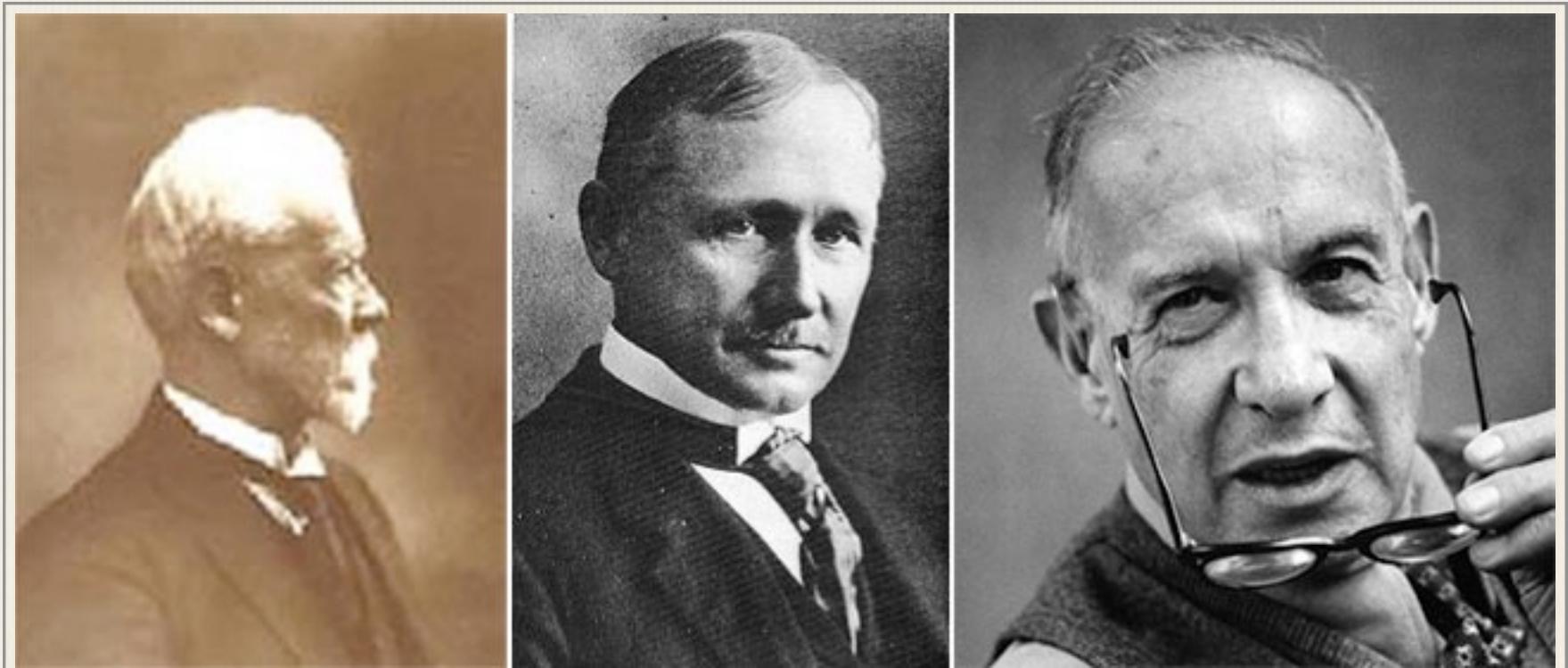


---

# Principles of Management

---

Developed By P.M.Bendre



Henri Fayol

F. W. Taylor

Peter F. Drucker

---

# About this Book

The idea of writing this book was to have a fresh outlook at the subject considering that:

- There are so many new developments, thoughts and ideas about the subject.
- During last years, there have been so many changes in the business scenario.

Further, the book is meant for PDGM-hybrid learning students who are already the working professionals in various age groups. These students are from different backgrounds. They will be pursuing their studies along with their professional careers. The book must create tremendous interest in their minds. Therefore, the language of this book has been kept as easy to understand as possible, and attempt has been made that from chapter to chapter, more and more interest and enthusiasm should get built into the students' mind, and they think seriously about the subject.

The purpose of this book is to help the students to implement Principles of Management in their profession and to positively advance their progress and make them successful entrepreneurs as well as responsible citizens, family members, employees, occupiers/directors and what not.

While writing this book, I have referred to lectures of Prof. Venkat Iyer, which give us superlative guidance because of number of years of his valuable experience. I am thankful to him from my heart.

I have also taken help of so many existing books as well as the Internet in order to make the subject complete in all respects and practically useful to the students.

I have used my knowledge and my 33 years industrial experience, which I earned in organizations like Bosch and Kirloskar as Chief of Production as well as Quality. Prof. Rajesh Aparnath has offered me a valuable opportunity to write this book and also given me most valuable guidance, for which I am thankful to him from the bottom of my heart.

I also thank Ms Amandeep Kaur and the staff of Welingkar Institute of Management Development and Research.

I wish all the best to the students.

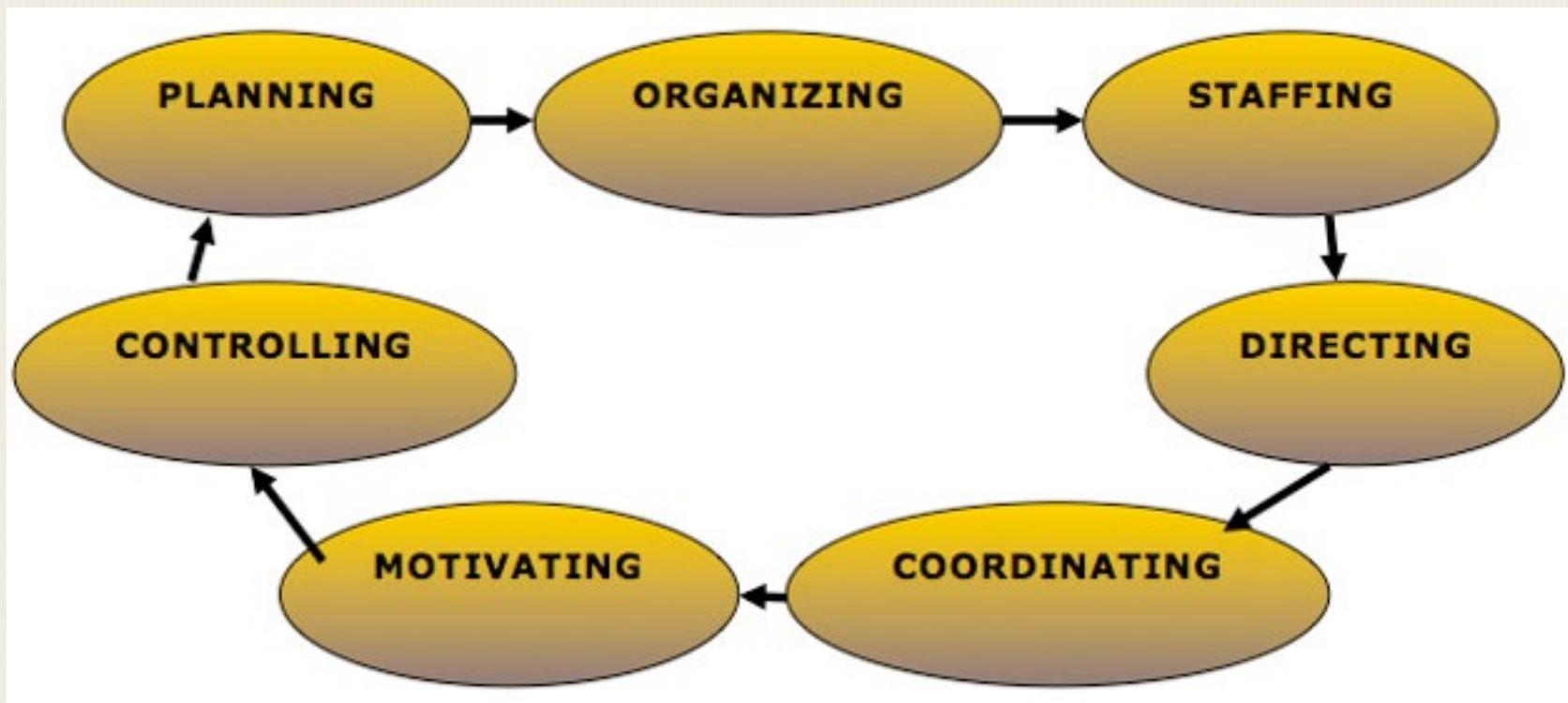
With Best Regards,

P.M.Bendre

[pmbendre@gmail.com](mailto:pmbendre@gmail.com)



## Principles of Management



### Objectives

At the end of the chapter, you will be able to understand meaning and definitions, functions and importance of management and you will start giving a serious thought to becoming a good manager.

## Structure

- 1.1 My dear students, a warm and hearty welcome to all of you!
- 1.2 Introduction to Management
- 1.3 Meanings and Definitions of Management
- 1.4 Management as a Process, coordination, and function
- 1.5 Five M's in the business
- 1.6 Activities for the students
- 1.7 Necessity of Management and SMART Goals
- 1.8 Activities for the students
- 1.9 Functions of Management
- 1.10 Importance of Management
- 1.11 Conclusion of the chapter
- 1.12 Summary
- 1.13 Self-Assessment Questions
- 1.14 Multiple Choice Questions

### 1.1 My dear students, a warm and hearty Welcome to all of you!

---

According to Peter F. Drucker, the emergence of Management as an essential, a distinct and leading social institution is a pivotal event in social history. Rarely has a new basic institution, a new leading group, emerged as fast as Management since the turn of this century. Rarely in human history has a new institution proved indispensable so quickly and even less often has a new institution arrived with so little opposition, so little disturbance and so little controversy.



PETER F. DRUCKER,  
American Management  
Consultant, Educator, and Author

My young friends, you are welcome to this institution of Management, the career in which will certainly prove not only fruitful in your personal as well as professional life, but also will enhance the meaningfulness and joy of living the life.

Management is an art. It is in the sense of possessing *managing skill* by an individual. Management is science too. It involves developing certain *principles or laws* applicable in a place where a group of activities are *coordinated*.

All of you would certainly like to master this art as well as science of Management. Further, leadership qualities are developed in the persons who are working in the top-level management. According to Ralph C. Davis, Management is the function of executive leadership everywhere. I am sure, all of you would be dreaming to become a successful leader.

Management has been developed as a career *par excellence*. It is focused on certain specialization. Specialists are appointed in key posts of top management. I am sure you would like to be one of them.

Therefore, come one, come all, and let us roam around in this wonderful garden of Management!

### 1.2 Introduction to Management

---

The subject of Principles of Management is the backbone of your course. Application of these principles into action in your life as well as on your workplace, every day, correlating these principles with your personal life situations is called internalization. The best way to learn any subject is to internalize it.

This subject has a tremendous self-development potential. Learn this subject, put it into your system, convert the concept into experience, convert abstract into concrete by systematic approach. It will improve your thinking process. You should ask yourself, “Am I managing my life daily?”, “Have I added values to myself?”, “Have I set up any goals for me to achieve?” This thinking process will take you a long way. You will put your learning into action; utilize your resources in the best possible way. Those who have consciously applied this learning in their lives have benefitted tremendously and have made major changes in their lives.

Management involves a set of processes that come into play whenever we want to achieve something, that is, our preset goal, by thinking process and utilizing the inputs such as man, machine, materials, money etc. in a coordinated fashion.

