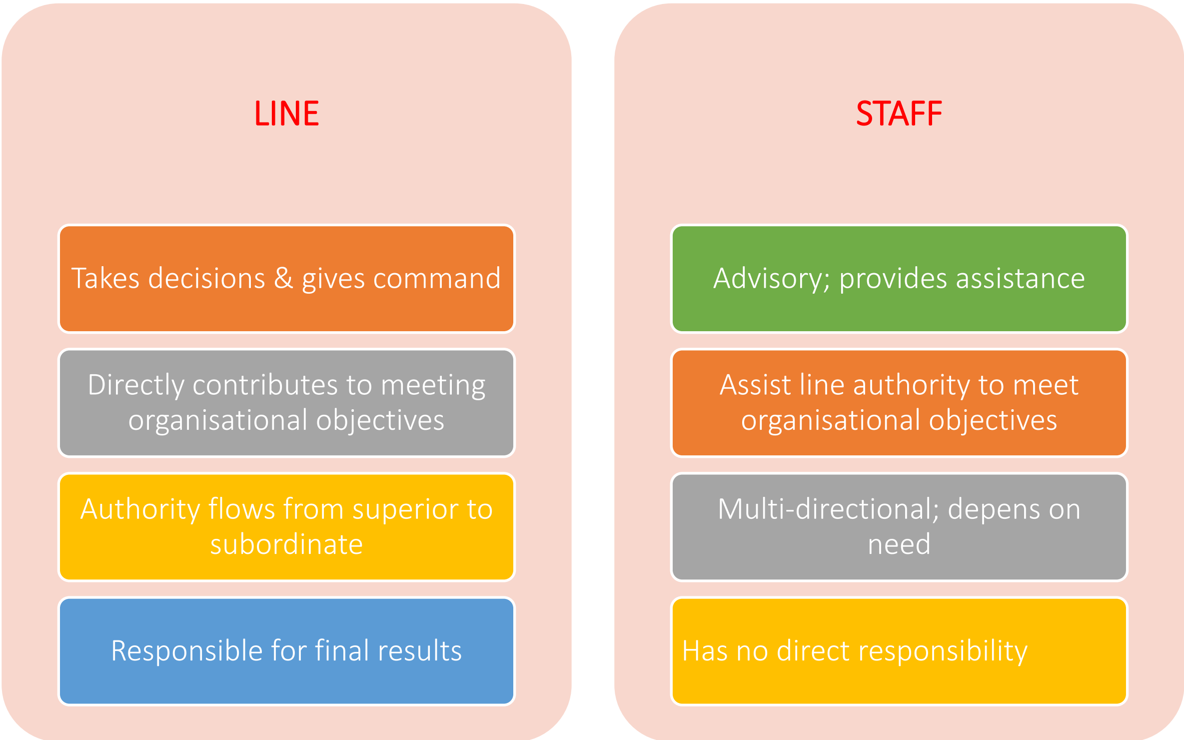


Figure: Line vs. Staff authority

v) Organizational Responsibility:

Responsibility is an obligation of a sub-ordinate to perform assigned duties. It is always bonded between superior and sub-ordinate. When superior assigns any duty or work to sub-ordinate by his authority it becomes a responsibility on the part of sub-ordinate to perform that duty.

Definitions:
According to Webster Dictionary- "*Responsibility is that for which one is responsible on accountable".*
According to Knootz and O'Donnell- "*Responsibility may be defined as the obligation of sub-ordinate to perform assigned and implied duties".*
According to R.C. Davis, – *"Responsibility is the obligation of an individual to perform assigned duties to the best of his ability under the direction of his executive leader".*
Thus, responsibility consists of these elements i.e., it is applied to a subordinate, it essence is obligation to perform work and it arises out of superior and sub-ordinate relationship.

Features of responsibility:
1. It can be assigned to human beings only not to non-living things such as machines.
2. It arises out of superior and sub-ordinate relationships.
3. It may be a continuing obligation on confined to the performance of a single person.
4. It may be defined in terms of functions or targets or goals.
5. Essence of responsibility is to perform duty assigned to him.
6. It is a derivative of authority.
7. It is an absolute and cannot be delegated.
8. It flows upward (i.e., sub-ordinate is responsible to his superior).
9. Accountability arises out of responsibility and the two go together.

Forms of Responsibility:
Responsibility can be of two types:
(i) Operating Responsibility – It is the obligation of an employee to carry out the assigned tasks.
(ii) Ultimate Responsibility – It is the final obligation of the manager who ensures that the task is done efficiently by the employees.
Responsibility is the obligations of an individual to carry out assigned activities to the best of his/her ability. A person in a position of authority is responsible for the resources of the organization. However, the concept has undergone a sea change with the introduction of "mutually agreed upon" results by the boss and the subordinate.

Figure 3.12 Origin of responsibility in organization

Fixed responsibility or responsibility for completion of a given task is fixed on that individual. This is highly effective as an individual puts in his best when he is held completely responsible for a piece of work. He cannot blame anybody else as is done often in work of mutual/dual responsibility. Fixed responsibility brings out the best in a professional as it is human nature to look forward to appreciation and rewards for a work done competently. Individuals strive to complete their assigned task within the shortest possible time and with minimum error.

vi) Principle of Parity

Principle of Parity suggests that Authority and responsibility of any manager should be equal. However, in practice that is not followed, e.g., Sales Executive responsible for meeting sales targets has no authority on sales promotion activities. Authority gives the power to an individual to take decisions while responsibility places obligation on the person to perform these duties by using this authority. Both authority and responsibility must go hand in hand. While authority without responsibility serves no purpose likewise responsibility without authority makes no sense. The amount and extent of authority establishes the extent of responsibility.

vii) Comparison between Authority and Responsibility:

Authority	Responsibility
1. It is the legal right of a person or a superior to command his subordinates.	1. It is the obligation of subordinate to perform the work assigned to him.
2. Authority is attached to the position of a superior in concern.	2. Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
3. Authority can be delegated by a superior to a subordinate	3. Responsibility cannot be shifted and is absolute .
4. It flows from top to bottom.	4. It flows from bottom to top.

Figure: Authority versus responsibility

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates, in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates.

The marketing manager can direct the sales supervisor to accomplish a certain sales target in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, it is evident that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

vii) Accountability:

It means to be responsible for explanation to any superior. When a subordinate works under a boss and he is assigned some duties to be performed, he will be accountable for doing or not doing that work. Thus, accountability is a derivative of responsibility. So, accountability is the personal answerability for results.

Features:

1. It is in fact the legal responsibility.
2. It can neither be shared nor delegated.
3. It always to be assigned duties only.

4. It always from downward to upward.
5. It is different from responsibility.
6. It is unitary in nature i.e., a sub-ordinate under the principle of unity of command is accountable only to one officer who has delegated authority to him. It avoids confusion and conflicts.

8. Delegation of Authority

i) Definition

The term Delegation means to entrust authority to a subordinate to carry out his assigned task and take decisions related to the task. According to Koontz and O'Donnel, delegation involves "determination of results expected, assignment of tasks, delegation of authority for accomplishment of these tasks and the exaction of responsibility for their accomplishments".
Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.
The need for Delegation arises because a manager has a limit to the number of subordinates he can supervise efficiently. Hence, he is compelled to share a part of his tasks with his subordinates who he thinks can handle the tasks with responsibility.
Delegation however, does not mean:

- Reduction in the authority of the superior
- Abdication of responsibility
- Entire authority of superior can be delegated
- Manager/superior loses power and control
- Abandonment of work
- Once delegated, the power is delegated for ever

ii) Elements of delegation

The three elements of Delegation are interdependent on each other. As identified earlier, these are:

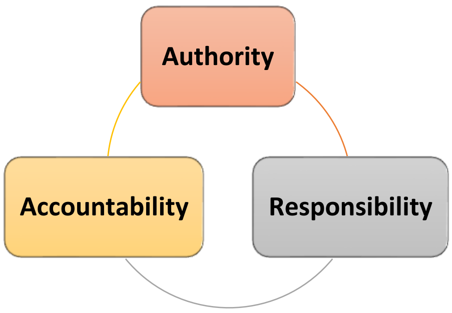


Figure: Elements of delegation

Authority: A superior delegates Authority when he gives the discretion of taking decisions to the subordinate. A superior cannot delegate authority he himself does not have. Delegated authority can always be taken back.

Responsibility: Responsibility cannot be delegated. Even after delegating authority to his subordinates, the superior still remains responsible for the task to the organization. However, the subordinate remains accountable to his superior for the assigned task, hence, he must take responsibility for the completion of the task. Authority and responsibility must be properly balanced, otherwise authority without responsibility may make the subordinate behave irresponsibly and responsibility without authority will prevent the subordinate from discharging his duties efficiently.

Accountability: A superior establishes performance standards for the assigned task. The subordinate is obliged to carry out responsibility and exercise authority in order to meet those performance standards. The subordinate must be answerable for the results of the assigned duty.

iii) Process of delegation

The process of Delegation is given below. All the steps are interdependent:

Figure Process of delegation

Step-1: Determination of Results Expected: The Subordinate should be clearly informed about the results expected from the delegated task.

Step-2: Assignment of Duties: The Superior must take into consideration the required qualification, experience and interest of the subordinates before assigning duties. The subordinates must understand the duties and accept them.

Step-3: Granting of Authority: Superiors must grant authority to the subordinates so that they can use required resources, take decisions and exercise discretion.

Step-3: Accountability for Performance: Though responsibility of the delegated task still remains with the superior, he can hold the subordinate responsible and answerable for the delegated task.

iv) Principles of Delegation

There are a few guidelines in form of principles which can be a help to the manager to process of delegation. The principles of delegation are as follows: -

1. Principle of result excepted- suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly. For example, a marketing manager explains the salesmen regarding the units of sale to take place in a particular day, say ten units a day have to be the target sales. While a marketing manager provides these guidelines of sales, mentioning the target sales is very important so that the salesman can perform his duty efficiently with a clear set of minds.

2. Principle of Parity of Authority and Responsibility- According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand. According to this principle, if a subordinate is given a responsibility to perform a task, then at the same time he should be given enough independence and power to carry out that task effectively. This principle also does not provide excessive authority to the subordinate which at times can be misused by him. The authority should be given in such a way which matches the task given to him. Therefore, there should be no degree of disparity between the two.

3. Principle of absolute responsibility- This says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates which means responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers. It does not mean that he can escape from his responsibility. He will always remain responsible till the completion of task.
Every superior is responsible for the acts of their subordinates and are accountable to their superior therefore the superiors cannot pass the blame to the subordinates even if he has delegated certain powers to subordinates example if the production manager has been given a work and the machine breaks down. If repairmen are not able to get repair work done, production manager will be responsible to CEO if their production is not completed.

4. Principle of Authority level- This principle suggests that a manager should exercise his authority within the jurisdiction/framework given. The manager should be forced to consult their superiors with those matters of which the authority is not given that means before a manager takes any important decision, he should make sure that he has the authority to do that on the other hand, subordinate should also not frequently go with regards to their complaints as well as suggestions to their superior if they are not asked to do. This principle emphasizes on the degree of authority and the level up to which it has to be maintained.

5. Merits of delegation

i. Reduction in managerial load**:** The superior generally delegates routine jobs and can concentrate on jobs that require more focus and decision making. He also has more time available for increased responsibility.

ii. Quality of decision making**:** Subordinates are closer to operating levels. Hence, they may be able to give better decisions

iii. Speeds up decision making**:** As subordinates can take decisions without waiting for approval of their superiors, action taken is faster.

iv. Growth and development of Subordinates: Subordinates get trained to take responsibility for their actions and decisions taken which improves their self- confidence and initiative taking ability.

v. Tool for motivation: Need for recognition, responsibility and freedom of the subordinates are fulfilled, thereby increasing their job satisfaction and morale.

6. Barriers to effective delegation

Several factors create obstacles to effective delegation. They are mainly related to the attitudes of the Superior and Subordinates. Sometimes organization itself may appear to be a barrier to effective delegation.

A. Reluctance to Delegate by Superior

- ***Dominating mentality/Autocratic****:* Superiors lack the attitude to share authority fearing loss of their power and control. They want to dominate all.
- ***Over-confidence in own ability****:* Superiors suffer from an inflated ego about their own ability and refuse to delegate, under-estimating the ability of his subordinates.
- ***Avoid Risk-taking****:* A few superiors try to play safe and not take calculated risk of giving a free hand to their subordinates to take decisions. They are afraid that their subordinates may fail to take proper decisions, for which they may be held accountable.
- ***Lack of ability****:* Sometimes superiors lack the ability to plan ahead, select the most efficient subordinate and control activities once authority has been delegated. Such superiors hesitate to delegate.

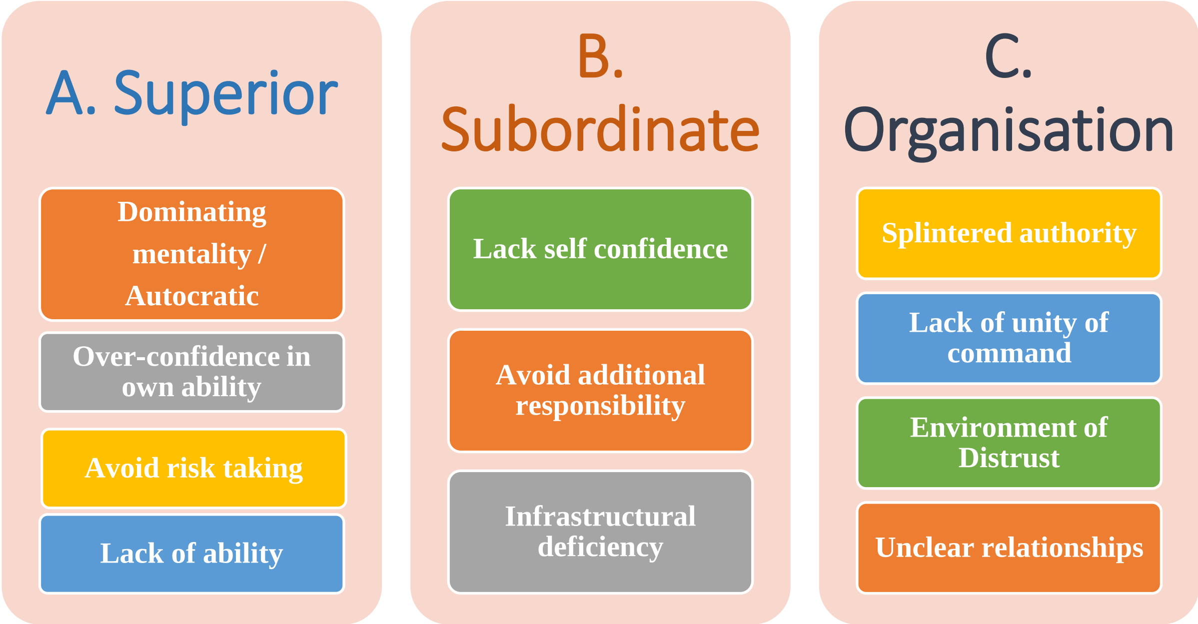


Figure Barriers to delegation

B. Reluctance to Accept by Delegation by Subordinate

- ***Lack self-confidence***: Sometimes subordinates feel comfortable if the responsibility of decision-making lies with the superior as the onus of the decision taken, if faulty, does not fall on them. They are afraid of committing mistakes and being criticized for those.
- ***Avoid additional responsibility****:* Subordinates may be over burdened with their own work load. Hence, they will be reluctant to take additional responsibility delegated by their bosses. Moreover, if there is no extra financial benefit, subordinates become more reluctant to accept extra burden.
- ***Infrastructural deficiency****:* If adequate infrastructural facilities and resources are not made available to the subordinates for discharge of delegated duties, they are hesitant to accept such authority.