Our life is full of activities through which we constantly try to achieve something. Some people want to get admission to school for their children, some people want to get into a better job, and some people want to find their life partner. While doing this, due to lack of systematic approach, they are in a chaotic situation. This is because principles of management are not the part of their life. Once you start practicing these principles, your life rocks. We can solve complex problems by systematic approach. Every input from principles of management helps us to have a relook at our life.

Before we dream to become a manager, we have to learn to self-manage our personal life situations. Convert learning into thoughts and action by systematic approach, internalization, focusing on the goals to begin with.

Every activity becomes meaningful when it has a purpose, direction and GOAL. For example, if we are managing an event like marriage ceremony, while performing various activities like booking of hall, sending invitations, receiving guests and putting them into hotels etc., we must ensure that proper time table, schedule, allocation of work to various persons are done systematically and in time. Otherwise, we will be stressed and then will make mistakes because of leakage of energy.

## Chapter 1 - Nature of Management

The advantages of learning Principles of Management are:

- Our life gets focus and direction
- We know better how to plan and organize our life
- We have clarity of thinking and action
- Our stresses get reduced tremendously
- Our life becomes purposeful and joyous
- We start assuming responsibility and accountability for whatever we do.
- Our behavior towards others and the world improves drastically
- We are not scared of taking decisions
- By applying what we learn into skills and actions we grow in our career
- We know methods of correcting our mistakes
- By knowing, internalizing, becoming a role model we take our people to achieve our goals.

Let us make a commitment to learn and instantly apply this learning first into our personal life situations.

### **1.3 Meanings and Definitions of Management**

---

#### **1.3.1 Meanings:**

Management is the art of getting things done by a group of people with the effective utilization of available resources.

It is the group of activities, which drafts plans, prepares policies, and arranges men, money, machines and materials required to achieve the objectives.

Management is the activity of man who struggles for better living in the complex and competitive world.

Management is the process consisting of the functions of planning, organizing, staffing, directing and controlling the operations to achieve specified objectives. It rewards those who are engaged in this process to ensure an excellent performance with continual improvement.

## Chapter 1 - Nature of Management

### 1.3.2 Various definitions:

There are many definitions of management but most perceptive managers are convinced that it is an organized effort of people whose purpose is to achieve the Objectives and Goals of an organization.

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

F.W.TAYLOR



HENRY FAYOL



According to Henry Fayol, to manage is to forecast and to plan, to organize, to command, to coordinate and to control.

Peter F. Drucker defines Management as the substitution of thought for brawn and muscle (physical strength), substitution of knowledge for folklore and superstition, and substitution of cooperation for force. He also defines Management as an organ; organs can be described and defined only through their functions.

As per Donald J. Clough, Management is the art and science of decision making and leadership.

As per James D. Mooney and Alan C. Reiley, Management is the art of directing and inspiring people.

## Chapter 1 - Nature of Management

In mid 1940s, academic people from various business schools in the United States gathered together with the sole purpose of deciding whether a definition of Management could be written that businessmen would accept and practice and Academicians would teach. Ultimately, they came up with the following definition. No individual is identified with this definition. The definition reads:

“Management is guiding human and physical resources into dynamic organization Units that attain their objectives to the satisfaction of those served and with the high degree of morale and sense of attainment on the part of those rendering the services”

After detailed thinking on various definitions, we have adopted the following definition:

Management is:  
Optimum utilization of  
Available Resources  
To attain certain pre-set GOALS/Objectives

What is the meaning of the word “Optimum utilization”? It means best possible utilization under given circumstances.

We will explain this definition by taking an example from our kitchen. We want to make a cup of tea, and we have all the resources such as one jarful of sugar, one jarful of tea leaves, one glass of milk, gas cylinder full of LPG, gas stove, kettle, filter etc.

However, we use the raw material only in required proportion, e.g. two spoons of sugar, one spoon of tea leaves etc. and make a proper mix of all the ingredients. We do not put more sugar than required, do we?

We will take another example. You are normally getting a pocket money of Rs. 500 for a day, and you are able to spend your day comfortably. One day, you get only Rs. 200 and you have to manage the whole day. You neither have your tiffin nor are you fasting today. In this case, your entire consciousness is on this small amount. You decide the proper course of action and you spend the money very judiciously. E.g., you travel in a crowded train instead of auto; you eat only a rice plate instead of Punjabi dishes and so on. To your surprise, at the end of the day,

## Chapter 1 - Nature of Management

there is an amount of Rs. 40 left in your pocket. You have managed your day by better thinking process, putting it into actions and achieved your goal of reaching home without any cash crunch.

However, if you have Rs. 200 and you have spent Rs. 350 by borrowing from your friend, it is mismanagement.

We learn best when resources are minimum and scarce. We have saved money when our earnings were meager. Some companies are cash rich but they incur wasteful expenditure, such as heavy transportation cost, travelling expenses etc. and ultimately land in a mess.

We must convert our learning/knowledge into skills by utilizing scarce resources to the optimum, and strive to achieve our preset GOALS.

### **1.4 Management as a Process, coordination, and function**

---

#### Management as a “Process”:

McFarland defines management as “A process by which managers create, direct, maintain and operate purposive organization through systematic, coordinated, cooperative human efforts”.

An important term in this definition is “Process”. This term emphasizes the dynamic or ongoing nature of management, an activity over varying span of time. The dynamic nature implies that change is reality of organizational life. In managing organizations, managers create changes, adopt organizations to changes and implement changes successfully in their organizations. Businesses fail and become bankrupt because managers fail in their attempt to cope with the change.

#### Management as “coordination”:

Donald, Gibson and Ivancevich also support the view of management as a Process but their stress is more on co-ordination. According to them, “Management is a process by which individual and group effort is coordinated towards group goals”. In order to achieve goals, coordination is essential and management involves securing and maintaining this coordination. This coordination effort is also stressed in the definition of Koontz and O’Donnell. According to them, “Management is a process of

## Chapter 1 - Nature of Management

designing and maintaining an environment in which, individuals, working together in groups efficiently and effectively accomplish group goals”.

### Management as a “Function”:

There are those who view management as a function rather than a process. Dunn, Stephens and Kelly contend that “Management is a role which includes a set of duties, responsibilities, and relationships-involved in work organizations”. These duties and responsibilities constitute the function a manager performs. The duties and responsibilities a manager performs are quite different from those performed by managerial employees.

### Management is getting things done through other people:

A simple definition of management that is often quoted and it sounds very simple. According to this definition, managers do not do things; they get other people to do things. If managing is an individual ability to get things done, then it is not a problem. We can plan and perform things according to our own convenience and interests. When somebody else is involved and we want to get things done through him, there is a difficulty. All sorts of problems arise; personalities come into contact and conflict. Interpersonal problems crop up. We have to understand the behavior of other people and must have knowledge as to how to motivate them in order to get things done through them. We have to consider the conveniences and interest of others also in planning and implementing things. In getting things done through others, people have to be coaxed, they have to be shown, they have to be inspired, they have to be motivated and this is what management means. These activities are performed not only by the people at the top but also from the chairman of the board to the front line supervisors and foremen. They use the above-mentioned methods to get things done through other people.

### Example of a Sandwich Seller:

All businesses start small and simple and eventually they grow big and become complex. Take an example of a sandwich seller on street. He starts his business on a street, on a small space, without any approval, creates a stall, gets raw material, makes sandwiches and sells them. It is a one-man show. He is sincere, works hard, and goes home late. Since people like his sandwiches, his demand increases, so the stress increases and he is hassled. He is not able to manage. His situation becomes complex. His business goes haywire and he abandons it.

Business needs some skills, discipline, systematic approach and clarity of thinking, so that one can achieve his goals/objectives. When the business grows, along with systematic approach and discipline, we need to maintain harmony among the people who work for you and we must be effective in our actions. We must ask ourselves:

What are our objectives?

What is our direction? Where do we want to go?

What is the purpose of our business?

Are we clear about our goals?

The thinking process and internalization must be continuous activity.

### 1.5 Five M's in the business

---

Efficient management is the lifeboat of any developed business. There are five M's in the business, which can be called as the resources of the business, viz. Man, machines, materials and money as tangible ones and Method as intangible one.

#### 1. Man:

As said earlier, Management is the art of getting things done by a group of people. Therefore, the availability of qualified, trained, skilled, experienced and competent people is the most important factor in any management, anywhere.

#### 2. Machines:

Management is the art of knowing what you want to do, and then seeing that it is done in the best and the cheapest way. It is needless to say that availability of capable machines and equipment is a must to do the things in the best and the cheapest way.

#### 3. Materials:

Quality, quantity, availability, cost/market price and transportation of raw materials, semi-finished goods and finished goods need no emphasis. It is a clearly a very vital factor in success of management.

### 4. Money:

Financial capital is money used by entrepreneurs and businesses to buy what they need to make their products or to provide their services to the sector of the economy upon which their operation is based.

Availability of funds for running the business is extremely important particularly for procuring capital goods, raw materials, tools and consumables, and availability of working capital.

### 5. Method:

If we have to do things in the best and cheapest way, it is also important how the things are processed. That is, by which method the things are processed. The proper method will ensure required quality, quantity and in-time delivery. It will ensure the accomplishment of management objectives.

**Methods form the competitive edge.** For example, in our kitchen, two girls are told to prepare a cup of tea each. Same raw materials such as milk, sugar, tea powder etc. are given to both of them. Girl A prepares the tea as follows:

Puts a cup of milk in the utensil and boils it. Then puts the water and sugar (1 teaspoon) and tea powder (1 teaspoon) and boils it again.

Girl B prepares the tea as follows:

Puts water and sugar in the utensil. After the mixture starts boiling, she puts the tea powder in it and lastly puts milk.

The two cups of tea have different tastes in spite of all four factors (M's) same. However, the method makes the difference.

If one standardized method is used by any person any time, the taste will always be the same.

That is why the quality of idli sambar in an Udupi restaurant is always the same. Mc Donald's restaurant offers same taste of French Fries all over the world. Standardization of methods is the reason why they are able to do it. It is also an answer to all our problems.

Shampoo produced by Company A and B are different in quality in spite of same raw materials. The Shampoo of Company A is in great demand. So, the company B does detailed research as to what exactly company A is doing to attract customers, then implements a better method, in addition, company B adds some extra benefits to customer to improve the market share of their shampoo.

## Chapter 1 - Nature of Management

If there are four bhelwalas, many times we see that only one of them is in demand and is not able to control the rush. This is because, in addition to better method of preparing bhel, he offers added advantages to the customers such as good housekeeping, clean workplace, better colors, extra quantity etc. Actually, he offers better value for money to the customers.

### 1. 6 Activities for the students

---

#### Activity A

In your kitchen, you have to prepare rice and curry for your friend who is going to visit after a couple of hours. You have only Rs. 200 with you. No other stock of materials. Make a list of all your Resources: Man, Machine, Materials and Money. Make a process flow chart of the Method you will adopt to prepare rice and curry. Explain how you will utilize your resources.

---

---

---

---

---

---

---

### 1.7 Necessity of Management and SMART Goals

---

1.7.1 Management is an essential activity of all organizational levels:

(Low, middle and upper level)

1.7.2 Management applies to:

- Small and large Organizations.
- Profit and nonprofit Organizations.

## Chapter 1 - Nature of Management

- Manufacturing Organizations.
- Service rendering Organizations.