C. Organizational Barriers

- ***Splintered Authority****:* Sometimes, in order to reach a decision, two or more superiors are required to pool their authority and make a decision. In such cases, an individual cannot take a decision. If recurring cases occur on the same issue, it indicates that proper delegation of authority has not been done.
- ***Lack of Unity of Command****:* Subordinates should report to one superior. Some organizations have multiple bosses for one subordinate. This makes delegation conflicting and disturbs the interpersonal relationship between two colleagues.
- ***Environment of Distrust****:* Some organizations lack the climate of trust and an environment of internal distrust exists. Whenever there is such a climate, delegation of authority becomes very challenging as neither the superior nor the subordinate trust each other.

- ***Unclear relationships****:* In some organizations reporting relationships are not properly documented. Hence, neither the superiors are aware of the subordinates to whom they can delegate nor are the subordinates aware if they have any reporting relationship with the superior offering to delegate authority to them.

vii) Overcoming Barriers

Both the superior and the subordinate must change their attitude towards delegation to make it a success story. Through proper planning, delegation must be done to the "right man for the right job", over a span of time. Communication channels should be kept open so that both the parties can interact with each other.

Superiors get to know which job should be delegated to whom only if they interact with their subordinates. The later must also take the initiative to take risks and learn from their mistakes, if any, thereby building confidence in decision making. The organization must create an environment of trust, which will improve the climate of the organization and follow unity of command. Employees must be clear about their reporting relationships.

viii) Importance of delegation

Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. The importance of delegation can be justified by -

1. Through delegation, a manager is able to divide the work and allocate it to the subordinates.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill.
5. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills.
6. Delegation of authority is help to both superior and subordinates.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiples himself and is able to bring stability, ability and soundness to a concern.

9. Centralization and Decentralization

The concept of centralisation and decentralisation revolves around dispersion of decision-making authority in the organization.

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, "Centralization" is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be: -

a. Reservation of decision-making power at top level.
b. Reservation of operating authority with the middle level managers.

c. Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

Centralisation **also** means delegation of authority or decision making is restricted. Top management controls decision making and does not want to delegate it downwards. Followings are the features of centralization:

a. Control of Top management:

Top management is the most important part of a centralized organization. The job of top management to take important decisions related to the organization and also to listen to the complaints of the employees of the organization and provide solutions to them.

b. Authority to make a decision is in the hand of top management only:

There are different levels of management in an organization to run the organization smoothly, but still, the power to make all important decisions about the organization lies in the hands of the top management and rest, or level of management is supposed to follow the decision taken by the top management.

c. Information flows from the upper level to lower levels:

In the organizations where the centralization process is followed, the information flows from the upper level of management to lower level of management.

d. Longer time to make decisions:

The employees of an organization are completely dependent on the decision made by the top management. Sometimes, even if the lower management has effective solutions, they can't implement them without getting approval from the upper management.

e. Centralization is suitable for a small organization:

As centralization results in slow decision making. It is not suitable for large organizations and makes the decision process complicated.

However, in small organizations due to a smaller number of employees and a few levels of management decision centralization process takes less time in the flow of information from the upper level to the lower level and the implementation.

f. Inflexible in nature:

In the centralization process, as top management is responsible for taking all the decisions, sometimes they end up making an ineffective decision because they are unaware of the ground reality of the organization.

In such scenarios, lower management has a better capability in taking a decision. Therefore, a decentralized system of management helps in taking effective decisions.

Figure: Centralised Organization

The advantages of Centralisation are:

A. ***Leadership****:* Effective utilisation of personal charisma, drive, talent and vision of top leader. Such leaders prefer to keep autonomy centralised to give shape to the organization, specially at its formative stage.
B. ***Integration****:* Centralised direction unifies different units of the organization.
C. ***Uniformity****:* Sometimes uniformity is required across organizations, like in finance, purchase, etc. Thus, uniformity in policy, strategies and tactical procedures evolve in organization.
D. ***Emergency situation***: Centralised decision making is required during exigency situations. Action plans can be smoothly implemented.
E. ***Reduction in Complexity:*** Decreases complexity of co-ordination that is observed in decentralized structure.
F. ***Elaborate control measures:*** Top authority gain control over the affairs of the organization and adequate control techniques can be adapted.
G. ***Reduction in training cost:*** Organization is relieved of the burden of looking for more qualified middle manager and reduces training cost on these personnel.

The disadvantages are:

a. Delay in communication and decision-making**:**

Centralised organizations follow long and time-consuming path of communication. Centralised structures are essentially tall organization structures and decisions made and the top level take considerable time to reach at the bottom most level of the organization.

b. Reduction Employee empowerment:

In a centralised organization, the span of control is very tight. As a result, the subordinates are not free to execute their independent decisions. Such a process also hampers the innovation in the organization

c. Excess Responsibility with Leadership:

Top management is over burdened with many functions and problems associated with them.

***d. Slows down the Organizational growth**:*

Since, the authority and responsibility are concentrated, decision-making is absolute and independent, it may prove detrimental to growth of the enterprise.

e. Difficulty in appraising:
Comparative performance appraisal may become difficult as the span of control is too narrow.

f. Overlapping of weak and strong units:
Top management in a centralized organization cannot often distinguish between profit centers and weak centers.

g. Weak adaptability and slow response to threat:
Adaptability to fast charging environment becomes difficult. Centralized organizations are often reacting slowly to the external threats.
Because of these disadvantages, absolute centralization is not considered, particulars in a fast-growing economic scenario. Therefore, decentralization and tall organizations emerged. But in recent times with the increased adaptation of IT solutions in business operations, organizations are becoming flatter and concentration is taking place.

Decentralization: means distribution of authority across the organization. However, the degree of decentralization depends on the number, importance, effect and checking of decisions. More the number and more important are the decisions made at the lower level, higher is the degree of decentralization in those organizations. If more functions are affected by decisions made at lower level and there is no checking of decisions made, greater is the degree of decentralization.

No organization can have absolute centralization or decentralization. Neither is it possible for the top management to take all decisions, nor is it possible to give absolute freedom to the subordinates to take decisions. Though decentralization is preferred by many, there cannot be complete centralization or decentralization in any organization. Proper balance must be struck between centralization and decentralization to run an organization efficiently.

Prerequisites for Decentralization:

- Appropriate centralization: Decentralization can only work efficiently if there is proper planning and control at a centralized level.
- Availability of Managers: Competent managers must be developed in order to handle authority.
- Communication channel: Open communication channel with strong feedback system must be in place for coordination between the superior and subordinates when required.
- Coordination: Interdepartmental coordination is necessary for effective decentralization or else rivalry may affect the goal of the organization as a whole.

- Control: Adequate control is required to check that all the operating units are working independently but towards a common goal.

Advantages:

The advantages of decentralization are similar to delegation. The major advantages are

- ***Relief for top management:*** The top management can focus more on policy matters by decentralising authority for routine decisions.
- ***Speeds up decision making*:** Decisions are faster and more accurate as decision makers are themselves implementers of the decisions.
- ***Growth and development of Subordinates:*** managerial skills of the subordinates get developed and a second line of managers grow in the organization.
- ***Motivation of Subordinates:*** Need for freedom and participation of the subordinates are fulfilled, group cohesiveness and team spirit increase thereby increasing the job satisfaction of the subordinates.
- ***Effective Communication:*** Communication becomes more effective as the span of management becomes wider and the levels become fewer.

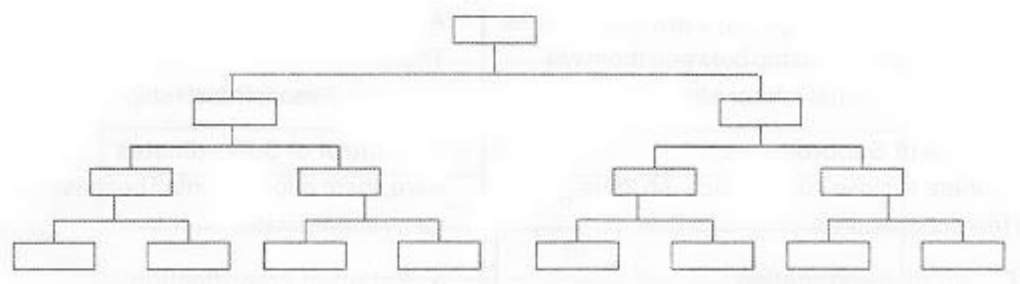
Limitations:

- ***Loss of control****:* The existence of an organization may get threatened if it loses control.
- ***Expensive****:* Barring large organizations, there may be duplication of functions, thereby increasing operational cost.
- ***Coordination****:* As each department enjoys autonomy, coordination may become a problem.
- ***Environmental constraints****:* Government regulations on business policy, restrictions on import-export, trade union movement, etc. may affect decentralization.

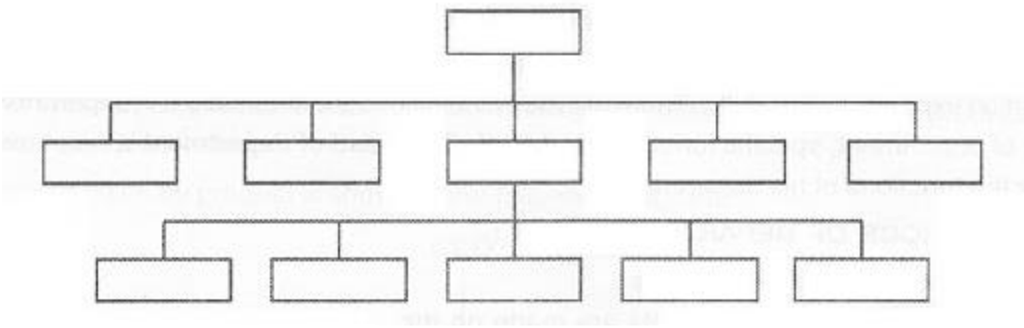
10. Span of Management

Span of management, also known as Span of Control or Span of Supervision, denotes the number of subordinates a manger can effectively supervise or manage. It is difficult to predict what should be the exact number as there are too many variables in management.

Broadly there are two types of Span: Narrow and Wide Spans.



Tall Organization: Narrow Span of Management



Flat Organization: Wide Span of Management

Narrow Spans indicate very few subordinates report directly to a manager, i.e., there are many levels in the organization. On the other hand, wider span of management means many subordinates reply to a manager, resulting in a flat organization structure. Comparative study between a narrow and wide span of management is as follows:

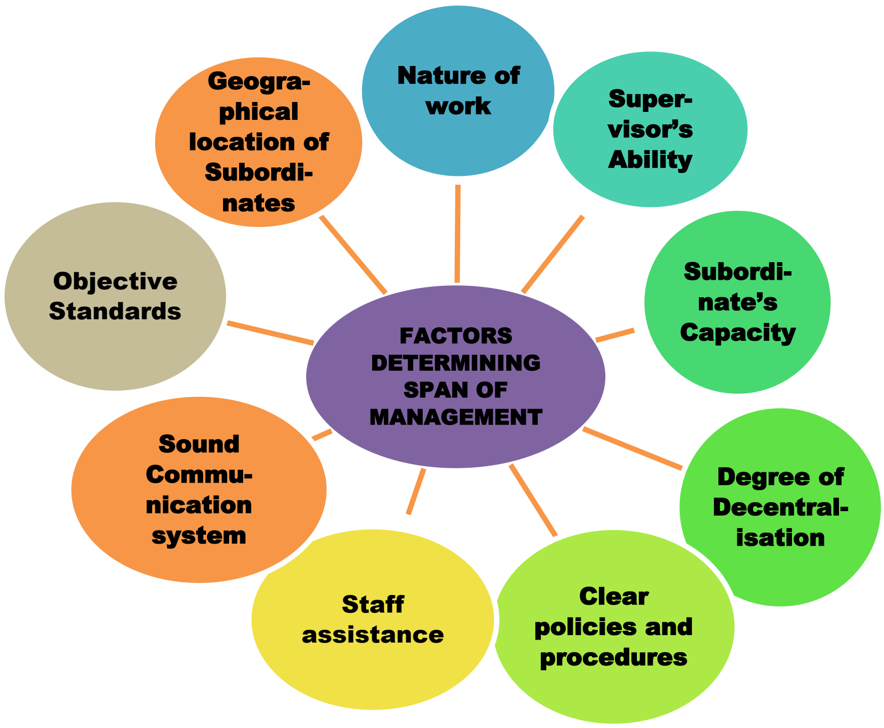
Narrow Span of Management

- **Tall organisation structure**
- **Less no. of subordinates/manager**
- **Closely supervised**
- **Better coordination**
- **Disruptions in communication**
- **Slow decision making**
- **High overheads**
- **Distance between top management and lowest level is high**

Wide Span of Management

- **Flat organisation structure**
- **More no. of subordinates / manager**
- **Loose control**
- **Difficulty in coordination**
- **Faster communication**
- **Faster decision making**
- **Less supervisors; lower overheads**
- **Distance between top management and lowest level is less**

Factors determining Span of Management



A few of the factors that determine the span of management, i.e., the number of subordinates reporting to a supervisor are as follows:

1. Nature of work: The nature of work in which a subordinate is engaged, i.e., the similarity and complexity of the work supervised, determines the amount of time a superior must devote to his subordinate. If the time to be devoted is more, like in jobs that are not repetitive, then the span becomes narrow. Homogeneity of functions have wider span whereas complex or dissimilar functions requiring a large number of varied decisions continuously have a narrower span.

2. Supervisor's Ability: Supervisor's ability to manage – both physical and mental – determines span. Managerial foresight, leadership skill, team building ability, communication skills, controlling power are important qualities in a supervisor who has a wider span than others.

3. Subordinate's Capacity& Training: Supervisors can have wider span if the subordinates are experienced/trained, efficient and dedicated. New/inexperienced subordinates require more attention of supervisors, making the span narrower. Hence, training of such subordinates will reduce the time of the supervisors.

4. Degree of Decentralization: Supervisors can have wider span if they delegate authority and subordinates take decisions. Frequent consultation with supervisor becomes necessary only if the authority is centralized.

5. Clear policies and procedures: Existing written guidelines, policies, procedures minimize the requirement to be guided by superiors, making the possibility of having a broad span. When subordinates lack clarity, they are forced to consult the superior continuously, which is possible only if the span is narrow.

6. Staff assistance*:* Staff assistants of the Supervisor, who are experienced and well aware of the organization's rules and responsibilities, can guide the subordinates on behalf of the supervisor. This reduces the work load of the supervisor, and he can, in turn, have a broader span of control.

7. Sound Communication system*:* Organizations that do not depend on physical one to one interaction between the supervisor and subordinate can have a wider span of control. Communication in such organizations is through electronic mode which is faster and saves the time of both the parties.

8. Objective Standards*:* The span of management can be widened if the organization uses objective standards for evaluation of the performance of the subordinates.

9. Geographical location of Subordinates*:* Supervisors have narrower span of control if their subordinates are geographically dispersed. They need to cover different units dispersed over varied locations and use formal communication channels, which requires time.

11. Organization Structure

In any organization, divisions, departments, functions and employees are inter-related and linked to each other. This network of relationship among jobs and positions based on authority or hierarchy is called the Organization Structure. The basic purpose is to work co-ordinately towards a common organizational goal. Organization chart represents this structure of major functions, supervision, authority and communication channels diagrammatically.

Organization structures depend on how the management would like to design it. Broadly, it depends on size or organization, nature of business and environment of organization. Mintzberg (1981) has categorised Organization Structure into five types:

1. Machine bureaucracy: This standardised structure has the following salient features:

- Work standardisation
- Centralised decision making
- Use of Standard Operating Procedures
- Hierarchical system followed for control
- Balance of relationship between themselves and stakeholders

Unfortunately, the structure does not encourage collaboration, trust, cooperation and healthy competition among employees.

2. Professional bureaucracy:

- Professional employees manage
- Functional autonomy, employee empowerment, employee development are focal points
- Less control of activities of employees

3. Adhocracy or Innovative forms:

- Distinctive corporate culture
- Decentralised decision making
- Open communication, healthy interpersonal relations, mutual discussion and negotiation
- Can respond to changes on real time basis due to flexibility of structure

4. Simple or Entrepreneurial forms:

- Entrepreneurs manage
- Flexible norms and systems
- Trust of employees won easily

However, if any mistrust arises between the entrepreneur and employees, then the organization faces instability.

5. Divisional forms:

- Several autonomous divisions
- Divisions may be based on product or process
- Divisions enjoy autonomy

However, the divisions may lack decision making and control.

It is indeed necessary for organizational structures to be dynamic so that it can grow by adapting to the changing conditions affecting its employees as well as social, political, and economic conditions. So organizations can partly modify the structure by Departmentation, i.e., grouping of activities into different units.

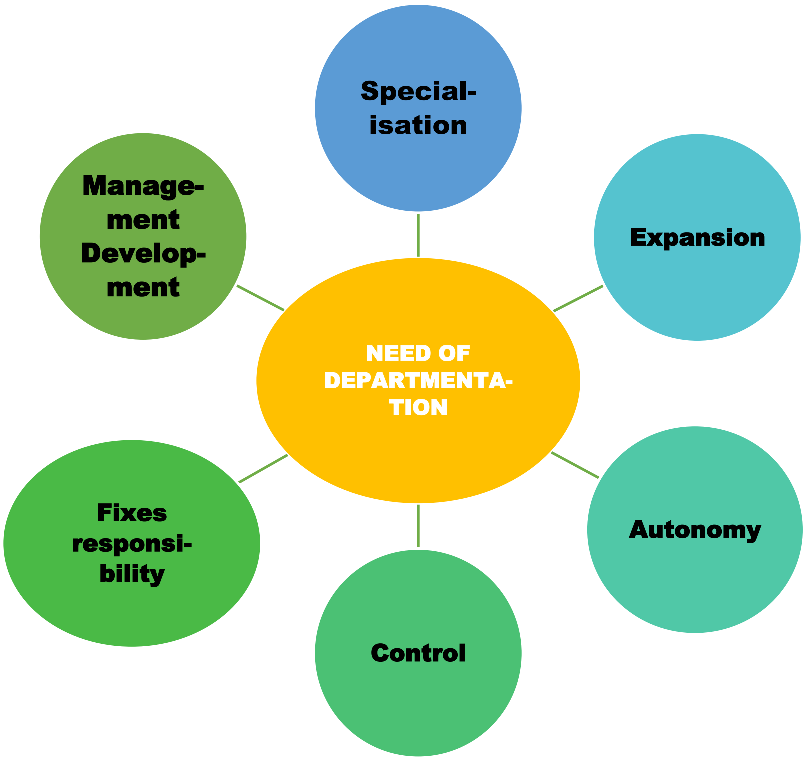
12. Departmentation - Need, Basis, Principles

The process of segregating the organizational work into manageable units or departments is called Departmentation. Koontz and Weihrich have defined Department as “a distinct area, division, or branch of an organization over which a manager has authority for the performance of specified activities.” Different tasks are grouped together to form jobs, different jobs combine to form work groups, different groups are combined to form Departments.

i) Need of Departmentation:

***a. Specialisation*:** Efficiency of organization increases as a whole as each department specialises in an area, and thereby its expertise in that functional area increases

b. Expansion: Departmentation divides the organization into a number of manageable units. Without it the size of an organization would have been limited to a Manager's span of control. Thus, Departmentation contributes to the expansion and growth of an organization.



c. Autonomy: Managers in charge of Departments have adequate freedom to plan and implement task-related responsibilities bestowed on them. This in turn provides job satisfaction and motivates them further to increase the efficiency of their department.

d. Control: Departmentation group activities and manpower into manageable units. This improves the administrative control as the total number to be controlled becomes easier.

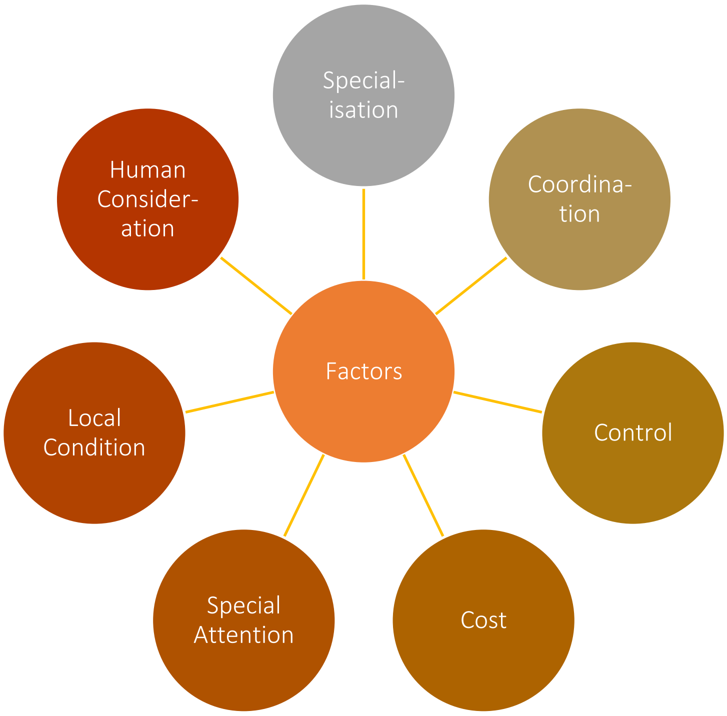
e. Fixes Responsibility: Departmentation clarifies roles of individual employees and fixes their responsibility. Employees can be held accountable for the tasks that they perform.

f. Management Development:

Departmentation deals with specialisation. Hence, management development programmes to be implemented are focused, like, decision making, initiative-taking, etc.

ii) Basis of Departmentation:

There is no general rule for departmentation. It varies from organization to organization based on their need and convenience of operating. The factors which are generally considered as the basis of Departmentation are:



a) Specialization: Grouping of activities should lead to specialization thereby creating experts and bringing in efficiency and economy of operations

b) Coordination: Different activities going on must be well coordinated with organizational objective for overall effectiveness of the organization.

c) Control: Management should be able to make employees answerable to them for their actions. Avenues must be there for measurement of performance and carrying out corrective steps.

d) Cost: Each department has duplication of activities, leading to cost escalation. Measures should be taken so that departmentation is not done arbitrarily and maximum utilization of space and personnel is done.

e) Special Attention: Special attention is required to avoid duplication of activities and check that each and every important activity is carried out. Key areas should be given special attention.

f) Local condition: While planning departmentation organization should try to fully utilize local factors and resources

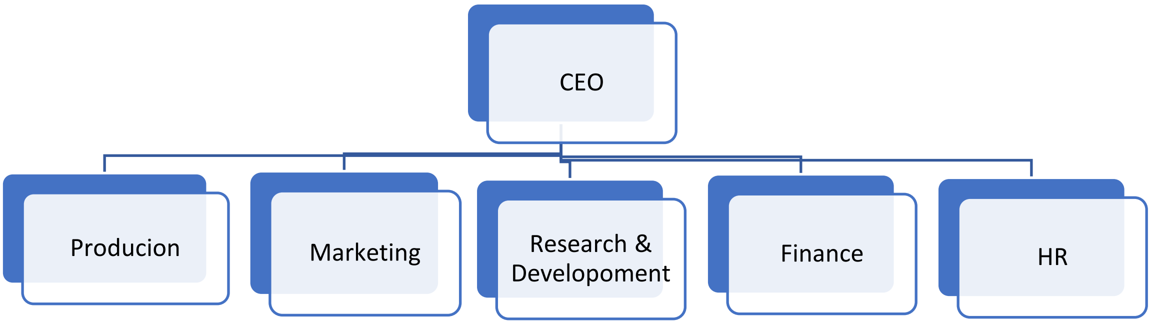
g) Human considerations: To have efficient and affective employees must be given due consideration. Culture, values, existence of informal groups, employee attitude and behaviour must be considered prior to departmentation.

iii) Types of Departmentation

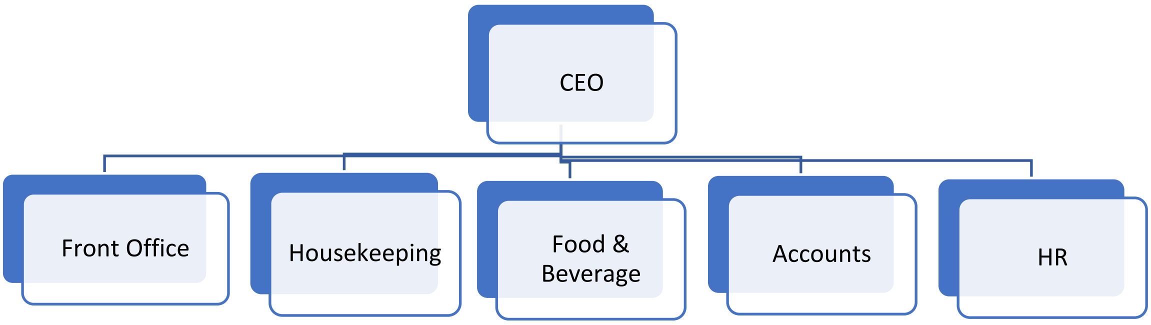
Broadly, Departmentation is done primarily on the basis of the following:

1. Departmentation by Function:

This is the most common method of departmentation. Activities dealing with certain functions are grouped together to create such departments like Production, Finance, marketing, IT, Human Resources, etc. However, depending on the operations the nomenclature used may vary from organization to organization, e.g., a manufacturing organization and a service organization may use different terminology for their departments. e.g.,



DEPARTMENTS IN A MANUFACTURING ORGANISATION



DEPARTMENTS IN A SERVICE ORGANISATION

Advantages & Disadvantages of Departmentation by Function

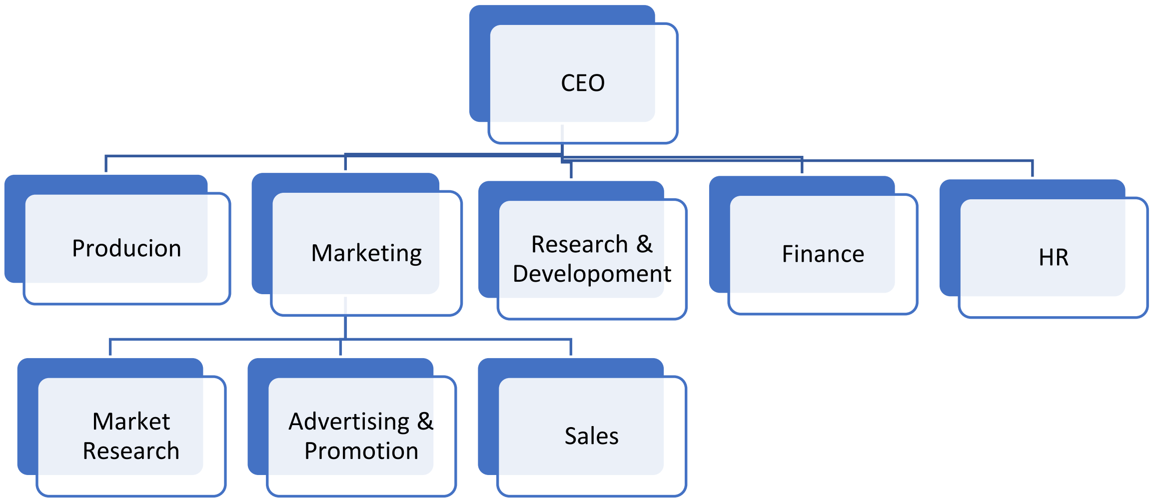
Advantages

- Based on expertise, functional grouping is the most logical form
- Follows Principle of occupational specialization which gives operational efficiency
- Gives stautus - power & prestige - to major funations
- Makes optimum utilisation of manpower as each specialised group works independently
- Easier control by top management
- Simplifies training

Disadvantages

- Specialisation is over emphasised
- Inter-departmental conflicts as responsibilities are interdependent
- Reduces coordination among different departments
- Responsibility of result cannot be fixed on any one functional head
- Limits scope for overall development, learning and growth of managers as expertise is limited to one functional area.

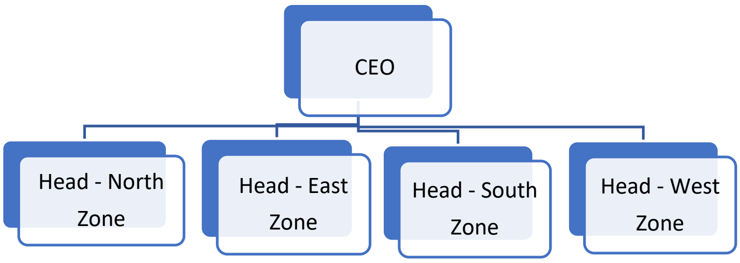
Activities in each Department may be sub-divided into sections based on functional differentiation.



SECTIONS UNDER MARKETING DEPARTMENT

2. Departmentation by Geographical/Territorial Location:

Organizations that operate over large geographical areas follow such departmentation for convenience of operation. It is not possible for one functional manager to handle such widely dispersed area. Hence, activities are divided into zones, regions, divisions and branches. Managers are put in charge as Zonal Manager, Regional Manager, etc. The focus is to respond to market requirements and thereby increase results of such regional units. Different functional areas are grouped together to create Departmentation by geographical location.



Advantages & Disadvantages of Departmentation by Geographical/Territorial Location:

Advantages

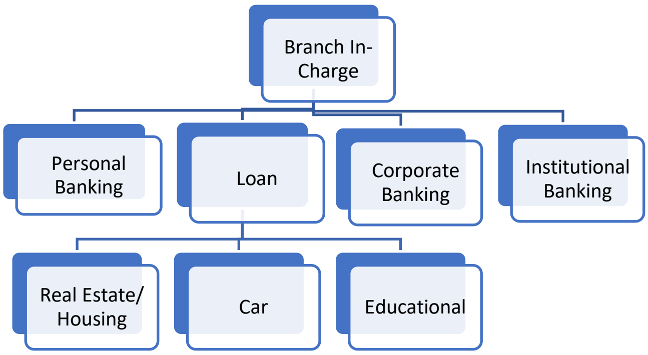
- Adaptation to local needs with speed and accuracy
- Facilitates prompt action of local problems
- Takes advantage of economies of localised operations - saves time and money
- Effective coordination and control of activities in geographically located divisions
- Facilitates business expansion to different regions
- Allows autonomy of employees with minimum risk to organisation

Disadvantages

- Leads to duplication of process, manpower and efforts, thereby increasing cost of operation
- Communication problem due to distance
- Delay in decision making
- Effective coordination and control of activities from Head Office may be problematic
- Competititon between different Regional Managers may be detrimental for the organisational environment

3. Departmentation by Customer:

When customer groups are clearly defined and organizations group their activities according to the specific need of the customers, then Departmentation by Customer is the common solution. Banks, higher educational institutions, Departmental Stores, etc generally follow this type of Departmentation.



DEPARTMENTATION BY CUSTOMER IN A BANK

Advantages & Disadvantages of Departmentation by Customer:

Advantages

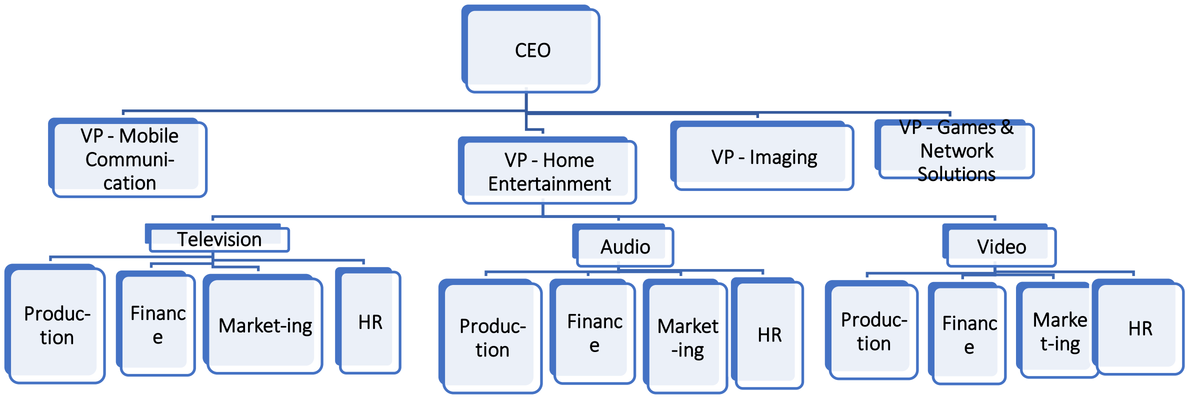
- Focused attention to customers - increases good will, loyalty and sales
- Need of each group of customers can be studied in detail and problems anticipated and handled better
- Expertise in customer handling

Disadvantages

- During lean period, manpower and other resources may be under-utilised
- Manpower deployed must have expertise in customer handling
- May be difficult to define customer groups clearly; eg., overlapping lkke corporate business and large corporate firms

4. Departmentation by Product:

Departmentation by Product came into existence when it became difficult for managers' to increase their Span of Control and add more subordinates, to handle the expansion and diversification of the products of the firm. The best available option then was to departmentalise on the basis of product with each department functioning independently with its own production, finance, sales of one product. Organizations manufacturing automobiles, electronic goods, etc which require huge capital investment for plant and equipment, highly specialized knowledge and complex product line, generally opt for product departmentation.