Management is everywhere. It is not restricted to only commercial organizations, but it is also in schools, colleges, religious bodies, just about anywhere.

Housewives are the best managers. Kitchen is the best management school. They regularly take account of the stock levels of commodities, the moment the stock reach to the minimum ordering level, they meticulously get the commodity. Have you ever experienced a shortage of sugar and so no tea for you and your friends?

Your mom has been a great manager. She feeds you with delicious dishes, tolerates your behavior, and always makes things happen, in whatever situation she is.

Management is there even in Bhendi Bazar. When there were events like twin tower in USA, flood in Mumbai, terror in Taj Mahal hotel, the concerned people such as commandos etc. overcame the problem only because they used their management skills.

Management is art as well as science. What is invisible is understood by observations, examples etc. through theoretical principles/approaches.

In the movie “Three Idiots”, Chatur knows all fundamentals, and Rancho knows applications. Management is the combination of Chatur as well as Rancho.

We study management processes scientifically and apply them to convert complexity to manageable thoughts and actions. We learn Management as science and put it into action as art.

An art is caught and not taught. You must learn, absorb, and see management in action, by thought process, practice in a methodical manner. You catch this art. Management prevents an endeavor from failure and teaches you to quickly correct your mistakes.

Anybody can do business provided he has discipline of thought, actions, words, intention and moral character. Then his approach will be systematic and he will be successful.

If someone asks you, “why have you enrolled on this course?” Then you would answer, “I want to become a Manager.” But do you know what it takes to become a good manager? If you are a person who is capable of undertaking the tasks and functions of managing at any level, in any kind of enterprise, you have leadership qualities, and you have qualities of an administrator, you will become a good manager.

## Chapter 1 - Nature of Management

To become a good manager, in addition to housekeeping and cleanliness and orderliness, your mind also must be clean and clear.

We find people fully tensed, confused, and so they take wrong decisions. They cannot become good managers.

A good manager is expected to have ability of four skills as given below:

- **Technical skills:** Technical skills that reflect both an understanding of and a proficiency in a specialized field. For example, a manager may have technical skills in accounting, finance, engineering, manufacturing, or computer science.
- **Human Skills:** Human skills are skills associated with manager's ability to work well with others, both as a member of a group and as a leader who gets things done through other.
- **Concept Skills:** Conceptual skills related to the ability to visualize the organization as a whole, discern interrelationships among organizational parts, and understand how the Organization fits into the wider context of the industry, community, and world.

Conceptual skills, coupled with technical skills, human skills and knowledge base, are important ingredients in organizational performance.

- **Design Skills:** It is the ability to solve the problems in ways that will benefit the enterprise. Managers must be able to solve the problems.

In order to become a good manager, he must have preset GOALS. Remember: "No goal--no management". We must have a direction and purpose for our business. We must have a goal for everything we do. Goal setting is sign of maturity.

For example, one wants to buy a blackberry or a smart phone. For that, he should fix a goal, as to when he would buy it and should buy it only when he needs it. If one wants to go for higher education, his goal should be: "I want to achieve Ph.D. within next four years" or "I want to get admission in IIM during next year".

Any endeavor starts with end purpose-GOAL. When goal is set, steps towards goal also become clear. One can become successful only if he has preset goals.

However, the goals must be S-M-A-R-T as explained below:

1. **Specific:** We should be specific in our goal. E.g. I want to become a manager is not a goal. What you want to accomplish in an organization is a goal.
2. **Measurable:** The goal must be measurable. E.g., I want to secure 95% marks.

## Chapter 1 - Nature of Management

3. Attainable: The goal must be achievable. Our resources are limited. Therefore, if you want to buy a flat in Mumbai and you have only 10 Lakhs, it is not possible to buy a flat there.

4. Realistic: The goal must be realistic. We cannot dream to become a prime minister when you have not yet become a corporator.

5. Time bound: Your goal should have a time limit such as I want to get admission to a medical college during next year.

Continuous activity towards predetermined goals, set of disciplines with organized activities, interdependence between customer and us will result in profits, goodwill, team effort, proper decision making. Management is all-pervasive.

### **1.8 Activities for the students:**

---

#### **Activity B**

Make a list of GOALS in your life.

---

---

---

---

---

---

---

---

## 1.9 Functions of Management

---

This book is dedicated to following Functions of Management, which will be explained in detail in forthcoming chapters:

1. Planning
2. Organizing
3. Staffing
4. Directing
5. Coordinating
6. Motivating
7. Controlling

## 1.10 Importance of Management

---

Every business needs a direction. This direction is given by Management. The resources will be converted into production, which has good quality, quantity, in time delivery, which will result in customer satisfaction. This book is dedicated to the following factors for you to study, in order to become good managers.

### 1. Management meets the challenge of change:

Only an efficient management can save the business from the dangers brought in by the challenges of change.

### 2. Accomplishment of group goals:

The proper planning of available resources, adjusting possibility of business unit with existing business environment, quality of decision taken and control made by business unit are the factors responsible for achieving the objectives/goals.

### 3. Effective utilization of resources: As explained above.

### 4. Effective functioning of business:

## Chapter 1 - Nature of Management

Ability, experience, mutual understanding, coordination, motivation and supervision are the factors responsible for effective functioning of the business.

### 5. Resource development:

The resources viz. men, machines, materials and money have to be developed by the management.

### 6. Sound organizational structure:

It clearly defines the authority and responsibility relationship of employees. Care must be taken to appoint right persons to the right job.

### 7. Management directs the organization:

Similar to human mind directing and controlling human body, management directs and controls the organization.

### 8. It integrates various interests:

Management takes steps to integrate various interests of employees working in the organization.

### 9. It stabilizes the fluctuations:

The business always has ups and downs. These fluctuations are stabilized by the management.

### 10. It innovates:

New innovative ideas are implemented in the organization.

### 11. Coordination and team spirit:

Management coordinates the activities of different departments and establishes team spirit.

### 12. Tackling and solving problems:

Good management acts as a friend and guide to the employees to solve the day-to-day problems for effective performance.

### 13. Management is a tool for personality development:

New methods and techniques are taught to workers. Training facilities are arranged by the management. Thus, there is personality development in the employees.

### 1.11 Conclusion of the chapter

---

- We have touched upon the basic understanding of management as a means to make the organization effective.
- The first step towards management process is setting up SMART goals.
- The methodical and systematic approach ensures lessening of errors/failures and easy course correction when things go off track.
- Seven functions of management followed diligently leads to disciplined growth.
- The nature of management when followed in daily practice transforms the way we run organization and our lives.

### 1.12 Summary

---

1. The subject of Principles of Management is the backbone of our course. Application of these principles into action in your life as well as on your workplace, every day, correlating these principles with your personal life situations is called internalization. The best way to learn any subject is to internalize it.
2. The first step towards management process is setting up SMART goals.
3. We must convert our learning/knowledge into skills by utilizing scarce resources to the optimum, and strive to achieve our preset GOALS.
4. The methodical and systematic approach ensures lessening of errors/failures and easy course correction when things go off track.
5. Seven functions of management followed diligently leads to disciplined growth.

### 1.13 Self-assessment questions

---

1. Explain the meaning of internalization.
2. Explain the meaning of optimum utilization of resources.
3. How methods form the competitive edge?
4. Explain: Management is everywhere.
5. Management is a tool for personality development: elaborate.

### 1.14 Multiple choice questions

---

1. According to whom, to manage is to forecast and to plan, to organize, to command, to coordinate and to control?

- a. Henry Fayol
- b. Peter F. Drucker
- c. F.W.Taylor
- d. Ralph Davis

2. In SMART goals, S denotes:

- a. Simple
- b. Special
- c. Specific
- d. Social

3. A good manager is expected to have ability of four skills :( Find the wrong one):

- a. Technical
- b. Human
- c. Concept
- d. Documentation

4. Peter F. Drucker was:

- a. American Management Consultant
- b. Educator
- c. Author
- d. All the above

5. Out of five M's in the business, following is intangible:

- a. Man
- b. Machine
- c. Method
- d. Money

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

By studying this chapter, you will be able to acquire knowledge about:

- Principles of Management by Henri Fayol
- Scientific Management
- History of Management in a chronological manner with contributions of various Management gurus
- Important milestones in the history of Management
- Hawthorne experiment

## **Structure**

- 2.1 Introduction
- 2.2 Scientific Management : F.W.Taylor
- 2.3 Peter F.Drucker
- 2.4 Frank B. Gilbreth and Mrs. Lillian Gilbreth
- 2.5 Max Weber
- 2.6 Mary Parker Follett
- 2.7 Henry L. Gantt
- 2.8 George Elton Mayo
- 2.9 Hawthorne Experiments
- 2.10 Activities for the students
- 2.11 Summary
- 2.12 Self assessment questions
- 2.13 Multiple choice questions

### 2.1 Introduction

---

History of management exposes us to how various business processes came into existence, their evolution and contemporary state. It guides us through various milestones in the timeline of past, present and future of management processes. Studying the trend helps us in foreseeing the future course of business processes.

Management has developed since the time immemorial or since the world came into existence. No endeavor could be started, run and completed without management. Whenever group efforts were necessary to achieve anything, there had been a need for management. An individual could not achieve anything single handedly. We do not work as commandos. We work in groups and are interdependent on each other in all spheres of life. Co-operation, group efforts, direction and control were always necessary to achieve objectives or goals. Therefore, managerial efficiency is an essential requisite to human being.

In India, our Vedas, Rishis, Kautilya and Saint Thiruvalluvar were the pioneering contributors to the origin of management thought of their time. Several people made significant contributions to the study and practice of scientific management. Various aspects were studied from various perspectives and breakthroughs were made.

Though businesses were conducted for a long period of time, there was hardly any systematic approach. Brand visibility was missing. The working was not structured. The industry was mainly need based, dependent on craft of individuals. It was more an art than a science. It was basically a cottage industry in which machines were just enablers and management of men and machines was not having much significance.

Industrial revolutions and industrial age:

A true rise of modern industrialization due to powerful and progressed economic technical development in the 18th century, called the industrial revolution, was mainly a change in the method of production due to which every sector of life was spirited from the original set up. During the span of 100 years from year 1750 to 1850, scientists' performance was significant. They created new techniques. New machine age started. Steam power and electricity was brought into force instead of man power and animal power. Cottage industries were replaced by city industries. Production began to take place on large scale and also at great speed. Transportation became quicker. Human life changed almost from all angles.

It was in the late 1920s that the great economic depression occurred in USA leading to a major national calamity. Collectively, people fought back working

## Chapter 2 - History of Management

hard to turn around the economy from a deficit state to a surplus one. They say, necessity is the mother of invention. The result was the advent of the second industrial revolution.

The second industrial revolution resulted in overall burst of revival activities through discoveries, inventions, innovations etc. Machines as leverages of production and economic progress came to be a reality. It was the advent of industrial age. Mass production, mass labor, mechanization, wage standardization brought about an order in industrial practices.

With abundance, came wastage and lack of discipline of production and consumption. Observers and researchers studied the importance of systematic approach of running organizations. The result was the scientific management movement led by the work of F.W.Taylor, the father of scientific management. The contributors who came after him made major contributions to teach organizations to run themselves scientifically.