Product Departmentation of an Electronic Manufacturing Company

Advantages & Disadvantages of Departmentation by Product:

Advantages

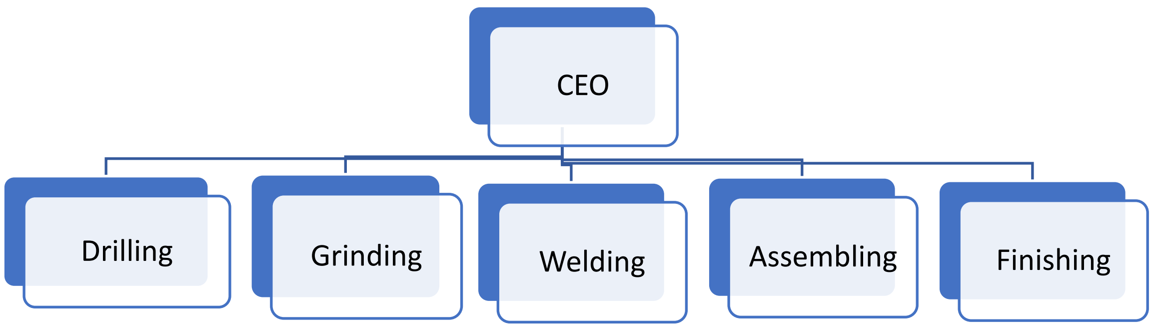
- Integrates all activities - production to sales - related to a single product
- Emphasises on product line, which in turn may lead to exapnsion and diversification of product.
- Encourages specialisation of production facility skill and knowledge of employees
- Responsible for contribution to the overall profit of the organisation
- Provides training ground for top management position like General Management as handling such department requires a lot of independent decision making, risk taking and coordination of different functions.

Disadvantages

- High operating cost
- Duplication of facilities and manpower increases operating cost
- Each department works as independent profit units, hence benefit of centralised staff functions like HR, Accounts cannot be availed
- Underutilisation of plant capacity during lean period
- More human resources with general management skills are required
- Increased problem of top management control

5. Departmentation by Process:

Common in manufacturing organizations, in process departmentation, production process or equipment used is the basis of grouping of activities. Achieving efficiency and operational economy are the main objectives of process departmentation. This departmentation may be used only in plants which are special and composite.



PROCESS DEPARTMENTATION IN A MANUFACTURING ORGANISATION

Advantages & Disadvantages of Departmentation by Process:

Advantages

- The basis is clear cut- technical division of work
- Specialization
- Repair and mantainence of machines of similar type located at one place leads to economies of cost

Disadvantages

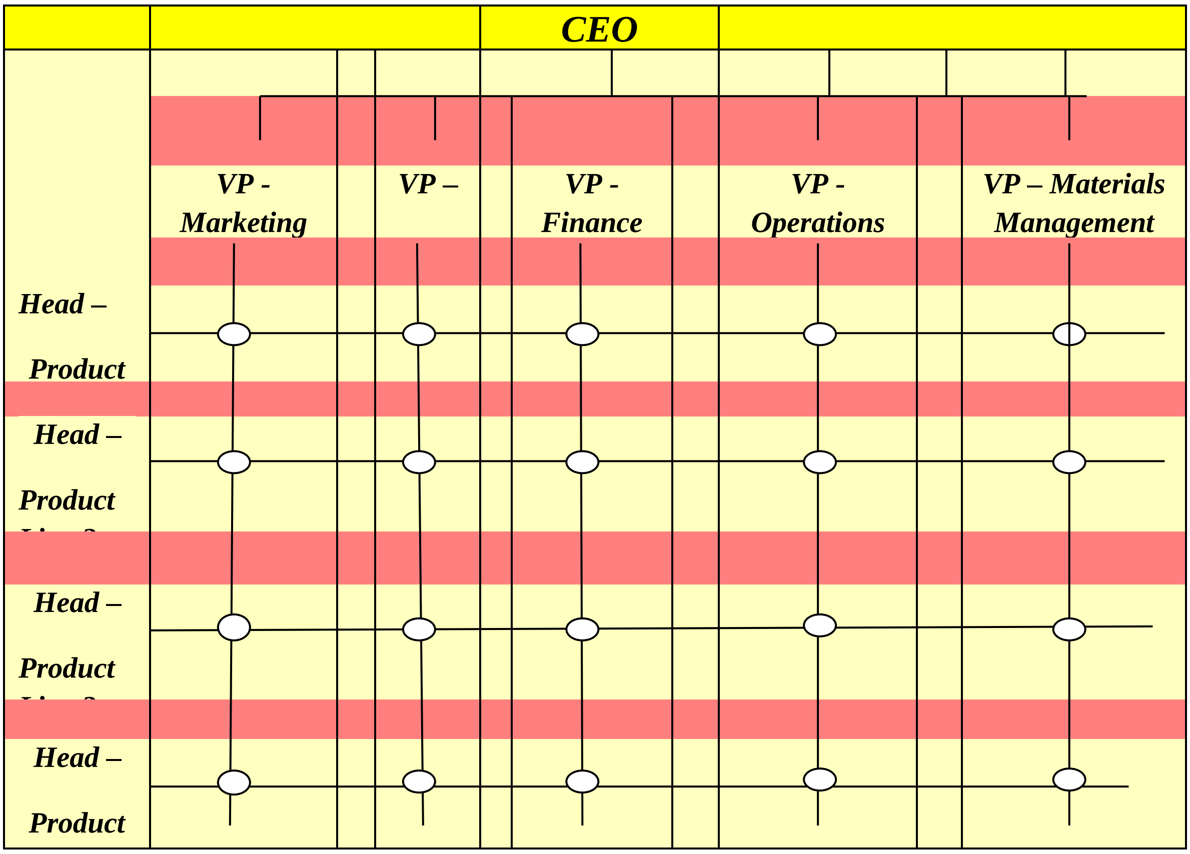
- Cannot be implemented where distinct process of manufacturing is not used.
- Coordination of different process departments may be a problem
- Conflict may arise between managers of different process departments

6. Matrix Organization Structure:

Matrix organization structure represents a progressive departmentation where traditional functional departmentation are combined with project departmentation in the same organization structure. In matrix departmentation both vertical and horizontal chains of command are in action. Cross-functional teams may provide the required functional expertise. The salient features are:

- Dual supervision
- Several reporting relationships
- Extensive communication network for transmitting decisions

This structure is commonly used in engineering, research and development, construction, aerospace, management consulting, etc.



Advantages

- Decentralized decision making
- Better project coordination
- Improved environment monitoring
- Response to change
- Flexible work force utilization
- Democratic management style - team members opinion sought before decisionmaking

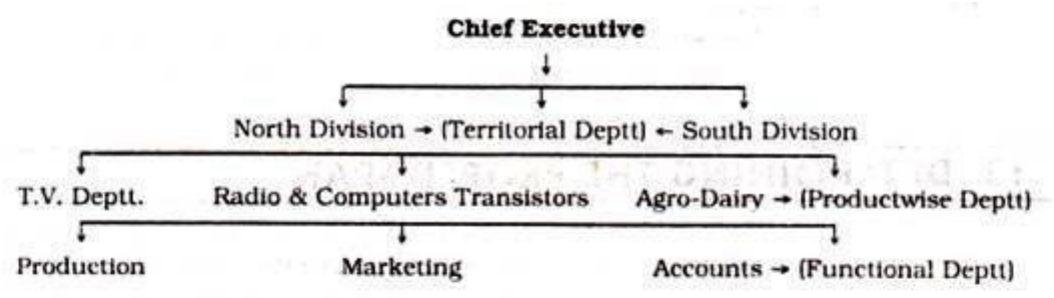
Disadvantages

- High cost of administration- excessive overhead
- Authority vs responsibility is not clear
- Interpersonal conflict
- Overemphasizes group decision making
- Communication gap as dual relationship

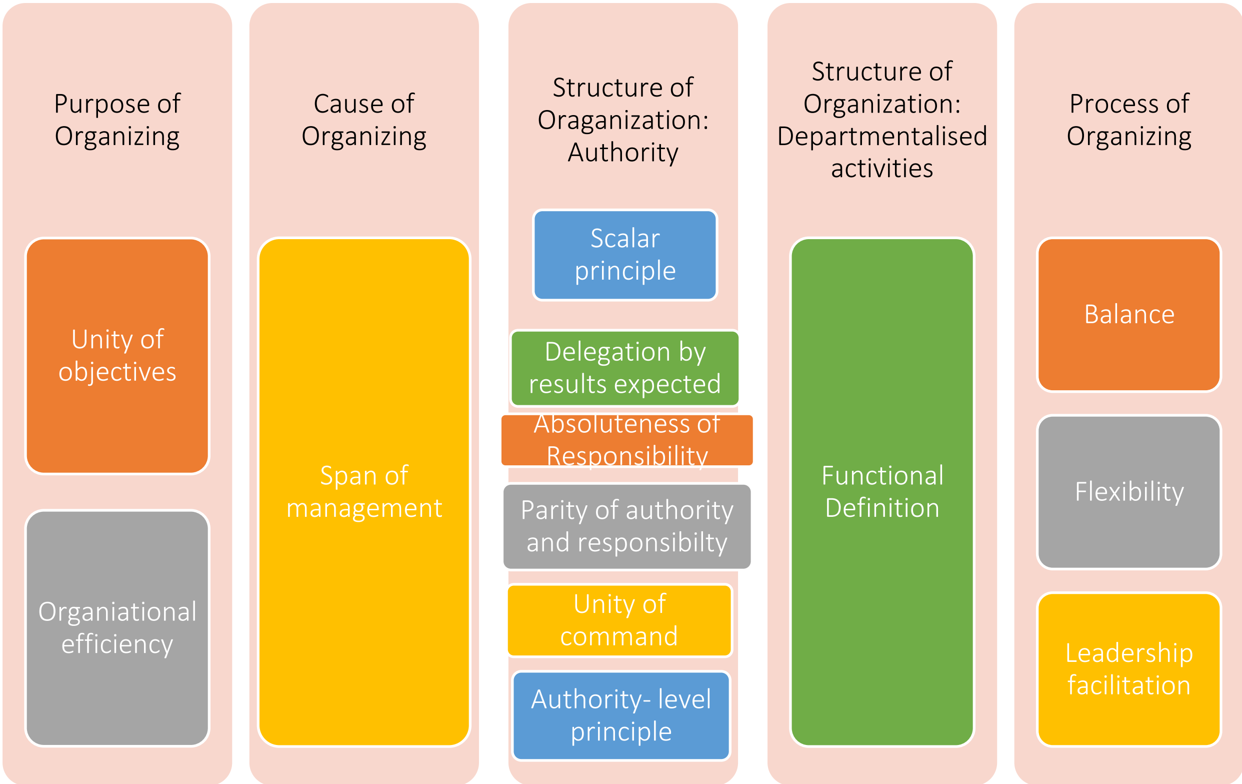
Apart from the above-mentioned structures we can identify another structure namely

7. Combined Departmentation

Departmentation is done for the convenience of meeting organizational objectives efficiently and most economically. To fulfil these objective organizations may go for a mixed departmentation instead of strictly following one departmentation method. So, an organization may have functional, product, territorial as well as customer departmentation at the same time.



8. Principles of Departmentation:



Purpose of Organizing is to have meaningful objectives and contribute to organizational efficiency.

- Principle of unity of objectives: Individuals should be able to contribute to organizational objectives
- Principle of Organizational efficiency: Organizational objectives must be met at a minimum cost.

Cause of Organizing Limitation of the span of management is the basic cause of organization structure

- Span of Management Principle: Each managerial position has a limit to the number of employees he or she can manage.

9. Structure of Organization: Authority:

Authority determines how many activities can be placed under a manager and how the manager will help in performance of employees under him.

- Scalar principle: Clear line of authority from the top to the lowest position will lead to clear responsibility for decision making and organization communication.
- Principle of Delegation by results expected: Authority delegated is likely to ensure ability to get results expected.
- Principle of Absoluteness of Responsibility: Responsibility of subordinates for performance is absolute and superior is also responsible for subordinates' activities
- Principle of parity of authority and responsibility: Responsibility should not be greater or lesser than implied by authority delegated.
- Principle of unity of command: Reporting relationship with single superior results in clearer instructions and personal responsibility of results.
- Authority- level principle: Decisions within authority of managers should not be referred to the higher level and should be made by them.

10. Structure of Organization: Departmentalised activities –

Departmental framework is designed for effective handling of organizational activities.

- Principle of Functional Definition: clarity in results, expected activities to be undertaken, authority delegated and relationship with other positions, will enable a responsible employee to accomplish organizational objectives.

11. Process of Organizing:

Principles of authority delegation and departmentation leads to activity grouping and authority.

- ***Principle of Balance:*** Principles or techniques must be balanced to ensure enterprise objectives
- ***Principle of flexibility:*** Organization structures can fulfil their purpose if flexibility is built into its structure.

- ***Principle of Leadership facilitation:*** Facilitates leadership abilities in managers to design and maintain environment for performance.

3.13 LET US SUM UP

Organization is the foundation upon which the whole structure of management is built. It is the backbone of management. Organization is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. Informal organization, which does not appear on the organization chart, supplements the formal organization in achieving organizational goals effectively and efficiently. Organization requires the creation of structural relationship among different departments and the individuals working there for the accomplishment of desired goals.

Organization structure is primarily concerned with the allocation of tasks and delegation of authority. The establishment of formal relationships among the individuals working in the organization is very important to make clear the lines of authority in the organization and to coordinate the efforts of different individuals in an efficient manner.

Committee Organization

Module-2D: Control and Coordination

I. Concept of Control

1. Definition and Meaning

Control may be defined as the process of analyzing whether actions are being taken as planned and taking corrective measures to make them conform to the plan of action. Control is the essence of sound management system. It is concerned with ascertaining that other processes of management such as planning, organizing, and directing functions result in attainment of organizational objectives. It is a continuous process which helps a manager to get the performance of his subordinates corresponds to the standard fixed. Control also detects the deviations as soon as they occur and take corrective steps to prevent them.

According to Henri Fayol, *"Control consists in verifying whether everything occurs in conformity with the plan adopted, instructions issued and principles established."*

The controlling process involves determining what is to be accomplished (the standard); what is being accomplished (the performance); and, if necessary, applying corrective measures so that the organization can be benefited from the corrective performance in conformity with the established standard. Following factors are involved with controlling process:

a. ***Identifying*** accurately what work is to be done as to quantity, quality, and time available.
b. ***Examining*** whether work has been done or is being carried out with the available resources, within the available time, at a reasonable cost, and in accordance with the established standard.
c. ***Analyzing*** deviations, if any, from the planned targets and standards to ascertain the cause thereof.
d. ***Adopting*** corrective measures to rectify deviations.
e. ***Suggesting*** revision of plans and targets, if necessary.

2. Characteristics

Control is a device which keeps the managers informed as the activities for which they are responsible and which assures them that their plans are being carried out according to the schedule. The nature of control process can be understood from the following characteristics:

- Control is all persuasive function
- Control is a continuous process
- Planning is the basis of control
- Action is the essence of control
- Control is a forward looking process
- Control is a forward looking process
- Control allows the organization to cope with uncertainty

1. ***Control is all persuasive function:*** Control is essential at all levels of organization. It is a follow up action to the other management functions. Mangers perform the control function irrespective of their ranks and nature of jobs. Control completes the management process of the organizations.

2. ***Control is a continuous process:*** Control is an ongoing and dynamic process of management. It involves continuous review of performance and revisions of standards. It is also amenable to change with the external environment. It is, therefore, a highly flexible process.

3. ***Planning is the basis of control:*** Control can be exercised only on the basis of an existing plan. Effective control is not possible unless the objectives are clearly spelled out. The measurement of the performance in control requires certain established standards which can only be laid down under planning process. Planning sets the course of actions in the organization and control ensures that the actions are taking place according to the determined course.

4. ***Action is the essence of control:*** Control is an action-oriented process. Actions are initiated, guiding the operation within the sphere of the plans. These actions are the parts of the control system.

5. ***Control is a forward-looking process:*** Control aims at future. Although past performance is the criteria for future standards, control is more concerned with examining current

performance and providing guidelines for the future. Therefore, control is both backward-looking and forward-looking. It looks at future through the eyes of past.

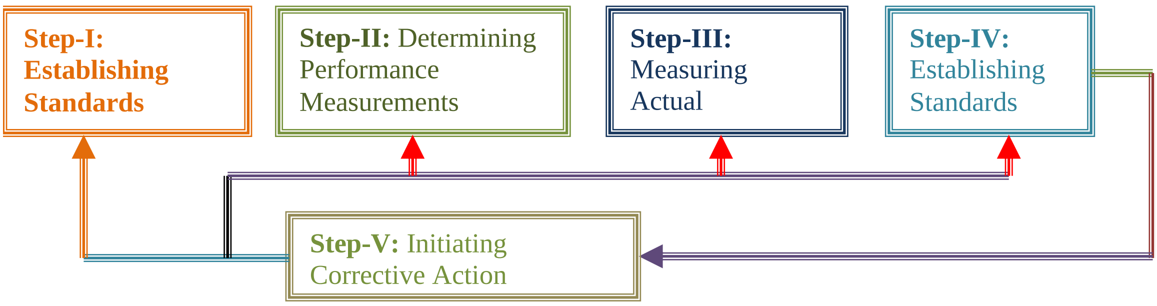
6. ***Delegation is the key to control:*** Effective control requires adequate delegation of authority. An executive can perform the control function properly if he enjoys the authority to take remedial action and is to be held accountable for results.

7. ***Control allows the organization to cope with uncertainty:*** Control helps in regulating the uncertain events of the organization. It anticipates any shift in task and preferences of consumers and directs the organization to modify its process in order to meet the contingencies of the future.

3. The control Process and stages

Controlling is the final step in the process of comparing actual performance with the plans and taking steps to initiate corrective action. The basic control process involves the following steps:

The complete process of controlling is shown in the diagram below:



Steps in Controlling

Step-I Setting standards: The fundamental objectives of the organization are set in physical terms, such as quantities and tangible qualities of products, units of services, man-hours, or the objectives may also be expressed in monetary terms, such as costs, capital expenditures, revenues for a stipulated period, or profit. These are the set standards for the performance of the organization, departments, and units. For the specific purpose of control standards may be defined as a unit of measurement that can serve as a reference point for evaluating results. Thus, in a broad sense, objectives, goals, performance targets, etc. also serve as standard in control process. The exact nature of standards to be established largely depends on what is being monitored.

Step-II Determining performance measurements: Establishment of standards hardly serves any purpose unless steps are taken to determine the performance measurements. This step determines whether performance is in the line with the set standards. This must be ensured that measurement has to be made in such a way that it can be easily explained to and understood by employees and others.

Step-III Measuring performance: Performance itself is measured once the frequency and form of monitoring system are determined. There are numbers of techniques available for measuring performance: i) observation, ii) reports and other documents, iii) automatic methods, iv) inspections v) formal appraisal methods etc. Although quantitative measures are often used whenever possible, many important aspects of performance can be difficult to measure quantitatively. As a result, qualitative judgments by peers are often used. Most organizations now-a-days use combinations of quantitative and qualitative performance measures in carrying out the control process.

Step-IV Comparing the actual performance with the standards: The next critical step in control process is comparing actual performance with the established ones. It is absolutely necessary to identify deviations and analyses the cause of such deviations. The deviations may happen due to a number of reasons existing in the business environment and it may also happen due to wrong setting of standards.

Step-V Initiating corrective action: The results of the analysis of the deviations enable managers to take corrective actions according to the situation. The standard may be modified or readjusted; corrective measures may be taken to improve performance as the situation demands. Some corrective actions are training of the employees, introduction of new technology, job reengineering etc.

4. Relationship between Planning & Controlling

Planning has been defined as "an analytical and decision-making process that ends with the development of a specific plan of action." However, to achieve success it is necessary to translate intention into action. This signifies the relationship between planning and controlling. Steiner has defined control as "the process of making sure that performance takes place in conformance with plans." This definition makes it clear that the two functions, planning and controlling are interrelated. It is not possible to exercise control unless there is a plan.

However, despite the linkage between planning and controlling, managers should keep two functions separate and compartmentalized. It is required that the employees learn to view the two processes differently and behave accordingly. The relationship between planning and control can be explained as follows:

1. Planning Originates Controlling:

In planning the objectives or targets are set in order to achieve these targets control process is needed. So, planning precedes control.

2. Controlling Sustains Planning:

Controlling directs the course of planning. Controlling spots, the areas where planning is required.

3. Controlling Provides Information for Planning:

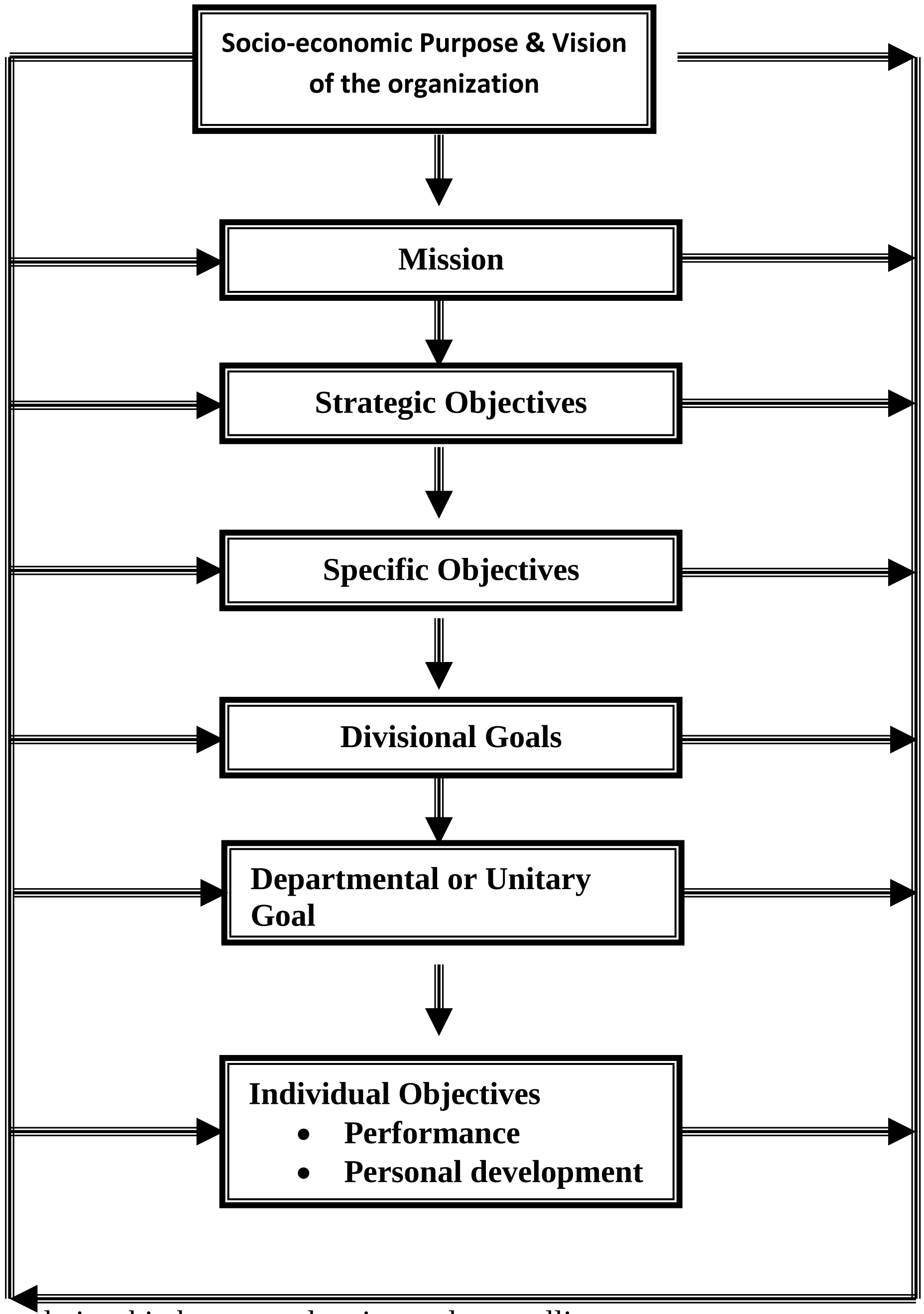
In controlling the actual performance is compared to the standards set and records the deviations, if any. The information collected for exercising control is used for planning also.

4. *Planning and Controlling are Interrelated:*

Planning is the first function of management. The other functions like organizing, staffing, directing etc. are organized for implementing plans. Control records the actual performance and compares it with standards set. In case the performance is less than that of standards set then deviations are ascertained. Proper corrective measures are taken to improve the performance in future. Planning is the first function and control is the last one. Both are dependent upon each other.

5. Planning and Control are Forward Looking:

Planning and control are concerned with the future activities of the business. Planning is always for future and control is also forward looking. No one can control the past; it is the future which can be controlled. Planning and controlling are concerned with the achievement of business goals. Their combined efforts are to reach maximum output with minimum of cost. Both systematic planning and organized controls are essential to achieve the organizational goals.

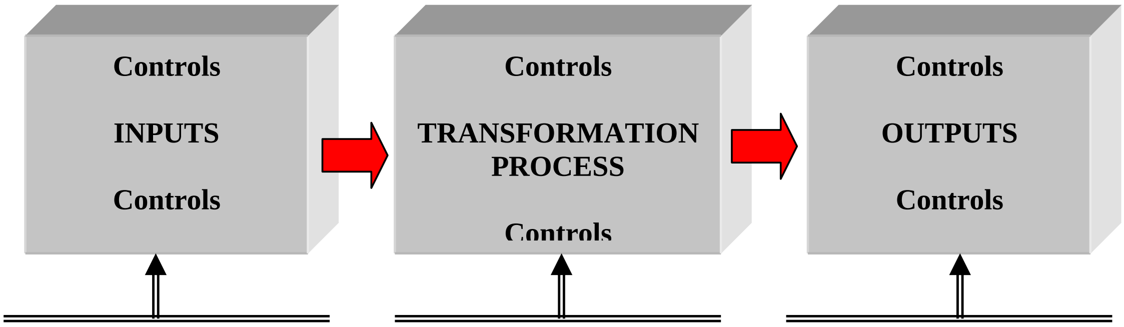


The relationship between planning and controlling

However, despite the linkage between planning and controlling, managers should keep two functions separate and compartmentalized. It is required that the employees learn to view the two processes differently and behave accordingly.

5. Types of Control

Following the systems approach, organizational cycle may be viewed as inputs, transformation processes, and outputs that occur at different points of time. Accordingly, controls can be classified on the basis of their timing or stage at the productive cycle, depending on whether they focus on inputs, processes, or outputs. Managers often have options regarding the stage in the organizational cycle at which they will institute controls. The three types of controls based on timing are feedforward control, concurrent control, and feedback control.



Feed-forward Controls
Regulates inputs to ensure that they meet standards necessary for transformation process

Concurrent Controls
Regulates ongoing activities to ensure that they conform to organizational standards

Feedback Controls
Regulates product or service after completion to ensure final output meets organizational standards and goals.

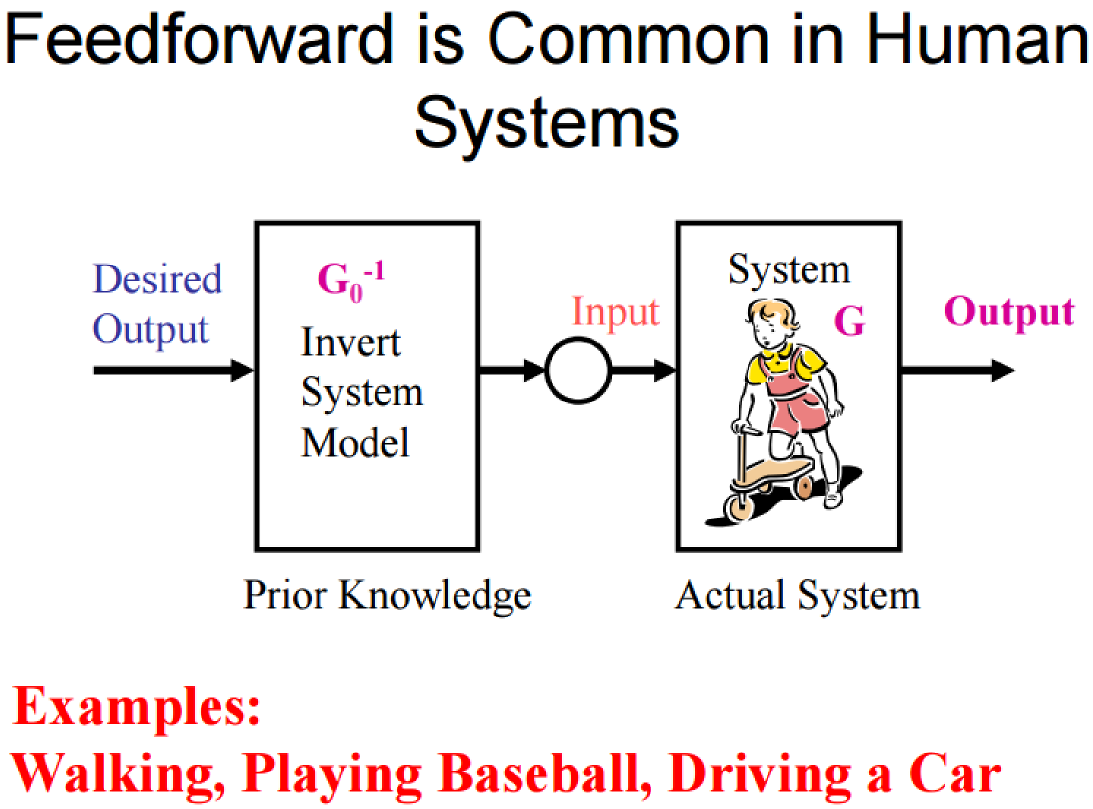
1) Feed-forward Controls

Feed-forward Controls are future-oriented. They attempt to detect and anticipate problems or deviations from the standards in advance of their concurrence. They are in-process controls and are much more active, aggressive in nature, allowing corrective action to be taken in advance of the problem.

Feed-forward controls thus anticipate problems and permit action to be taken before a problem actually arises. Feed-forward control mechanisms can be classified under two broad categories: a) diagnostic and b) therapeutic.

a) Diagnostic controls seek to determine what deviation is taking place. Types of controls indicate deviations of the actual from the standard but they cannot discover the reason behind such deviations.

b) Therapeutic controls on the other hand tell managers both what and why, and then proceed to take corrective actions. An example of these types of controls is the providing employee training through the analysis of the training need. Here problems regarding employee behaviour are first identified with analysis of the training need. Then the corrective actions are suggested through the training programme.