### Development of Management thought:

(The history of Management thought Process):

This most important topic sets the tone for us to understand what happened, when it happened and under what conditions it happened in case of management thought. There are number of contributors and each contributor needs to be given special attention. You should read the detailed history of each contributor at the rate of at least one per week. Let us start with Henry Fayol.

### Henri Fayol (1841-1925):



He was a French industrialist. He had joined as an engineer in a mining company in 1860 and had become the Chief MD of the company because of his outstanding abilities. From 1918 onwards he worked hard to popularize

## Chapter 2 - History of Management

his Principles of Management. However, these principles were known to the world only after 1949 after the publication of his thoughts in English.

He concentrated on top management. In his book “General and Industrial Management”, he said: Management plays a very important part in all undertakings, large or small, be it industrial, commercial, political, religious or any other. As such, in every concern, there is a management function to be performed. The management functions and organizational functions are different. The management functions include planning, organizing, staffing, directing and controlling. Organizational functions include purchase, sales, production and accounting. There has to be a management function in every organizational function.

Henri Fayol classified all the business activities into six functions:

- Technical activities relating to production
- Commercial activities relating to purchase of basic raw materials and other resources, selling of products and exchange
- Financial activities relating to identification and utilization of available funds
- Security activities relating to the steps taken to protect the property of enterprise and persons
- Accounting activities relating to the recording and maintaining accounts, stock taking, and preparation of cost sheets, balance sheets and statistical data
- Managerial activities relating to planning, organizing, commanding, coordinating and controlling

Henri Fayol believed that successful functioning of any business depends upon performance of the above six functions.

Henry Fayol identified qualities of a manager as follows:

- Physical (health, vigor and address)
- Mental (ability to understand and learn, judgment, mental vigor, adaptability)
- Moral (energy, firmness, willingness to accept responsibility, initiative, loyalty, tact and dignity)

## Chapter 2 - History of Management

- General education (acquaintance with matters not belonging exclusively to the function performed)
- Special knowledge peculiar to the function, be it technical, commercial, financial, managerial etc.)
- Experience

### Principles of Management set forth by Henri Fayol:

- Division of work: It helps to specialize in an activity which increases output with perfection.
- Authority and responsibility: Management is getting things done by others. A superior gives direction to his subordinates to perform the job. Then the supervisor may exercise his authority. Authority is closely connected with responsibility. Responsibility is essential to perform a job correctly. It is shouldered whenever authority is exercised.
- Discipline: It is essential in all levels of management people.
- Unity of command: Each subordinate is responsible to only one superior.
- Unity of direction: The manager is expected to look after all the activities of a group.
- Subordination of individual interest to group interest: In no way, the individual interest should dominate the group interest.
- Remuneration of personnel: Employees should be given fair and reliable remuneration.
- Centralization or decentralization of authority depends upon the personal character, morality, reliability of resourcefulness of the superior.
- Scalar chain: It is the chain of superiors ranging from the ultimate authority to the lowest ranks. The communication flows from top to bottom. If A is the superior and has three subordinates in the order B,C and D, the communication from A to D should be passed via C and B.
- Order: The principle of right place for everything and for everyone should be followed by management. The personnel are selected scientifically and assigned duties according to their qualifications and ability.

- Equity: It refers to combination of fairness, kindness and justice. It requires goodness and experience of managers and loyalty and devotion from subordinates.
- Stability of tenure of personnel: Security of job is an essential factor.
- Initiative: A manager should have conceiving and executing initiative. It has psychological effect on the subordinates. Managers should take decisions after getting suggestions from subordinates.
- Esprit de corps: All the employees of the organization are put together as a team in order to achieve the objectives of the organization. The management should not follow the policy of divide and rule.

### 2.2 Scientific Management: F.W.Taylor

---

As mentioned above, “Necessity is the mother of invention”. During the second industrial revolution, there was overall burst of improvement/revival activities through discoveries, inventions and innovations. Machines as leverages rather than enablers of production and economic progress came to a reality. In the advent of this “Industrial age”, mass production, mass labor, mechanization, wage standardization brought about an order in industrial practices.

As mentioned earlier, with abundance, mismanagement also was there which resulted into wastage. Lack of discipline of production and consumption made the matters worse. At that time, observers and researchers studied importance of systematic approach of running organizations. The result was **“Scientific Management”**, led by the work of F.W.Taylor, who is regarded as Father of Scientific Management.

#### Importance of learning scientific management

- It is systematic approach of achieving goals through checks and controls.
- It facilitates focused, balanced approach in running businesses.
- The individual thinking and problem solving processes are enhanced.
- It facilitates conversion of chaos into clarity.
- On the personal front, it reduces stress and promotes self-growth.



F.W.TAYLOR (1856-1916)  
Father of Scientific Management

He was born in 1856. Having started his career as an apprentice in Philadelphia in 1875, then as a laborer, supervisor, he became chief engineer in 1884. Before that, he had got M.E. degree through evening course in 1883. He had observed the work performance of managers and workers. According to him, they followed traditional methods of work and did not have concept of systematic performance at task. He observed that greater output was possible through systematization and standardization of methods of doing work. Techniques of management were identified by Taylor through trial and error method. He devoted attention to finding the exact nature of work to be done and the best way of doing it. Many of his ideas brought system, order and logic to areas such as Production planning, analysis of cost, systems of payment etc. where rule of thumb had prevailed.

When the management people wanted to increase their production, their ambitions were fulfilled by the invention of the concept of Scientific Management by F.W.Taylor.

According to him, Scientific Management consists of a certain philosophy of:

- Scientific selection and training of right workers for the right job
- Providing adequate working conditions such as lighting, ventilation, drinking water, canteen, sanitation, rest rooms, rest periods.
- Providing a system of monetary incentives to efficient workers
- Assumption of responsibilities by managers and supervisors.

## Chapter 2 - History of Management

He defined scientific management as “Substitution of exact scientific investigations and knowledge for old judgment or opinion in all matters of work done”.

He firmly believed that objective of management should be:

- Maximum prosperity for the employer: lower costs and high returns
- Maximum prosperity for each employee: fair as well as higher wages

### Principles of scientific management:

- Science-not rule of thumb
  - Replacement of old method by doing work scientifically
  - Fair work to each worker
  - Standardization in work
  - Differential piece rate of payment system
- Harmony in group action
  - Peace and friendship
  - Dissatisfaction to be avoided
- Cooperation between management and workers and vice versa
- Maximum output
  - by division of work
  - by assumption of responsibility jointly by management and workers
- Improvement of workers
  - Scientific selection of workers: finding out physical, educational and psychological requirements of each job and find suitable persons for each job
  - Workers are provided with job training.

### Features of scientific management:

- Separation of planning from executive function:

Before Taylor's period, both planning and executive function were performed by one and the same worker. Then this worker did the job under the supervision of a supervisor. It resulted in disagreement on

## Chapter 2 - History of Management

many issues between workers and supervisors. So, Taylor separated the planning function from the executive function.

- Scientific task setting: It means allotment of work to each worker on the basis of capacity of an average worker functioning in normal working conditions. He should be able to complete the work in a working day.
- Functional foremanship: This is based on specialization of functions performed at supervision level. E.g. There are eight persons. Out of these, four persons are concerned with planning, (route clerk, instruction card clerk, time and cost clerk and disciplinarian), and the remaining four are concerned with the executive function(speed boss, inspector, maintenance foreman and gang boss).
- Work study: Systematic critical assessment of efficiency required to do the job.
  - o Methods study: Entire process of production is studied. Efforts are made to reduce the distance passed by materials and bring about improvement in handling, transportation, inspection, storage of raw materials and finished goods.
  - o Motion study: Unnecessary movements are eliminated.
  - o Time study: Act of measuring the time required to perform a particular job. The standard time is fixed. All the work is performed in fixed time.
  - o Fatigue study: A study relating to the fixing of working hours with rest periods to enable the workers to recoup the energy lost while performing the job.
- Rate setting: Fair wages to workers. Differential piece rate wage system which can act as incentive to lazy workers.
- Standardization is done in respect of tools, instruments, working hours, volume of work, working conditions, cost of production on the basis of job analysis.
- Scientific selection and training: The workers should be selected scientifically. The appointment should be given to each worker according to the nature of job requirement and his qualifications.

## Chapter 2 - History of Management

- Financial incentives: Increase in efficiency should result in increase in wages.
- Mental revolution: It refers to change in thinking both on the part of management and workers. The success of scientific management rests primarily on the fundamental change in the attitude of management and workers both as to their duty to cooperate in producing largest possible surplus. Necessity for substituting exact scientific knowledge for opinions, or old rule of thumb.
- Economy: The available resources are used to the fullest possible maximum extent to eliminate wastage. Management to get economy in production and for maximizing profits.

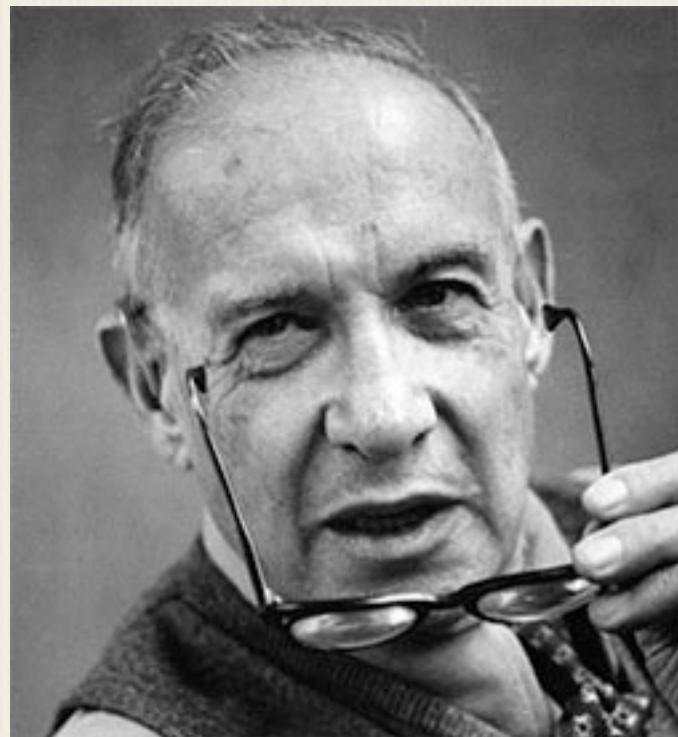
Scientific Management creates focused, balanced and systematic approach of achieving goals through checks and controls. Independent thinking and problem solving processes are enhanced. On the personal front, it facilitates conversion of chaos into clarity, reduction of stress and promotion of self-growth.

### Contributions of F.W.Taylor:

- Applied principles of scientific management for solving the problems of management
- As per him, it was duty of management to tell the employees what management expected from them. Further, Management should specify the way through which the job is to be completed.
- He supported mental revolution on the part of employer as well as employee.
- Time study and motion study were first conducted by him.
- First person to separate planning function from executive function.
- Functional foreman concept was invented by him.

### 2.3 Peter F. Drucker

Peter Ferdinand Drucker, (November 19, 1909 – November 11, 2005) was an Austrian-born American management consultant, educator, and author, whose writings contributed to the philosophical and practical foundations of the modern business corporation. He was also a leader in the development of management education, and he invented the concept known as management by objectives. He became Professor of Management in New York University in 1950.



Drucker's books and scholarly and popular articles explored how humans are organized across the business, government, and nonprofit sectors of society. He is one of the best-known and most widely influential thinkers and writers on the subject of management theory and practice. His writings have predicted many of the major developments of the late twentieth century, including privatization and decentralization; the rise of Japan to economic world power; the decisive importance of marketing; and the emergence of the information society with its necessity of lifelong learning.