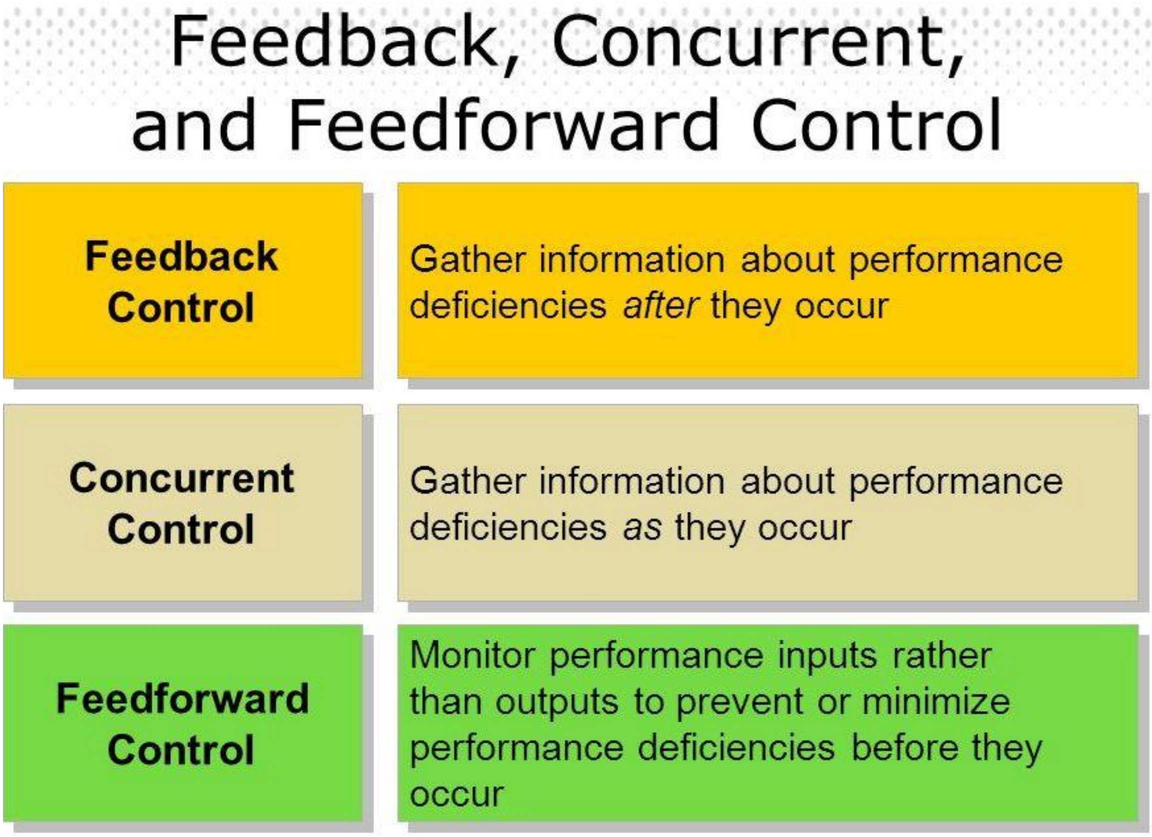


2) Concurrent Controls

Concurrent control, also popularly known as steering control is executed while the activities are taking place. As it allows people to act on a process or activity while it is proceeding or running, it is called steering control. Corrections and adjustments are made according to the requirement of the ongoing process. Such controls focus on establishing conditions that will make it difficult or impossible for deviations to occur. They prevent any trouble from occurrence.

3) Feedback Controls

Feedback control is future-printed. It is historical in nature and is also known as post-action control. The implication is that the measured activity has already occurred, and it is impossible to return and correct performance to stop deviation. Rather necessary corrective actions may be taken depending upon the feedback received from the process. Feedback controls therefore focus on the end results of the process. Such control provides information for managers which in turn help them to undertake future planning. The fundamental objectives of such controls are the prevention of the repetition of same mistakes over and over again.



6. Concept of Multiple controls

Organizations typically set up multiple control systems that use two or more of the above-mentioned control processes simultaneously, and involve several strategic control points. Strategic control points are performance areas chosen for control because they are specifically important for achieving organizational goals. Multiple control systems develop because of the need to control the different aspects of an organizational cycle, encompassing inputs, transformation, and outputs.

Organizations that do not have multiple control systems focusing on strategic control points often experience difficulties that cause managers to reevaluate their control processes.

Depending on the degree of human discretion required in the process controls can also be classified into: a) Cybernetic control systems and b) Non-cybernetic control systems.

a) Cybernetic Control System is a self-regulating control system that, once it is put into operation, can automatically monitor the situation and take corrective action as required. Although the growing use of computers has increased the possibilities for cybernetic control, most control systems in the organizations still use a high degree of human involvement.

b) A non-cybernetic control system is one that relies on human discretion as a part of the process. Strictly speaking, even the systems that involve relatively very little human discretion, such as a computerized inventory system with automatic ordering capacity, can not completely ignore the involvement of human element in the process. Similarly, very complex decisions involving human elements are taken with the aid of computer modeling and software. Cybernetic to non-cybernetic control system can therefore be imagined as a continuum. Depending on the inclination to the extremes the type is usually identified.

7. Tools and Techniques of Control

As management is a very complex, and multidimensional process there exists a large number of techniques in various functional areas. It is not possible to discuss all of them in the limited scope of this book. A few important control techniques have been selected for detail discussion.

A. Budgetary Control

The primary financial control for any organization is the budget. It is the most widely used technique of control used by any formal organization. A budget is both a plan and a control inasmuch as the preparations of budgets is an integral part of the planning process and the budget itself is the end point of the planning process, that is statement of plans. In fact, some managers even refer to their budgetary controls as profit plans.

A budget is an estimate of income or expenses for a specific time period; and particular estimates it contains become the standards against which future performances will be measured and evaluated.

Budget usually requires input from those whose activities will be funded and they, in turn, will control the budgets. Three major varieties of budgets prepared in most organizations are presented below:

Common varieties of Budgets used in organizations	
Operating Budgets	Projections or estimates of the goods and services the organization expects to consume in the budget period. These include expense budgets and revenue budgets for an entire organization or nay of its parts for a fixed period of time.
Cash Budget	Projections or estimates of the amount of cash that will flow into and out of an organization or any of its parts for a fixed period. Cash budget includes income (cash from all sources, including borrowing) and outlay (cash payments for everything including interest on borrowed funds.

Capital Expenditure Budget	Projections or estimates for the amount of money that will be needed to add fixed or long-term investment assets to the organization over a fixed number of months or years. Such assets include plant, machinery, and equipment etc.

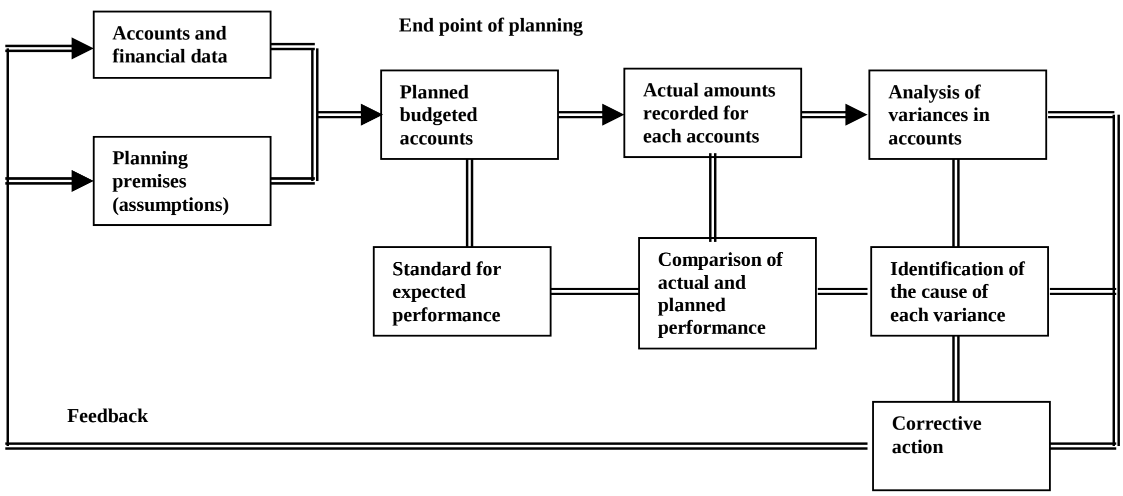
i) Nature of Budgetary Control

Budgets express plans, objectives, and programmes of the organization in the financial or monetary terms. Thus, budgets are consolidated statements of planned revenue and expenditures – by category and period of time. It is quite obvious that planning is an integral part of any budget.

One the budget is planned, measures of expenditures are made on a periodic basis and compared with budgetary figures. Management is thus enabled to observe deviation of actual expenditures from budgeted accounts and take corrective action, if warranted.

Budgetary control is a system of using the target figures established in a budget to control managerial activities by comparing actual performance with plan targets.

Budgetary control is a simple and direct application of the essentials of the control process. This process follows the fundamental steps of controlling as mentioned earlier. This process also enables managers to monitor continually and adopt corrective actions whenever necessary. The figure below presents budgetary control process and its link with planning:



Budgets relating planning and control

ii) Purpose and Types of Budgets

Every modern organization is supposed to have a budget for each of its functional areas or major activities. The fundamental distinction between operating budgets and capital budgets is already drawn. It may be recalled that operating budgets are for forecasting sales and allocating financial resources and supplies. Capital budgets are for purchasing equipment and facilities. Two other budgets are production budgets and personnel budgets. The table below provides more detail about the different budgets.

Type of budget	Brief description of purpose
Sales Budget	Provides an estimate of the amount and source of expected revenues
Production Budget	Express physical requirements of expected production, including labour, materials, and overhead requirements for the budget period.
Expense Budget	Provides details for allocation of various expenses such as selling, general, and administrative.
Cash Budget	Forecasts the flow of cash receipts and disbursements
Capital Budget	Outlines specific expenditures for office, plant, equipment, machinery, inventories, and other capital items
Balance Sheet Budget	Forecasts the financial status of assets, liabilities, and net worth at the end of the budget period.

Types of budgets

Although these budgets are treated as separate and distinct units, they are in fact part of a comprehensive system. The sales budget has the key position as being projected as the main function of the business organization.

iii) Benefits and Limitations of Budgetary Control

The use of budget on a wide scale in both profit and non-profit organizations is evidence of the benefits of budgeting. Budgets are used by managers widely to plan, monitor, evaluate, and control diverse activities and operations at every level of the organization. Budgets have many features that are potentially helpful to organizations and their members in reaching their goals but there are various limitations regarding use.

a. Benefits of budgetary control:

The most obvious advantage of budgetary control is that the budget provides a comparable statement of goals, in uniform financial terms, for all organizational units. Moreover, the budget serves as a standard of performance, and deviations from this standard are readily measurable. Such deviations provide the basis for necessary corrective action.

The proper use of budgets provides following indirect benefits:

1. The use of budgets ensures a clear statement and understanding of organizational goals. It is because managers are forced to develop and state attainable goals for different units of the organization.
2. The use of budgets leads to better planning of all phases of operations. Budgets as plans serve to emphasize the continuous nature of the planning-controlling-planning cycle.
3. Budgets enable accountants to report current operations and forecasts future performances.
4. Finally, since budgets measure the performance of organizational units the consistent and uniform application of budgets results in a more clearly defined organizational structure.

b. Limitations on the use of budgetary control:

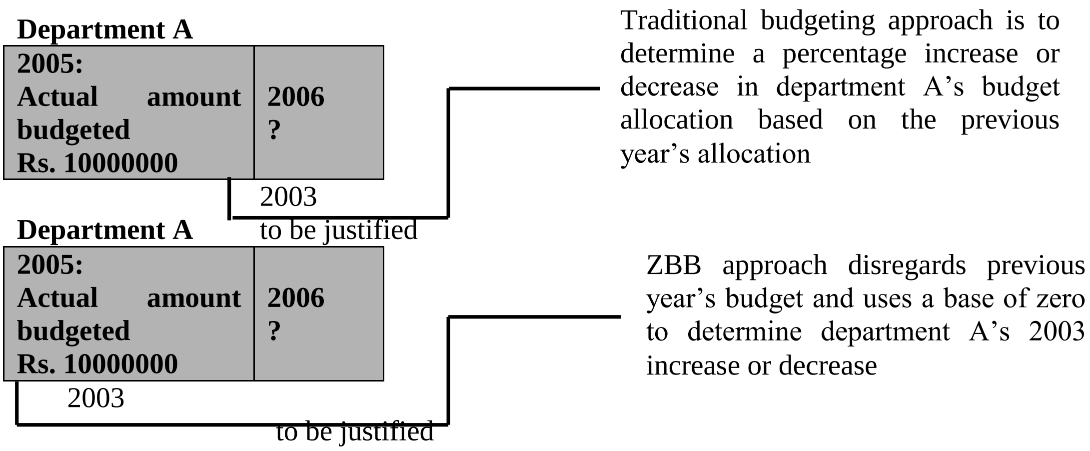
1. It often sounds like a paradox that one of the strengths of budgets – translating almost all aspects of organizational performance into a single comparable monetary unit of measurement – often becomes their greatest weakness. As a result of this practice only a few easily measurable items are measured, mainly those aspects of organizational performance that can be measured in terms of money. Certain factors such as managerial performance or comprehensive plan for organizational development are often ignored because of measurement problems.
2. There is the danger of confusing symptoms with causes. A sudden fall in the sales revenue may not necessarily be caused by less effort of sales team. Rather the problem may be with quality of the product, or change in customers' taste and preference or appearance of a better product introduced by the competitor. In such cases interpretation from budgets are often faulty.
3. There is also the problem that staff managers will exercise autocratic control over line managers. The task of the financial controller or the budget director is to coordinate and guide the development of budgets, but the actual control of performance has to remain in the hands of operating managers.
4. Finally budgets tend to become static and fail to reflect the changing situations.

Budgets prove to be very effective tools of control if they are based on adequate research, justifiable needs and expectations, and input from all levels of the organization that are to be brought under control. Budgets must be viewed as educated guess and not as facts of the organizational life. They are feed-forward controls as they provide a means for continual monitoring of ongoing operations. They must be reviewed and adjusted on the periodic basis in the light of changing circumstances. How effective budgetary controls will be largely dependent upon the manner the tool is handled by the managers of the organizations.

8. **Zero-Base Budgeting (Zbb):**

The conventional approach to budgeting is called incremental budgeting. Under this conventional approach, an organization formulates its budgets upon certain pre-decided amounted projected from the previous budget period. Zero-based-budgeting, on the other hand, is different from this conventional approach. Zero-based-budgeting divides the programming of an organization into various 'decision packages', which consist of goals, activities, and

required resources. Costs or expenditures are calculated from the 'zero use', as if the programme never existed in the past.
The figure below illustrates the concept comparing with traditional budgeting:



ZBB requires management to take a fresh look at prorammes and activities each year instead of giving an increment to the last year's budget. In other words, the past year's budgetary allocations are not brought into consideration as a basis for the current year's budget. Each programme or decision-package has to be considered a fresh and justified in cost-benefit terms.
There are three basic features of ZBB:

1. Formulating decision packages that define the activities, costs, and benefits of each individual unit of the organization.
2. Ranking those activities carried out by the organization and its units in order of priority. The ranking is done on the basis of decision packages. Top management evaluates these priorities to arrive at a final ranking.
3. Allocating resources to the highest priority activity first, then to the next, and so on, until the costs are no longer justified by the benefits or until funds get exhausted – whichever occurs first.

Defects: ZBB, however, can never solve all the problems associated with budgetary control. It is because organizations are likely to face problems in implementing it.
Three major disadvantages of ZBB are the following:

1. Its implementation is expensive, requiring a lot of time of line and staff managers
2. It requires a huge amount of paper-work to be done
3. Managers still have a tendency to subvert the system by inflating the benefits of pet projects in order to get necessary funds released for them.

However, ZBB helps to establish a system whereby an organization's resources are allocated to the programmes which have been assigned high priority. Low priority programmes may be reduced or totally eliminated. Finally, only the well managed big companies, with strong financial base, in practice, are competent enough to practice ZBB.