In 1959, Drucker coined the term "knowledge worker" and later in his life considered knowledge worker productivity to be the next frontier of management. Peter Drucker gave his name to two institutions: the Drucker Institute and the Peter F. Drucker and Masatoshi Ito Graduate School of Management, both at Claremont Graduate University. The annual Global Peter Drucker Forum in his hometown of Vienna, honors his legacy.

### **Contributions of Peter F. Drucker:**

#### Nature of Management:

Peter Drucker was against bureaucratic management and emphasized management with creative and innovative characteristics. The basic objective of management is to lead towards innovation. Innovation includes development of new ideas, combination of old and new ideas, adaption of ideas from other fields or even to act as a catalyst and encouraging others to carry out innovation. He treated management as a discipline as well as a profession.

#### Management functions:

He opined that the management is the organ of its institution. It has no functions in itself, and no existence in itself. He sees management through its tasks. A manager has to determine the objectives and activities, and is concerned with the direction and controlling of the activities, to make contributions for the specific purpose and mission of the institution whether business, hospital or university.

#### Organization structure:

An effective organization structure is framed in such a way that it enables smooth performance. It contains minimum number of managerial levels. It provides a chance to test the ability of young people who are accepting the responsibility.

#### Centralized control with a structure of decentralization:

Similar to the Federal structure of government, the top management has more powers than various departments. But the decisions regarding the departments have to be taken by both of them. Departments are allowed to take decisions within the limits set up by the top management.

#### Management by objectives: (MBO)

Drucker introduced this concept in 1954. Method of planning, setting standards, performance appraisal and motivation are the components of MBO. It gives importance to self control rather than control made by others.

#### Organizational changes:

Drucker visualized rapid changes in society due to rapid technological development. He realized impact of such changes on human life. He stressed that human beings should develop an attitude to face the changes by developing dynamic organizations, by absorbing rapid changes.

## 2.4 Frank B. Gilbreth and Mrs. Lillian Gilbreth

---



Frank Gilbreth was born in Fairfield, Maine in 1868. Having started his career as an apprentice, he became superintendent after 10 years. He was married to Lillian Moller who was having thorough knowledge of management. Both of them worked as a team and devoted their time to find out the best way of doing a job.

Frank Gilbreth gave importance to time study and motion study just like F.W.Taylor. However, he was more concerned with finding out the best way to do a job rather than time required to do a job. He stressed minimum motions and avoidance of unnecessary motions to discover the best way of doing a job. He was of the view that unnecessary motions waste much of the efforts of the workers.

Gilbreth found out 18 basic elements in all work through analysis of several methods at work. He identified these elements by using flow process charts. He called these elements as THERBLIGS. These 18 elements were: Search, select, grasp, transport empty, transport loaded, hold, release load, position, pre-position, inspect, assemble, disassemble, use, wait unavoidable, avoidable delay, plan, rest for overcoming fatigue, find.

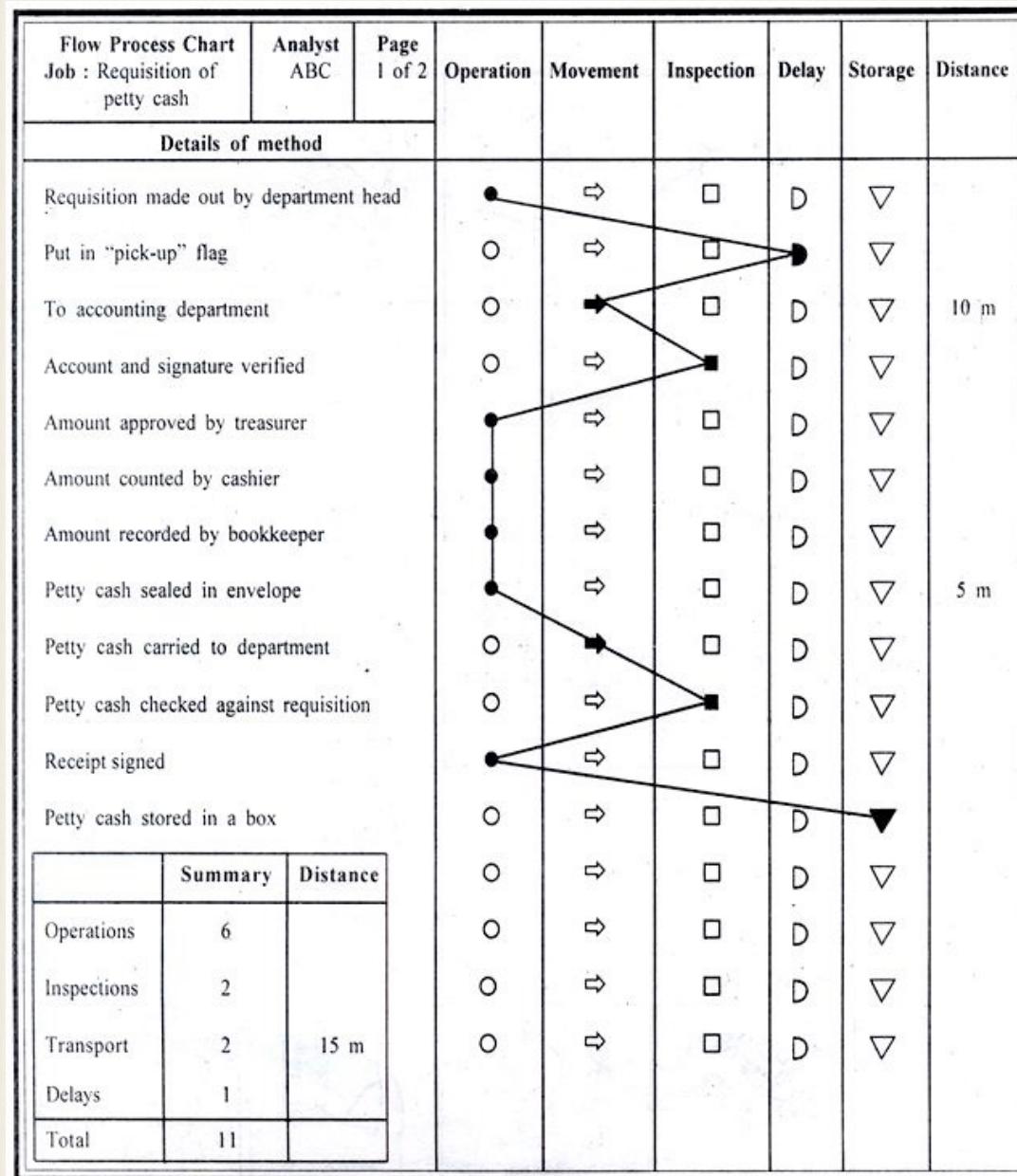
Motion study laid a foundation for job simplification, work standards and for framing incentive wage plans.

New machines are developed in order to find out one best way. Management tools such as flow process charts, diagrams and merit rating were developed by Gilbreth

## Chapter 2 - History of Management

for employees. He proved that productivity can be tripled by eliminating the unnecessary motions in brick laying.

**FLOW PROCESS CHART**



Mrs. Lillian preached the message of her husband after his death. She was a psychologist and had a thorough knowledge of human relations. She got doctorate degree for her work “The psychology of Management”. She was awarded the degree of “The first ambassador of management” in 1960.

She and her husband recognized the human factor which is very essential in management. Her contribution in fatigue studies and employee selection & training is significant.

### 2.5 Max Weber

---



He was a German social scientist. He wanted to frame a rigid form of organization. He framed rigid rules to eliminate managerial inconsistencies which lead to ineffectiveness. He emphasized strict adherence of rules and regulations in an organization. This form of organization is called as bureaucracy, an oldest form of organization. It is based on principles of logic, order and legitimate authority. He said that bureaucracy is the best form of organization and is suitable for any nature of business because it creates scope for proper channelization of human energy and mechanical energy.

In bureaucracy, though there are many advantages such as specialization, consistent employee behavior, democracy etc., there are disadvantages too, such as red tapism, rigidity, displacement of goal.

## 2.6 Mary Parker Follett

---



She was born in 1868 in Boston, USA. She got degree from Cambridge College. She is considered to be a pioneer of management thought in the field of human relations. She gave importance to the professional nature of management. She believed that psychology plays a very important role in human activity. She used psychology to solve the problems of managing a business. She considered the human character at various levels of management, viz. workers, supervisors, and managers.

She expressed her views on different aspects of management:

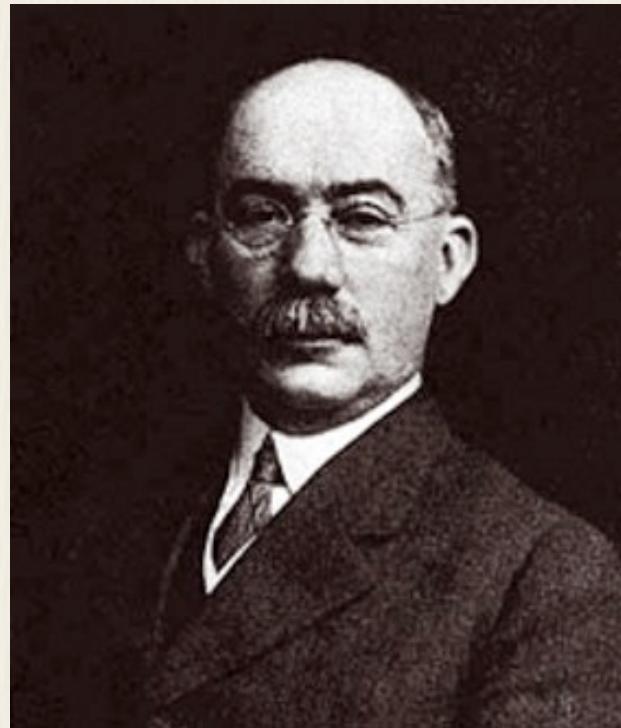
- Conflict: A conflict may be removed through three ways: domination, compromise and integration. She rejected domination and compromise ways of removing conflict. Under integration, the wishes of both parties are integrated. So both parties would be satisfied without sacrificing their desires.
- Authority: It is root of all evils. A smooth employer and employee relationship based on cooperation is the foundation of good industrial organization.
- Group: A group is something more than a mere aggregation of individuals. The members act towards each other, and there is overall impact of group on individual members.
- Participation: It rests on understanding and cooperation.

## Chapter 2 - History of Management

- Integration: The integration of interest is necessary not only within the organization, but also outside it between workers, investors and consumers.
- Leadership: Leaders are not only born but also could be made through proper training in human behavior. She did not believe in dominating leadership.
  - o The leader guides the group and gets guided by the group
  - o The leader is always a part of the group
  - o Power of leadership is power of integrating
  - o He stimulates what is best in man
  - o He unifies and concentrates
  - o One who does great deeds does not influence me the most, on the other hand, one who makes me feel that I can do great deeds, influences me the most.
- Coordination: Principles of coordination as given by Follet are:
  - o Coordination by direct contact by the responsible people
  - o Coordination in the early stages of planning and policy making
  - o Coordination as a reciprocal relation of all factors in a situation
  - o Coordination as a continuous process

### 2.7 Henry L. Gantt

---



He was born in Calbert country Merrilane in USA in 1861. He obtained Mechanical Engineering degree in 1884. Having joined as an engineer, he later became associate of F.W.Taylor and was also one of the pioneers of scientific management. He experimented the principles of scientific management by purchasing and managing a big farm.

He understood the importance of trade union and introduced a new incentive wage plan, Gantt task and bonus plan. Under this plan, proper reward is given to those who reach a high level of production.

Output below standard	time rate wages
Output at the standard	bonus of 20% on time rate
Output more than standard	high piece rate on whole output

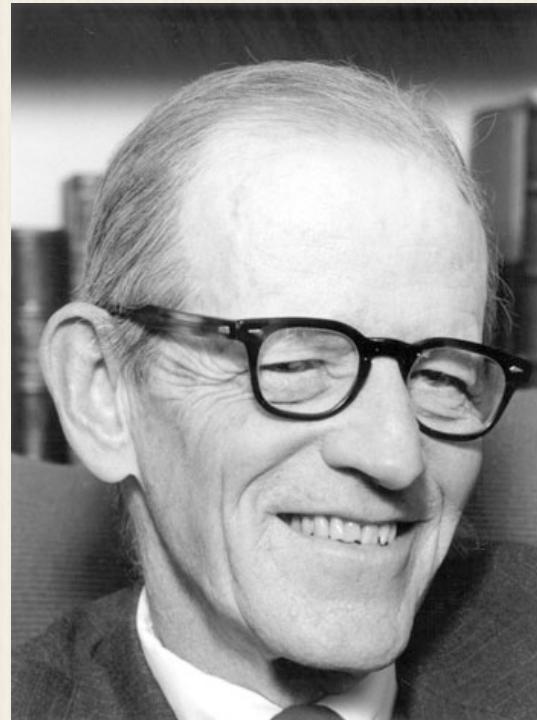
Gantt was the founder of a new movement known as “the new machine”. It avoids the exercise of power and advocated harmonious relationship between employers and employees. Justice and human behavior are the basis of this movement. He distinguished between man and machine.

Gantt is popularly known by his Gantt chart, referred to the progress of work. So Gantt called his chart as progress chart. Gantt's chart shows the fact of actual performance of work against the time required to complete the job. It is the best tool for production control. It is also known as daily balance sheet chart.

Gantt considered the psychological and social needs of workers. He perceived the weight of the human element in productivity and approached the concept of motivation as we understand it today.

### 2.8 George Elton Mayo

---



He was the first person to look into the matter of human relations emphasizing the importance of desires, attitudes, and feeling of the workers. He along with his colleagues conducted Hawthorne experiments, an important landmark in the history of the human relations movement.

George Elton Mayo was born in 1880 in Australia. He got his degree from Adelaide University. He worked as a teacher. Then he studied psychology. He became a lecturer at the University of Queensland after that. He went to USA in 1922. He joined as a researcher at the WHARTON Business School in the University of Pennsylvania. Later he was selected in the graduate school of Business at Harvard University. He was a professor of industrial research there. He was regarded as the founder and father of modern sociological and psychological industrial research.

### 2.9 Hawthorne Experiments

---

Hawthorne experiments were conducted at the Hawthorne plant of the Western Electric Company in Chicago from 1924-1932, by Elton Mayo and his colleagues and were published in six volumes viz.:

- The human problems of industrial civilization
- The social problems of industrial civilization
- The industrial worker
- Leadership in a free society
- Management and worker
- Management and morale

#### Objective of the experiments:

To find out the behavior and attitudes of employees under better working conditions.

#### Problem:

In spite of benefits of pension, medical allowance and recreational facilities, the productivity of the employees was not up to the expectations. They did not have job satisfaction.

#### Action:

The management requested National Academy of Sciences to investigate the reasons for dissatisfaction of employees and decrease in productivity.

Elton Mayo and his colleagues conducted researches in four phases:

- Illumination experiments
- Relay assembly test room experiment
- Mass interviewing program
- Bank wiring observation room experiments

#### Illumination experiments:

- Two groups were formed, experimental group and control group.
- In the case of experimental group, variations in lighting were made periodically and results were observed and recorded.

## Chapter 2 - History of Management

- In the case of control group, there was no change in lighting.
- It was observed that the output of both the groups increased steadily.
- Conclusion: There is no relationship between lighting and productivity. Not the improved working conditions but the informal social relation developed among the group members was the reason for increased productivity.

### Relay assembly test room experiments:

- A group of six girls was formed.
- They were placed in a separate test room.
- An observer supervised the girls.
- The girls were told to work in a normal way and allowed to comment freely about changes in the working conditions.
- The changes were made with durations ranging from 4 to 12 weeks.
- Group bonus incentive scheme was the first change made.
- The productivity increased to some extent.
- The change in the duration of rests was the second change. Earlier the rest period in the morning as well as in the evening was 5 minutes each. It was increased to 10 minutes each.
- The productivity increased.
- Free snacks and coffee/soup were provided in the rest time. (The third change)
- The productivity increased.
- Free snacks and coffee/soup were withdrawn but the number of rest periods were increased to four each with 5 minutes duration.( The fourth change)
- The productivity decreased slightly. Not because of above change of snacks/coffee but because of frequent rest intervals.
- The girls complained that frequent rest intervals affect smooth flow of work.

## Chapter 2 - History of Management

- So, the number of rest intervals was reduced to two of 10 minutes duration each, and coffee/soup was provided in the morning and snacks in the evening.
- Productivity increased by 30%.
- At this stage, the researcher decided to withdraw all the benefits and facilities. (The fifth change)
- Interestingly, productivity increased further.
- As and when the change was introduced, it was found that the absenteeism decreased, morale increased, and less supervision was needed. Since the girls were allowed to work freely, they developed a sense of responsibility and self discipline. A close and friendly relationship prevailed between the supervisor and the group girls.

These five changes were introduced over a period of two years. But the method of payment was not changed. Morale and productivity was maintained even though the changes in working conditions were withdrawn.

- Conclusion: Productivity increases because of socio economic factors such as feeling of being important, recognition, attention, complete communication, participation, small size of informal and cohesive work group and no-directive supervision.

### Mass Interviewing Program:

The interview program was conducted to determine attitudes of employees towards:

- Company
- Supervision
- Insurance plans
- Promotion and wages

Nearly 20000 employees including supervisors were interviewed, many of them twice. Initially the interviews were structured, only direct questions being asked by the researchers. So, they were not able to find the grass root of the problem.

Hence the method of interview was changed into non directive or unstructured one. The interviewer was asked to listen, instead of talking,

## Chapter 2 - History of Management

arguing or advising. The employees were asked to discuss freely those issues which were relevant to the topics of their choice. Some of the major findings:

- Supervisors knew what the workers expected of them.
- Male workers were more economically oriented.
- A complaint of a worker is a symptom of personal disturbance in the workplace.
- Many problems were due to emotional attitudes of workers rather than objective difficulties in the situations.
- Satisfaction or dissatisfaction of an employee comes from his social status and expected social rewards.
- The personal situation of the worker arises out of mode of his sentiments, desires and interests.
- The individual behavior gets influenced by group behavior.
- Conclusion: The workers were activated by logic of sentiment but the Management is concerned with logic of cost and efficiency.

### Bank Wiring observation room experiments:

A group consisting of 14 male workers was formed. Out of these, 9 were wiremen, 3 were solderers and 2 were inspectors.

Hourly rate of wages was fixed on the basis of average output of each worker. A group bonus scheme was announced. Group bonus was to be determined on the basis of average group output. It was assumed that workers would produce more and more in order to get maximum group bonus. Besides, the workers would help each other to produce more. The company had not improved the working conditions for this experiment.

Under this experiment, workers decided their target by themselves. The company target was more than the target fixed by workers. However, workers failed to achieve the target.

- Workers felt that if they produce more, a few workers among them would lose their job.
- Workers felt that if they reached the standard level of production, the management would raise the standard level of production further.

## Chapter 2 - History of Management

- The workers were friendly on the job as well as off the job. So the fast workers protected the slow workers by slowing down their production. They did it so that the slow workers would not lose the job.
- Workers were confident that the management would accept lower production. Management seemed to accept lower production rate and nobody was punished for lower production.
- Conclusion:
  - An informal relationship is responsible for deciding human behavior.
  - The counseling was helpful in resolving management employee conflicts.
  - The existence of informal organization.
  - The group had fixed standard output of their own only because of social pressure.
  - The output could not increase despite group incentive scheme as a result of existence of social pressure.

### Findings of Hawthorne Experiments:

- Social factors are responsible for deciding the level of output.
- Workers create groups different from official groups to overcome the shortcomings of formal relationships. These groups determine the norms of members' behavior. If someone deviates from the group, he will not be accepted by the group. Group behavior can influence the individual behavior.
- Production level is determined by social norms, not by physiological capacities. There is no direct relationship between production level and working conditions.
- Workers are not motivated merely by money.
- The conflict arises since the objectives of management differ from objectives of the workers "Informal" group.
- Leadership is important for directing group behavior. A superior is accepted as a leader if his style is in accordance with human relations approach, and his identification with group objectives.

## Chapter 2 - History of Management

- The workers prefer to maintain amicable relations with their co-workers rather than earning more money. Efficient workers were not ready to increase group output to get more group bonus. They feared that increased output would lead to loss of employment for the inefficient workers. So they fixed low level of production.
- The informal groups have their own norms and beliefs. A leader of the group has an influence on the attitudes, behavior and performance of individual workers.
- The friendliness and genuineness of the supervisor helps to maintain productivity.
- Communication is an important part of organization. Workers can explain their views and feelings relating to a particular action. Participation of workers is possible in decision making process. Their problems can be identified easily and solved. These things are possible only through proper communication.
- Complaints and criticism by workers are symptoms of deeper satisfaction.

### 2.10 Activities for the students

---

#### Activity A

Go to the nearby manufacturing company and find out if the scientific management is followed there in recruiting workers.

---

---

---

---

---

---

### Activity B

Conduct time and motion study in your kitchen by using stop watch while your mother is cooking food. Find out the unnecessary movements because of which she is getting burdened and fatigued.