9. Management Audit

Management audit is a systematic and impartial examination, analysis, and appraisal of management's overall performance. It is basically a procedure of appraisal of management's total performance by means of an objective and comprehensive examination of the organization structure, its objectives, plans, and policies, its operation and its use of physical and human resources. The 'management audit' signifies a critical assessment of management of the enterprise from the broadest point of view. It may be undertaken by the management itself or may be carried on with the help of management consultants.

One of the very important features of management audit is that instead of comprehensive audit, company may even apply it to a specific section of the organization. As regards its scope, 'production efficiency' or 'investment appraisal' may be the subject matter of 'management audit'. It may even be used to provide guidance on critical assessment of capital budgeting or profit performance.

Advantages:

Management audit serves to make overall managerial functions more effective. Its advantages may be outlined as follows:

It is an insurance against self-complacence and illusions of good management on the part of managerial personnel.

It supplies management with useful information on a continuous basis which measures efficiency and shows deviations from plans, policies, and procedures.

It has also a preventive effect on deviations and mistakes because audit keeps executives on the track and make them careful. It acts as a sort of safety valve, watchman, and conscience keeper of the organization.

It can appraise all aspects of the organization and lead not only to sound performance, but also to peak performance.

It enables management to see things in proper perspective and in the light of future developments.

Since plans, policies, and operations are subjected to critical study under management audit, their appropriateness and effectiveness in the organization are also revealed in the process.

Limitations

The major limitation of management audit is that it may discourage management from taking initiative and bringing about changes in policy and procedures in view of risks involved. In other words, management audit may induce executives to play safe where critical decisions are required to be taken. Executives are also likely to be demoralized if their performance is critically reviewed and responsibility cast on them for deficiencies caused by factors beyond their control.

10. Performance Budgeting

Performance based budgeting has been defined as a system wherein managers are provided with the flexibility to utilize agency resources as required, in return for their commitment to achieve certain performance results. This was also the fundamental underlying philosophy of the business planning process.

i) Definition

Performance budgeting is a system of planning, budgeting, and evaluation that emphasizes the relationship between money budgeted and results expected.

Performance budgeting:

a. *Focuses on results*: Departments are held accountable to certain performance standards. There is a greater awareness of what services taxpayers are receiving for their tax dollars.
b. *Is flexible:* Money is often allocated in lump sums rather than line-item budgets, giving managers the flexibility to determine how best to achieve results.
c. *Is inclusive:* It involves policymakers, managers, and often citizens in the budget "discussion" through the development of strategic plans, identification of spending priorities, and evaluation of performance. 3
d. *Has a long-term perspective:* By recognizing the relationship between strategic planning and resource allocation, performance budgeting focuses more attention on longer time horizons.

Common characteristics of performance budgets include:

i. Agency identification of mission, goals, and objectives;
ii. Linkage of strategic planning information with the budget;
iii. Development and integration of performance measures into the budget; and
iv. Disaggregation of expenditures into very broad areas (such as personnel, operating expenses, and capital outlays) rather than more specific line-items.

As shown in *Figure*, performance budgeting is an integral part of an *ongoing process* that focuses on government accountability and performance improvement.

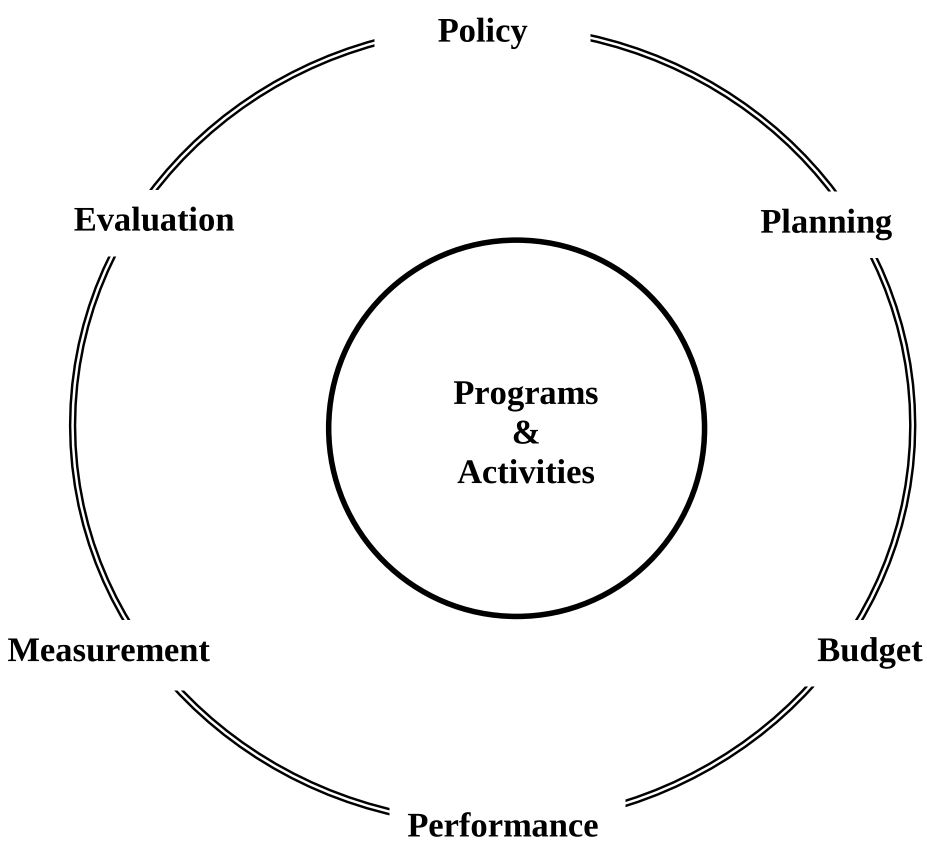


Figure: Budgeting is Part of the Performance Measurement Cycle

ii) Contrast to Traditional Budgeting Methods

Performance budgeting represents a significant departure from traditional line-item budgeting practiced by the organizations. A line-item budget is primarily a tool for controlling expenditures. A line-item budget typically spells out the level of spending allowed for specific purposes. As the fiscal year progresses, departmental spending must be within these amounts unless formal budget amendments are approved. Underspending in one category cannot automatically be used to supplement another category.

While line-items can be useful in helping managers with internal control, they are not as useful as a policy or decision-making tool. They assure elected and administrative officials that money is being spent only for approved purposes, but they do not show what is being accomplished with the money.

Other major drawbacks of line-item budgets include:

1. They promote "inertia," with the focus being on making marginal changes from year to year.
2. They can result in inefficient and uneconomical activities because management is not permitted enough flexibility to address changing situations and often must "use it or lose it" at the end of the year.

3. They invite micromanagement, encouraging questions such as "why are we spending so much on supplies?" rather than "how have our efforts increased manufacturing exports this year?"
4. In contrast, performance budgeting has more of a policymaking orientation. It:
5. Connects plans, measures, and budgets;
6. Forces departments and policymakers to think about the big picture;
7. Provides better information about the impact of budget decisions on people;
8. Gives departments increased budgetary flexibility and incentives for generating budget savings;
9. Allows for ongoing monitoring to see if agencies are moving in the right direction;
10. Strengthens legislative decision making and oversight;
11. Enhances financial accountability to citizens, decision makers, and governmental monitoring agencies; and
12. Supports better management and evaluation.

A performance budget tells the reader much more about what the department does and what it is expected to accomplish with the funds budgeted.

iii) Implementation Steps

As you move towards implementation, be sure to give attention to the shortcomings that derailed earlier efforts-in particular, take steps to help ensure that performance information will be *used*. Also, be aware that implementation is

a continuous process; it evolves as improvements are made in performance measures and the reporting of performance.

Step One: Gain consensus and commitment from key players.

As discussed earlier *Creating and Sustaining a Supportive Environment*, there are two basic approaches toward creating both a structure and attitudes that will support performance budgeting over the long-term the "top-down" and the "bottom-up" approach.

Step Two: Develop an implementation plan and timetable.

Development of an implementation plan can help smooth your transition to performance budgeting by addressing potential roadblocks, establishing clear expectations and responsibilities, and laying out a timetable to keep efforts on track.

Step Three: Provide training.

Training in performance budgeting will involve not only introducing new *concepts* to managers and employees, but also introducing *new budget forms* that must be completed and *new procedures* that must be followed. One needs to consider the following levels of training:

1. Briefing sessions or workshops to introduce the concepts of performance measurement and strategic planning.

At a minimum, both managers and policymakers should receive training on:

- The benefits of strategic planning and performance measurement;
- The strategic planning process and the mechanics of developing performance measures; and

- Information on ways to use performance information, including allocating resources, formulating and justifying budgets, performance contracting, and personnel management.

2. Development of budget instructions and guidelines. While the introduction of performance budgeting has typically resulted in an *overall reduction* in the number of budget forms that agencies must fill out, there are usually a number of new forms required to show linkages between budgets and expected performance results.

3. Ongoing technical assistance and training. Performance budgeting will be a big change for most departments-expect to provide some “hand-holding” along the way. This task most often falls to the budget office.

Step Four: Review/develop strategic plans.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. As such, it can provide a long-term context for annual budget decisions. The observation has been made that “although strategic planning has become popular in government in recent years, it is frequently difficult to see the connection between what a strategic plan says and what next year’s budget does.”18 Performance budgeting initiatives can provide that important connection.

Step Five: Develop the budget and allocate resources.

Managements have taken a variety of approaches to developing performance budgets. Three of the most common approaches are described below.

1. Activity-Based Costing/Unit Cost Budgeting. A number of performance budgets are built around the concept of activity-based costing. This approach typically involves:

- Linking activities or strategies to performance outcomes;
- Prioritizing strategies;
- Identifying the costs of carrying out specific activities or strategies; and
- Budgeting based on desired levels of performance.

2. Base Budget with Performance Incentives. Another approach that governments have taken to developing a performance budget is to add performance incentives (and expectations) to a base budget allocation.

3. Program-Based Performance Budgeting. In many organizations, managements have found that a “program” structure is well-suited to performance budgeting. In other words, expected performance is defined across broad “program” or “functional” lines (such as economic development or education) rather than departmental lines. “Program” areas represent the kinds of services that management provides.

4. Investment Budgeting. While not as common as the three methods described above, there is increasing interest in a concept known as “investment budgeting.” Like performance budgeting, investment budgeting focuses on outcomes. But, while performance budgets are based on the *costs* of desired performance outcomes, investment budgets are based on expected “rates of return,” assessing both long-term costs and benefits.

Step Six: Develop supporting data and accounting systems.

More often than not, managements embarking on performance budgeting initiatives find that there is a mismatch between their budgeting and accounting systems.

The most common approach to solve such problem is to establish “cost centers,” which essentially are separate accounts for each major strategy or activity in the budget. The accounting system can then be used to track expenses in each of these accounts.

Step Seven: Monitor performance and report results.

Once appropriations are made, periodic analysis of performance information is needed to determine whether or not program activities are on track.

Step Eight: Act on results.

It is not enough simply to undertake performance measurement activities-performance information must be used in order to be of value. Incentives (or “rewards”) are often provided to encourage agencies to use performance information to improve service delivery.

11. Importance of Control

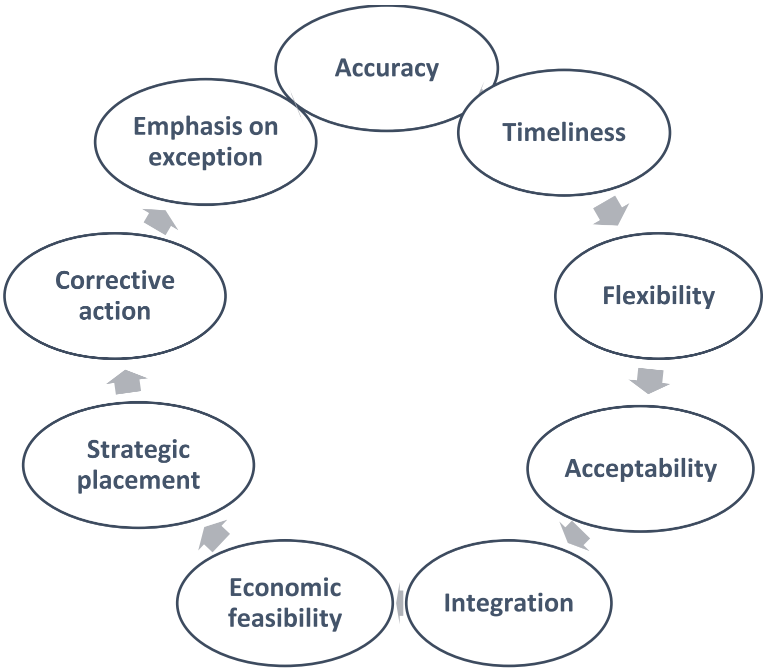
The necessity of control in business organization cannot be over-emphasized. Proper control smoothens the working of an organization. Absence of control leads to lowering of efficiency of the employees, since there is no check on their performance. Existence of an efficient control system creates an atmosphere of order and discipline and helps greatly in minimizing the chances of work being defective or being delayed. The importance of control function also arises from the following benefits derived from it.

1. ***Adjustment in operations:*** A control system acts as a device for adjustment of organizational operations. There are various objectives which serve as the basis of control. It is through the control function that these objectives are achieved. Control provides the means of determining whether plans are being implemented and there is progress towards the achievement of objectives. It facilitates measures to be taken, if necessary, to correct any deviations.
2. ***Managerial responsibility:*** In every organization, managerial responsibility is created through assignment of activities to various individuals. This process starts at the top level and then goes down to the lower level. While manager assigns work to be carried out by his subordinates, he remains responsible for the performance of his subordinates, he must exercise some control over them Thus controlling enables managers to discharge their responsibilities.
3. ***Psychological effect:*** The process of control induces individuals towards better performance. The performance of individuals is evaluated in the light of targets set for them. A person is likely to act according to the plan, if he is aware that his performance will be evaluated against the planned targets. Thus, he is more inclined to achieve the results according to the standards fixed for him, particularly when there is provision for reward or punishment on the basis of the performance. Since performance measurement is one of the basic elements of the process, it ensures that every person in the organization contributes to his maximum ability.

4. ***Coordination in action:*** Though coordination is the essence of management and is achieved through the proper performance of all managerial functions, control affects this aspect significantly. Controls are designed in such a way that they focus not only on the operating responsibility of a manager, but also on his ultimate responsibility. So this force a manager to coordinate the activities of his subordinates in such a way that each of them contributes positively towards the objectives. Since this follows throughout the organization, coordination is achieved in the organization as a whole.
5. ***Organizational efficiency and effectiveness:*** If the control function is carried out properly, it results in organizational efficiency and effectiveness. By making manager responsible, motivating them for higher performance, and achieving coordination in their performance, control ensures that organization works efficiently. As regards effectiveness, the organization is effective if it is able to achieve its objectives. Since control focuses on the achievement of organizational objectives, it necessarily leads to organizational effectiveness.

12. Essentials of Effective control system

Effective control systems tend to have certain common characteristics. The importance of these characteristics varies with the situation, but in general effective control systems have following characteristics.



1. Accuracy:

Effective controls generate accurate data and information. Accurate information is essential for effective managerial decisions. Inaccurate controls would divert management efforts and energies on problems that do not exist or have a low priority and would fail to alert managers to serious problems that do require attention.

2. Timeliness:

There are many problems that require immediate attention. If information about such problems does not reach management in a timely manner, then such information may become useless and damage may occur. Accordingly, controls must ensure that information reaches the decision makers when they need it so that a meaningful response can follow.

3. Flexibility:

The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would not be suitable for a changing environment. These changes highlight the need for flexibility in planning as well as in control.
Strategic planning must allow for adjustments for unanticipated threats and opportunities. Similarly, managers must make modifications in controlling methods, techniques and systems as they become necessary. An effective control system is one that can be updated quickly as the need arises.

4. Acceptability:

Controls should be such that all people who are affected by it are able to understand them fully and accept them. A control system that is difficult to understand can cause unnecessary mistakes and frustration and may be resented by workers.
Accordingly, employees must agree that such controls are necessary and appropriate and will not have any negative effects on their efforts to achieve their personal as well as organizational goals.