---

---

---

---

---

## 2.11 Summary

### SUMMARY OF CONTRIBUTIONS FROM THE CONTRIBUTORS TO HISTORY OF MANAGEMENT

Contributors	Contribution	Breakthrough
HENRY FAYOL	<ul style="list-style-type: none"> <li>-Fourteen Principles of Management</li> <li>-Classification of business activities</li> <li>-Elements of management</li> <li>-Management functions and organizational functions</li> <li>-Qualities of a manager</li> </ul>	Fourteen Principles of Management
F.W.TAYLOR	<ul style="list-style-type: none"> <li>-Principles of Scientific Management and Application of these principles to solve the problems of management</li> <li>-Functional foremanship</li> <li>-Work study, time and motion study</li> <li>-Standards</li> <li>-Planning and control</li> <li>-Separated planning function from executive function</li> <li>-Duty of management to tell expectation of management from them and the way through which job is to be completed</li> <li>-Mental revolution on the Part of employer and employees</li> </ul>	Scientific Management
PETER F.DRUCKER	<ul style="list-style-type: none"> <li>-Nature and functions of Management</li> <li>-organizational structure</li> <li>-centralized control with structure of decentralization</li> <li>-MBO</li> <li>-organizational changes</li> </ul>	Management by Objectives MBO
FRANK GILBRETH	<ul style="list-style-type: none"> <li>-Time and motion study</li> <li>-Methods</li> <li>-18 basic motion elements(Therbligs)</li> <li>-Construction contracting</li> <li>-flow process charts, diagrams and merit Rating</li> <li>-Consulting</li> </ul>	18 basic motion elements (Therbligs)

## Chapter 2 - History of Management

<b>LILLIAN GILBRETH</b>	<ul style="list-style-type: none"> <li>-The psychology of Management</li> <li>-Fatigue studies</li> <li>-Recognized human factor in management</li> <li>-Employee selection and training</li> <li>-Preached the message of her husband after his death</li> </ul>	The psychology of Management
<b>MAX WEBER</b>	<ul style="list-style-type: none"> <li>-Framed bureaucracy as the ideal form of organization</li> </ul>	
<b>MARY PARKER FOLLET</b>	<ul style="list-style-type: none"> <li>-Four principles of coordination</li> <li>-Role of psychology in human activity</li> <li>-Seven views on different aspects of management</li> </ul>	Pioneer of management thought Professional nature of management
<b>HENRY GANTT</b>	<ul style="list-style-type: none"> <li>-Gantt chart</li> <li>-Gantt task and bonus plan</li> <li>-“The new machine” concept</li> <li>-Humanistic approach to labor</li> <li>-Training</li> </ul>	Gantt chart
<b>GEORGE ELTON MAYO</b>	<ul style="list-style-type: none"> <li>-Conducted Hawthorne experiments</li> </ul>	Hawthorne experiments

### 2.12 Self-assessment questions

---

1. Explain the Hawthorne Illumination experiments.
2. Explain the Scalar chain.
3. Explain the contribution of Mrs. Lillian Gilbreth.
4. What is the meaning of Unity of command.
5. Define “Scientific management” and explain.

## 2.13 Multiple choice questions

---

1. As per Henry Fayol, -----refers to combination of fairness, kindness and Justice.

- a. Equity
- b. Diversity
- c. Help
- d. Support

2. Maximum prosperity for the employer:

- a. high profits
- b. high market share
- c. low salaries
- d. lower costs and high returns

3. A study relating to the fixing of working hours with rest periods to enable the Workers to recoup the energy lost while performing the job.

- a. Time study
- b. Motion study
- c. Fatigue study
- d. Work study

4. Bureaucracy as a form of management:

- a. Gilbreth
- b. Drucker
- c. Fayol
- d. Weber

5. Meaning of Therbligs

- a. Standard times
- b. Thermometers
- c. Thermal power
- d. Motions

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

After studying this chapter, your ideas about vision and mission, objectives and goals will be crystal clear and you will know the importance of targets, actions.

### **Structure**

- 3.1 Vision statement
- 3.2 Mission statements
- 3.3 Strategy
- 3.4 Objectives
- 3.5 Goal setting
- 3.6 Targets
- 3.7 Action plans
- 3.8 Summary
- 3.9 Activities for the students
- 3.10 Self assessment questions
- 3.11 Multiple choice questions

### 3.1 Vision statement

---

Vision statement is written by looking ahead into the future. It aims at higher achievable things. It is based on what the organization should strive for and achieve in another five to ten years. Through various activities, the faculty is guided to attain the vision. This acts as a powerful tool, a guiding star. When personalized and truly owned, vision provides the incentive-the drive towards fulfillment. It creates commitment, motivation and the drive for initiating the mission, objectives, projects and tasks necessary to realize the vision. Developing a vision may take a few weeks. Though this looks to be a long time, it should be understood that it is a portrayal of what life could be five to ten years from now. Time is allowed for dreaming and brainstorming along with categorizing random thoughts to ensure a comprehensive and realistic vision.

In today's competitive environment, it is just not sufficient if we are a step ahead of other institutes. It should be by leaps and bounds. To achieve this, every institute needs to have a vision. They should start looking into the future, predicting it, planning for it, and making it happen. Only this will make the difference between dreaming things and making things happen. Thus, vision is the result of dreams in action.

The gap between dream and action is filled with plan. How well we succeed will depend upon depends on how well we plan. Planning sets the direction and speed of the progress. Effective utilization of time and resources is a needed perquisite. To survive in this global village, productivity is more important than production. Effectiveness is more important than efficiency. It is more important how effectively I utilize the fewer opportunities put forth before me.

Vision is not the state of being but the process of becoming. Vision should be something which is far fetching and not that which calls for a change every day. It should be borne in mind that the vision statement is organization specific.

According to Joel Barker,

- Vision should be initiated by top management
- Acceptable to everyone involved
- Complete: how, when, why and what

## Chapter 3 - Vision, Mission and Strategy

- Understandable to everyone, so that they contribute to the vision
- Positive, attainable and inspiring
- One that makes the people stretch themselves to use their talents, skills and imagination
- Worth the effort of everyone involved.

Management vision can lead the organization towards success and it can also demoralize the organization. There are cases where improper vision statements have ruined the organization. Hence, it is necessary that utmost importance is given and care is taken while formulating the vision statement. To formulate a vision statement, one has to study the core values and purpose of the organization. Only such a vision statement will do the motivating role.

For human being, there are many core values. Some people have money as the core value. Some have ethics and some have power, status as core values. Whatever people do are the reflections of their core value. Similarly, the activities of an organization should reflect its core value. Some of the core values are:

- Service to people
- Innovative technology
- High ethical standards
- Always on time
- Maximum profit

The purpose means answer to the question: "what for does the organization run?" This purpose also should reflect in the vision statement.

The vision statement gives direction to the organization. Having a vision paves way for the success of the organization. Between the dream and the vision, the organization has to climb a ladder of action plans such as expertise, creativity, empowerment, involvement and values. A vision in each of these sub levels will help the organization to reach the goal faster.

The following characteristics must exist in the organization to be successful:

- Flexible to the changing environment
- Quick responsiveness of individuals to the demands made by the environment

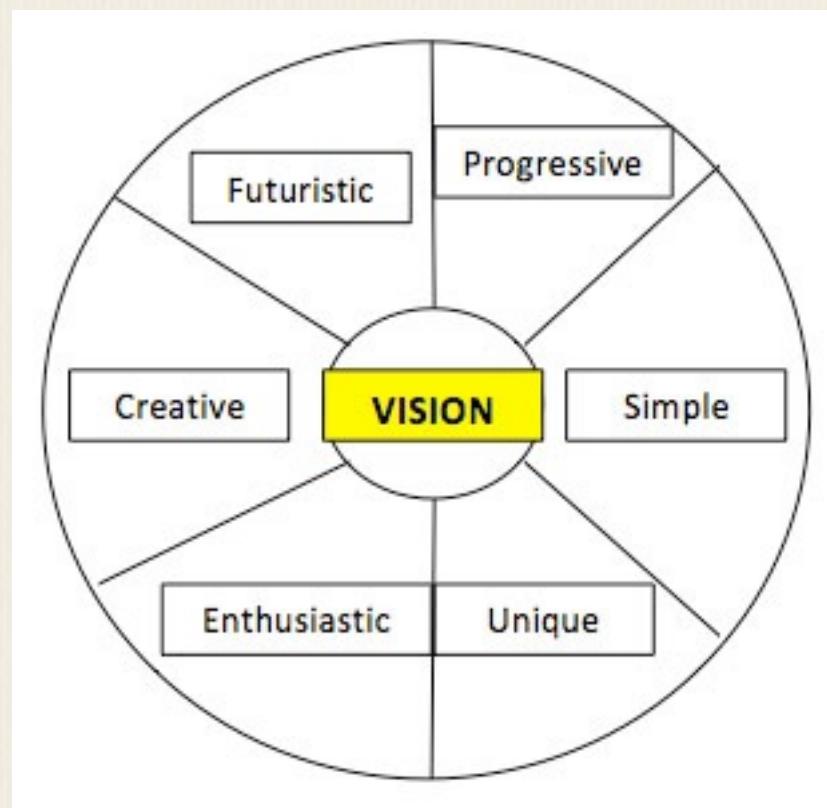
## Chapter 3 - Vision, Mission and Strategy

- Creative approach to problem solving
- Willingness to experiment and learn new things
- Nurturing the creativity of the individuals
- Pro-activeness of the top management

### General guidelines for a vision statement:

- Involve as many employees as possible in the formulation of vision statement.
- Affinity diagram and brainstorming should be used in the formulation of the vision statement.
- The vision should project the growth and development.
- It should be short and realistic.
- The value system to be projected in the statement.
- How you intend to achieve the foresighted vision should be highlighted.

### Vision statement should be:



- Future oriented
- Creative
- Setting high standards of excellence
- Inspiring enthusiasm and encouraging commitment

- Reflecting uniqueness
- Very clear and challenging

It is found that when a vision is clearly stated, focus is there. People, who look ten years ahead, succeed more rather than those who leave things to fate.

Continuous monitoring and feedback is necessary to find where the organization is positioned with regard to its vision. It gives an indication of progress of the organization.

The vision should be popularized among the employees by having it displayed in all prominent places in the organization; having it printed on personal items such as ID cards, pay slips etc. Top officials should promote the vision statement frequently in personal and public talks. They must also own it and live it.

### **Examples:**

#### **Vision Statement of our Welingkar Institute of Management, WE School:**

To nurture thought leaders and practitioners through inventive education.

#### **Vision Statement of Tata Motors:**

To be a world class corporate constantly furthering the interest of all its stakeholders.

#### **Vision Statement of Bosch Ltd.**

Enabling Lives and Livelihood through Education and Technology.

#### **Vision Statement of Infosys Technologies Ltd.**

"To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people."

#### **Vision Statement of WIPRO Ltd.**

To be among the Top 10 Global IT & Business Process Outsourcing Services.

Sample Vision Statements of other organizations:

1. To maintain leadership in our field by fulfilling all the intended and implied requirements of our customers to their utmost satisfaction and continue to exceed their requirements at all times.
2. It will be a pre-eminent city with active community involvement, comfortable neighborhoods, thriving businesses and innovative government.
3. It will be state where poverty will be totally eradicated; where every man, woman and child has access to not just the basic minimum needs but also to all the opportunities to lead a happy and fulfilling life; a knowledgeable and learning society built on the values of hard work, honesty, discipline and a collective sense of purpose.
4. Our company believes in achieving consonance between corporate objectives and employee aspirations. The aim to improve individual progress, employee motivation, and productivity levels shall be achieved through sustained nurture, a strong work culture and organizational excellence.
5. To us quality is not something what we engineer, inspect and input into our tractors and their components. It is an innate desire to be the best that comes within each one of us. It defines our lives at work and at home and ripples out into the world around us.

### 3.2 Mission statements

---

The next step is to prepare mission statements. If the vision is “WHAT” of life, then the mission is “WHY” and “HOW”. It identifies the roles and activities to which an individual is committed and provides the overall direction for achieving the vision. Mission focuses on what you want to be and what you want to do- contributions and achievements. Mission focuses on the values and principles upon which being and doing are based. A personal vision needs to be clearly developed so that the mission statement can be based on it.

General guidelines for mission statements:

## Chapter 3 - Vision, Mission and Strategy

- These statements should clearly indicate the important roles and methodologies followed for fulfilling the vision.
- Techniques and tools such as affinity diagram, brainstorming, fishbone diagram, and surveys should be used.
- Mission statements should realize the vision in action. Conduct a mind map to check whether it is really fulfilled.
- These statements will carry the information which needs to be fulfilled in the near future.
- Time factor may be brought in to make it more systematic.