5. Integration:

When the controls are consistent with corporate values and culture, they work in harmony with organizational policies and hence are easier to enforce. These controls become an integrated part of the organizational environment and thus become effective.

6. Economic feasibility:

The cost of a control system must be balanced against its benefits. The system must be economically feasible and reasonable to operate. For example, a high security system to safeguard nuclear secrets may be justified but the same system to safeguard office supplies in a store would not be economically justified. Accordingly, the benefits received must outweigh the cost of implementing a control system.

7. Strategic placement:

Effective controls should be placed and emphasized at such critical and strategic control points where failures cannot be tolerated and where time and money costs of failures are greatest.
The objective is to apply controls to the essential aspect of a business where a deviation from the expected standards will do the greatest harm. These control areas include production, sales, finance and customer service.

8. Corrective action:

An effective control system not only checks for and identifies deviation but also is programmed to suggest solutions to correct such a deviation.

9. Emphasis on exception:

A good system of control should work on the exception principle, so that only important deviations are brought to the attention of management, In other words, management does not have to bother with activities that are running smoothly. This will ensure that managerial attention is directed towards error and not towards conformity. This would eliminate unnecessary and uneconomic supervision, marginally beneficial reporting and a waste of managerial time.

13. Causes of Resistance to Control

Any controlling system in organizations faces certain resistance from the members of the organization. The traditional controlling mechanisms mostly operate through tops-down approach and their intensity is highest at the bottommost level of the organizational hierarchy. It's very much pertinent to identify the principal causes of the resistance in order to develop strategies to neutralize such resistance.

I) Perception of loss of freedom: Continuous monitoring and feedback during activities are perceived as the restrictions and employees in general, resent such loss of freedom. They wish to operate in an environment with minimum monitoring.

II) Perception of additional workload: Any controlling mechanism is based on adequate reporting and record keeping. Generating such reports and records are perceived as additional and unnecessary burden by the employees.

III) Perception of Mistrust: Employees who work under strict control of the management often develops a concept that the management does not trust them. Such perception may often lead to the resistance to control.

IV) Hindrance to the competence and innovation: Controlling mechanism is often perceived as a barrier to innovative work idea and competence of the employees. Such ideas often generate resistance to control process.

V) Organic to Mechanistic: Controlling mechanism is often depicted as a component of mechanistic organization structure rather than organic structures. In organic structures even minimum control therefore meet with stiff resistance from the employees.

VI) Lack of communication: Management often fail to communicate the significance of the control mechanism to the employees. As a result, employees often misunderstand and fail to identify the importance of the process. Hence, they develop resistance to the control processes.

VII) Excessive control behaviour of Supervisors: In organizations, immediate supervisors often misuse the control system. They become obsessed with control and put unnecessary pressure on the subordinates. Consequently, the subordinates develop resistance to control.

IX) Wrong implementation of the process: Management often fails to identify the relevant control mechanism for the designated activity that results into the mismatch of the actual activity and the corresponding control mechanism. As a result, employees associated with the process develop deep apathy for control.

X) Failure to integrate with planning: Managers often fail to integrate planning with the controlling. However, there exists a close complementary relationship between planning and controlling. If the process of controlling cannot be properly integrated with the organizational planning process employees may not understand and develop a resistance to controlling.

14. Limitations of Control

A. No control over external factors: Control is intended to be exercised on factors which are internal to an enterprise. But there are external factors like government action, change in market conditions, introduction of new technologies, and materials of production etc. which are often beyond the control of management. So, controls may be ineffective in the face of changing external factors.

B. Want of satisfactory standards: Satisfactory standards help control operations. But there are many areas and activities with intangible nature of performance which do not permit accurate measurement. No satisfactory standards can be established for them, e.g. results of management development, public relations, human relations, advice of staff service, loyalty of workmen, and such other human behavior.

C. Measurement imperfections: Intangible performance presents difficulties in setting up standards. It is also a complicated matter to measure its results in quantitative or qualitative terms. It is then left to managerial judgment and interpretation which cannot be taken as perfect measurement. Moreover, results of day-to-day activities involving uneconomic expenditure cannot be evaluated or measured properly on grounds of economy.

D. Limitations of corrective actions: Business can be run on an even keel if all deviations and mistakes can be corrected properly in time. This will guard against losses. Control operations are carried out in assumption of fixed personal responsibility and the person concerned is expected to adopt necessary corrective and remedial strategy. It is not uncommon that many deviations occur, but nobody in particular can be held responsible for them. Control becomes ineffective in such cases.

E. ***Adverse reaction against control:*** Control operations as a rule are not liked by the subordinates over whom they are exercised. Such operations curtail their freedom of action and interfere with their individual thinking and initiative. Control thus invites opposition and adverse reaction of the subordinates.

F. ***Practical impediments to application:*** Control involves analysis of deviations to find out their causes. But it faces great obstacles in such analytical work. First of all, it involves considerable expenditure. Secondly it requires skilled and experienced staff to cope with the situation. Thirdly, corrections and deviations may require some time and even stoppage of work which may result in loss to the concern.

II. Co-Ordination

In every organization, different types of work are performed by various groups and no single group can be expected to achieve the goals of the organization as a whole. Hence, it becomes essential that the activities of different work groups and departments should be harmonised. This function of management is known as 'co-ordination'.

Co-ordination is very essential in management. Business has various functions. These functions are performed by different individuals.
Moreover, performance of these functions requires division of work and grouping of activities and making decisions at different levels.
All these necessitate co-ordination for attaining the desired goals. Co-ordination is concerned with synchronizing, integrating or unifying all the group actions in an enterprise to achieve its objectives.
It is a process by which the manager achieves harmonious group efforts and unity of actions through balancing the activities of different individuals and groups of individuals and reconciling their differences in interest or approach, for the attainment of common goals.
In the words of Mcfarland, ***"Co-ordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of actions in the pursuit of a common purpose."***

In an organization, a number of persons work and every individual work is related with others. Since all persons in the organization contribute to the same end result, their contributions should be maximum. Therefore, it is the task of the manager to put together all the group efforts of the enterprise, and harmonies them carefully so as to give them commonness of purpose. This managerial function is known as 'co-ordination'.

1. Significance of Co-Ordination

The significance of co-ordination as a function of management mainly arises from the fact that work performed by different groups, units or departments form integral part of the total work for which an organization is established. With increasing size and scale of operations, the significance of co-ordination becomes more important. This is because of the following reasons.

(a) When there is growth in size and the volume of work, there will be more people and work groups. So there is greater possibility of people working at cross purposes as the unit and sub-unit goals may be considered more important by them than the organizational goals. Not only that, the large size may also lead problems of supervision and communication. Hence coordinating the activities in a large concern becomes a major task for the managers.

(b) Large organizations generally tend to have activities located at different places, which may not permit frequent and close interaction among people. Hence, the need for coordination becomes greater and it becomes a major responsibility for the managers.

(c) Growth in size of an organization is often combined with diversification of business activities. This may be due to new unrelated products being added to the existing products.

2. Features of Co-ordination:

The principal features of co-ordination may be stated as follows:

1. Co-ordination is concerned with the integration of group efforts and not individual effort:

It involves the orderly arrangement of the activities of a group of people. However, individual performance is related to the group performance. Co-ordination makes the individual efforts integrated with the total process.

2. Co-ordination is the concerted efforts of requisite quality and quantity given at the proper time:

In other words, co-ordination denotes co-operation i.e. collective efforts, plus time element and direction element. According to Haimann : ***"Co-ordination is the orderly synchronization of efforts of the subordinates to provide the proper amount, timing and quality of execution so that their unified efforts lead to the stated objective, namely the common purpose of the enterprise."***

3. Co-ordination is a continuous and dynamic process:

It is a continuous concept in the sense that it is achieved through the performance of functions. And it is dynamic in nature because the functions themselves are dynamic and may change over the period of time.

4. Co-ordination has three important elements, namely, balancing, timing and integrating:

Co-ordination of different activities becomes possible only when different duties are performed in the right time and in the right quantity.

5. The task of co-ordination and co-operation do not mean the same thing:

Cooperation simply means that two or more persons are associated voluntarily in the performance of some work through collective efforts.

6. Co-ordination is the responsibility of every manager:

Co-ordination is the responsibility of every manager in the organization, because he tries to synchronize the efforts of his subordinates with others.

7. Co-ordination may be internal or external:

Co-ordination, as a blending factor of all activities and efforts, is to be exercised both within and outside the enterprise. That is to say, co-ordination may be internal and external. Internal co-ordination means the co-ordination of activities between the employees, between the departments and managers at different levels inside the enterprise.

8. Co-ordination may be horizontal and vertical:

Horizontal co-ordination refers to co-ordination between the horizontal departments of the same level in the managerial hierarchy. Co-ordination of various functions between the independent managers calls for a greater ability on the part of the superior manager. He has to ensure greater understanding between the departmental managers so that they may cooperate.

On the other hand, vertical co-ordination takes place between the various links of the different levels of the organization. For example, take the case of production department where we have the works manager and under him the superintendent and then the foreman, and, lastly, the workmen.

In this situation, the activities assigned to the different levels must be coordinated. This vertical co-ordination is secured by delegating authority, together with the means and manner of directing, supervising and controlling.

3. Importance or Necessity of Co-ordination:

Co-ordination is regarded nowadays as the essence of management function. Need for co-ordination arises out of the fact that different elements and efforts of an organization are to be harmonized and unified to achieve the common objectives. Without proper coordination among all the members of a group, management cannot bring together the diverse elements into one harmonious whole. Its significance can be indicated by pointing out its importance or necessity in the following points:

i. Co-ordination is necessary to ensure harmonious and smooth working of an enterprise with its several departments, divisions or subdivisions:

According to Henry Fayol – ***"to co-ordinate is to harmonies all the activities of a concern to facilitate its working and its success."***

ii. Co-ordination ensures unity in direction in the midst of diversified activities:
iii. Co-ordination removes the conflict between personal interest of the employees and general interest of the organization:
iv. Co-ordination can produce something greater out of the collective efforts of the individuals:
v. Co-ordination provides a balance between the people of different capacities and abilities:
vi. Co-ordination reconciles the impact of internal and external forces in the organization and ensures smooth running of affairs:
vii. Co-ordination ensures voluntary co-operation of the different members of the group:
viii. Co-ordination is a basic element in all effective organizations and is said to be the first principle in organization:

4 Principles of Co-ordination:

For achieving effective co-ordination, the following fundamental principles are to be followed:

i. Direct Contact:

Co-ordination should be attained by direct contact with the parties concerned. Direct personal communications bring about agreement on methods, actions and ultimate achievement. It also eliminates red-tapeism and ensures prompt action. Direct contact is an effective means of co-ordination.

ii. Early Beginning:

Co-ordination can be achieved more readily at the initial stages of planning and policy-making. Therefore, direct contact must begin in the very early stages of the process. If an order for the supply of a particular goods has been booked and the raw materials to produce them are not available, there will be trouble.

Contact among the purchasing manager, production manager and sales manager at art early Stage would have made it possible to know whether the order could be executed.

iii. Continuity:

Co-ordination must be maintained as a continuous process. It starts from planning and ends when the objective is accomplished. Whenever there is division and distribution of functions among the managers and departments, co-ordination is necessary. Every time a new situation arises, a fresh effort of co-ordination is needed. So, the manager must constantly work at it until the purpose is served.

iv. Reciprocal Relationship:

Co-ordination should be regarded as a reciprocal relating to all factors in a situation, viz. production, sales, finance, men, and management. For example, when ‘P’ works with ‘Q’ and ‘Q’ in turn, works with ‘R’ and ‘S’ each of the four finds himself influenced by the others.

v. Pervasiveness:

Co-ordination is an all-embracing activity in every management function. It is required in all the activities at every level of the organization. It is to be exercised both within and outside the organization.

vi. Leadership:

Leadership is the most effective instrument of co-ordination. A leader in a group is the coordinator of the group activities. He harmonizes all efforts of persons in the group. A manager does not himself produce anything nor does he sell anything in the market.

He gets the commodities produced by the workers and gets them sold in the market by the salesmen. In fact, he provides leadership and co-ordinates various functions.

vii. Timing:

Timing is an important element of co-ordination. This principle points out that all functions in the enterprise are to be done at the same time and at the same speed. If the purchase department purchases and supplies materials timely to the production department, and if the production is done timely, then the sales department can deliver the commodities to the customers within the scheduled time.

viii. Balancing:

This principle refers to the quantitative element of co-ordination. It means that all works are to be done in right quantity. For instance, if a department produces half, another one-third and the third the full quantity, their activities cannot be balanced. They have to perform their job in right quantity for achieving co-ordination of their jobs.

ix. Integrating:

All activities, decisions and opinions are to be integrated to achieve the enterprise objective.

For integration what is necessary is that all men and departments must perform their jobs at the right time. For example, if all the parts of a machine are manufactured by the different departments at the right time, they can be assembled within the specific time. Assembling the parts of the machine is a coordinating function.

5. Implementation techniques of Effective Co-ordination:

The following measures or techniques have to be adopted in practice as tools for securing better co-ordination in the working of an organization:

i. Simplified Organization:

In large organizations, there is a tendency towards over- specialization. The organization gets divided into a whole series of units each one of which concentrates just on its own task. In fact, each unit tends to be bureaucratic and its activities become ends in themselves instead of being means to the overall ends of the organization.

ii. Harmonized Programmes and Policies:

The ideal time to bring about co-ordination is at the planning stage. The plans prepared by different individuals or divisions should be checked up to ensure that they all fit together into an integrated and balanced whole. The coordinating executive must ensure that all the plans add up to a unified programme.

Moreover, coordinated activities must not only be consistent with each other, but also be performed at the proper time.

iii. Well-designed Methods of Communication:

Good communication brings about proper co-ordination and helps the members of a business organization to work together. Flow of communication in all directions will facilitate co-ordination and smooth working of the enterprise. The use of formal tools like orders, reports and working papers, and informal devices like the grapevine will provide adequate information to all concerned.

Continuous, clear and meaningful communication provides every member with a clear understanding of the nature and scope of his work as well as that of other persons whose responsibilities are related to him. This aids the executives in coordinating the efforts of the members of their teams.

iv. Special Coordinators:

Generally, in big organizations, special coordinators are appointed. They normally work in staff capacity to facilitate the working of the main managers. A co-ordination cell may also be created. The basic responsibility of the cell is to collect the relevant information and to send this to various heads of sections or departments so that inter-departmental work and relationship are coordinated.

v. Co-ordination by Committees:

Co-ordination in management by committees is achieved through meetings and conferences. Sometimes different committees are appointed to look after different areas of management, namely, Purchase Committee, Production Committee, Sales Committee, Finance Committee, etc. These committees take the group decision by exchanging their views and ideas and so it has coordinating elements.

vi. Group Discussion:

Group discussion is the other tool for co-ordination. It provides opportunities for free and opens exchange of views and inter-change of ideas, problems, proposals and solutions. Face-to-face communication enables the members to attain improved understanding of organization-wide matters and leads to better co-ordination.

vii. Voluntary Co-ordination:

In ideal conditions, co-ordination should take place through voluntary co-operation of the members. The basic principle of voluntary coordination is the modification of functioning of a department in such a way that each department co-ordinates with other departments.

Each department or section or individual affects others and is also affected by others. Therefore, if those departments, sections or individuals apply a method of working which facilitates others, voluntary co-ordination is achieved. This can be done by horizontal communication.

8. Co-ordination through Supervision:

The supervising executives have an important part to play in coordinating the work of their subordinates. Where the work-load of an executive is so heavy that he cannot find adequate time for co-ordination, staff assistants may be employed. They may recommend to the senior official the action that he may take for ensuring co-ordination.

The cardinal principle involved in co-ordination is the balancing and keeping together the different activities for a well-knit aggregate function, and its effectiveness depends upon satisfactory delegation of authority, sharing of responsibilities and accountability, and proper supervision—keeping in view the oneness of the organization.