### **Examples:**

#### **Mission Statement of our Welingkar Institute of Management, WE School:**

Focus on inventive education by offering practical, innovative and technology driven programs.

Provide managerial talent with risk managing ability, passion for learning and creative thinking and, values in rapidly evolving economic and social environment.

Contribute significantly to Indian corporate world by preparing management graduates with global mindset.

Build intellectual capital through faculty development, research, consultancy and publication.

Develop alumni network of mutual benefit and keep alumni updated through continuous learning and meeting.

## **Mission Statement of Tata Motors (Commercial Vehicle Business Unit)**

**Shareholders:** To consistently create shareholder value by generating returns in excess of Weighted Average Cost of Capital (WACC) during the upturn and at least equal to Weighted Average Cost of Capital (WACC) during the downturn of the business cycle.

**Customers:** To strengthen the Tata brand and create lasting relationships with the customers by working closely with business partners to provide superior value for money over the life cycle.

**Employees:** To create a seamless organization that incubates and promotes innovation, excellence and the Tata core values.

**Vendor and Channel Partners:** To foster a long-term relationship to introduce a broad range of innovative products and services, that would benefit our customers and other stakeholders.

**Community:** To proactively participate in reshaping the country's economic growth. To take a holistic approach towards environmental protection.

## **Mission Statement of Bosch Ltd.**

How we intend to achieve the mission:

Like a spark that ignites an engine, the foundation aims to empower individuals to create an impact that will help communities stand on their own feet, through employability training and techno-solutions.

Technology refers to the application of a systematic method in order to achieve a desirable outcome.

## **Mission Statement of Infosys Technologies Ltd.**

To achieve our objectives in an environment of fairness, honesty and courtesy towards our clients, employees, vendors and society at large.

### The values that drive Infosys: C-LIFE

1. Customer Delight: A commitment to surpassing our customer expectations.
2. Leadership by Example: A commitment to set standards in our business and transactions and be an exemplar for the industry and our own teams.
3. Integrity and Transparency: A commitment to be ethical, sincere and open in our dealings.
4. Fairness: A commitment to be objective and transaction-oriented, thereby earning trust and respect.
5. Pursuit of Excellence: A commitment to strive relentlessly, to constantly improve ourselves, our teams, our services and products so as to become the best.

### Mission Statement of WIPRO Ltd.

1. Be a trusted partner to our clients by providing transformation and SI services.
2. Achieve Thought Leadership in emerging technology areas.
3. Be perceived as a leader by relevant stakeholders among global IT service and BPO providers.

Mission statements are prepared to make the employees understand in clear terms “HOW” to achieve the vision and “WHY” all this has to be done. It is a ROAD MAP for achieving the vision. The mission statements act as a guiding force encouraging the individuals to work towards reaching the vision.

### 3.3 Strategy

Companies now face increasingly turbulent, complex and threatening environments. In the past, they could succeed by focusing virtually all management efforts on running their day to day affairs as efficiently as possible. Although such focusing is still important, adapting the firms to changing environmental conditions has become an essential gradient for success.

The strategic management perspective highlights the significance of devoting more attention to analyzing environments and formulating strategies that relate

directly to environmental changes. The ultimate purpose of strategic management is to help the organization increase its performance through increased effectiveness, efficiency and flexibility.

A strategy is a way of doing something. It usually includes formulation of an objective and a set of action plans for accomplishment of the objective.

Strategic management may be understood as the process of formulating, implementing and evaluating business strategies to achieve organizational objectives. It is a set of managerial decisions and actions that determines the long term performance of a corporation. It involves environmental scanning, strategy formulation, strategy implementation, evaluation and control.

The study of strategic management emphasizes on monitoring and evaluating environmental opportunities and threats in the light of corporation's strengths and weaknesses.

Step No. 1: Analyze opportunities and threats or constraints that exist in external environment.

Step No. 2: Formulate strategies that will match the organization's strengths and weaknesses with opportunities and threats or constraints that exist in external environment.

Step No. 3: Implement the strategies.

Step No. 4: Evaluate and control activities to ensure that organizations objectives are achieved.

### 3.4 Objectives

---

Once the common vision and mission statements for the organization are made, then it is for the different departments to contextualize these statements in their working.

Every department should have well defined objectives. This will be based on why the department exists and what are its broad expected outcomes. The objective of the design department of an organization may be as follows:

- To design the product optimally using state of the art technology
- To design the product up to the delight of customers found and checked using the state of art management tools

- To incorporate innovativeness and flexibility in the design

The objectives should reflect vision of the organization and should go well with the mission of the organization.

E.g. if the organization has the following vision:

“Be Number one innovative company in India”

And the design department of that organization has the following objectives:

“To design products according to the primary vision of the founder”

Then these are mere statements. These vision and objectives will do no good to the organization.

### 3.5 Goal Setting

---

To fulfill the objectives, it is necessary that the objectives are split into specifics. The criteria may be functionality, action etc. These goals are for teams of people involved.

As said earlier, the goals must be S-M-A-R-T as explained below:

1. Specific: We should be specific in our goal. E.g. I want to become a manager is not a goal. What you want to accomplish in an organization is a goal.
2. Measurable: The goal must be measurable. E.g. I want to secure 95% marks.
3. Attainable: The goal must be achievable. Our resources are limited. So, if you want to buy a flat in Mumbai and you have only 10 Lakhs, it is not possible to buy a flat there.
4. Realistic: The goal must be realistic. We cannot dream to become a prime minister when you have not yet become a corporator.
5. Time bound: Your goal should have a time limit such as I want to get admission to a medical college during next year.

Continuous activity towards predetermined goals, set of disciplines with organized activities, interdependence between customer and us will result in profits, goodwill, team effort, proper decision making.

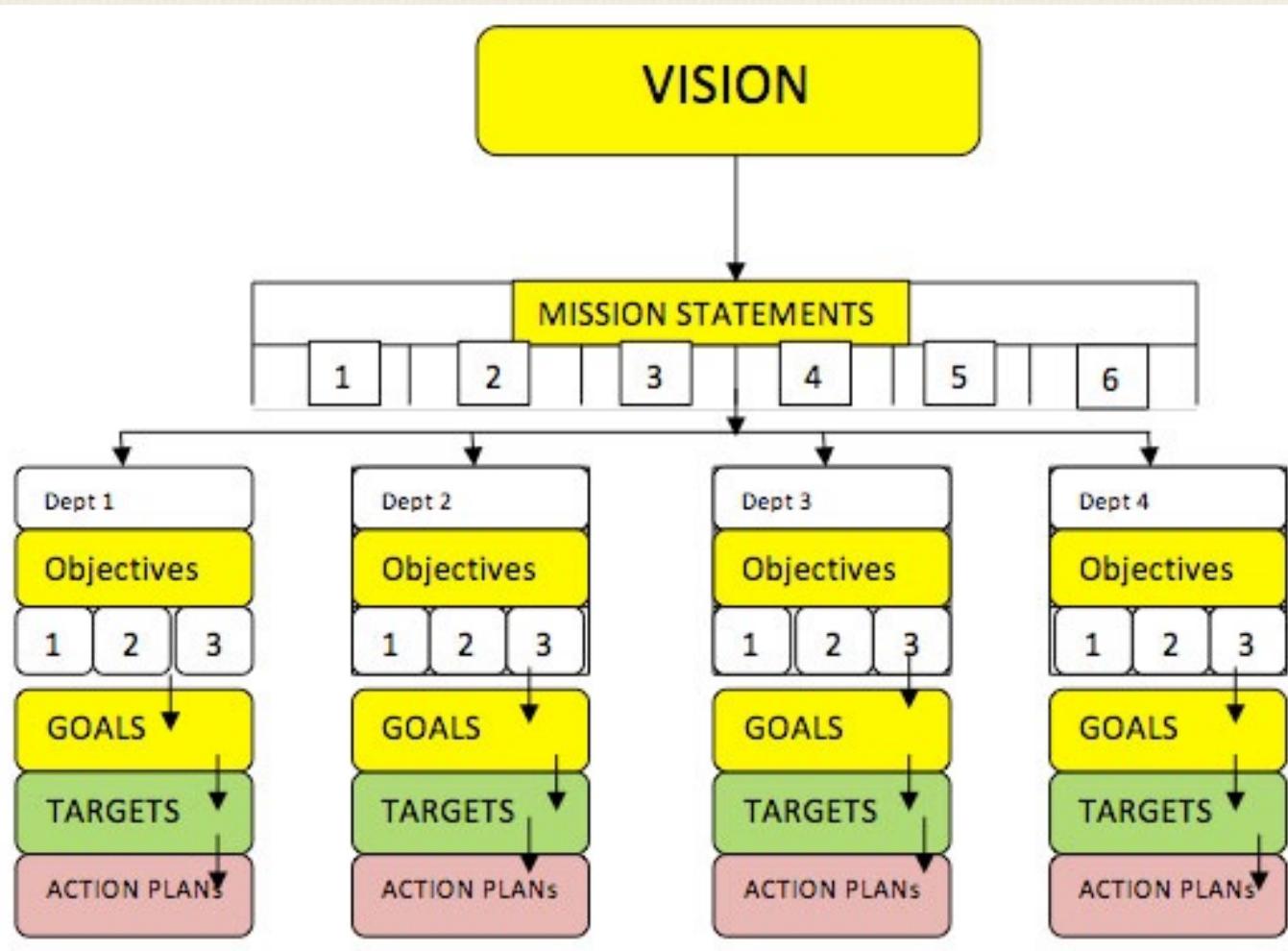
### 3.6 Targets

Goals are meaningful and clear cut subsets of objectives. Goals are for a team of people involved and may be long term in nature. But these should be made into a few short term and person specific targets. Targets make individuals more comfortable with what he has to do, and within what time frame he has to accomplish the same. As every individual has a target, it should be written with care and should reflect the vision and his job description, his potentials etc.

### 3.7 Action Plans

Detailed action plans have to be laid down next. This will assist individuals in achieving the target. Also whenever there is a deviation to plan, it can be quickly tracked and restored. Action Plans help in systematic study and presentation of the process to achieve the targets.

### 3.8 Summary





### 3.9 Activities for the students

---

#### Activity A

What is your personal vision for next 5 years? Make a mission statement detailing how you will achieve it.

---

---

---

---

---

---

---

#### Activity B

What is your personal target this year? What is your action Plan to achieve it?

---

---

---

---

---

---

---

### 3.10 Self-assessment questions

---

1. Explain the difference between vision and mission.
2. Explain the difference between objectives and goals.
3. Explain the meaning of SMART goals.

### 3.11 Multiple choice questions

---

1. Vision is the result of -----in action.
  - a. Mission
  - b. Plan
  - c. Dreams
  - d. Ideas
2. The gap between dream and action is filled with-----
  - a. Ideas
  - b. Plan
  - c. Goals
  - d. Objectives
3. Vision should be initiated by -----.
  - e. Top management
  - f. Middle management
  - g. Workers
  - h. Managers
4. Answer to the question:"what for does the organization run?" is:
  - a. Plan

## Chapter 3 - Vision, Mission and Strategy

- b. Purpose
  - c. Vision
  - d. Mission
5. “Be Number one innovative company in India” is a -----of a company.
- a. Mission
  - b. Vision
  - c. Purpose
  - d. Idea

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

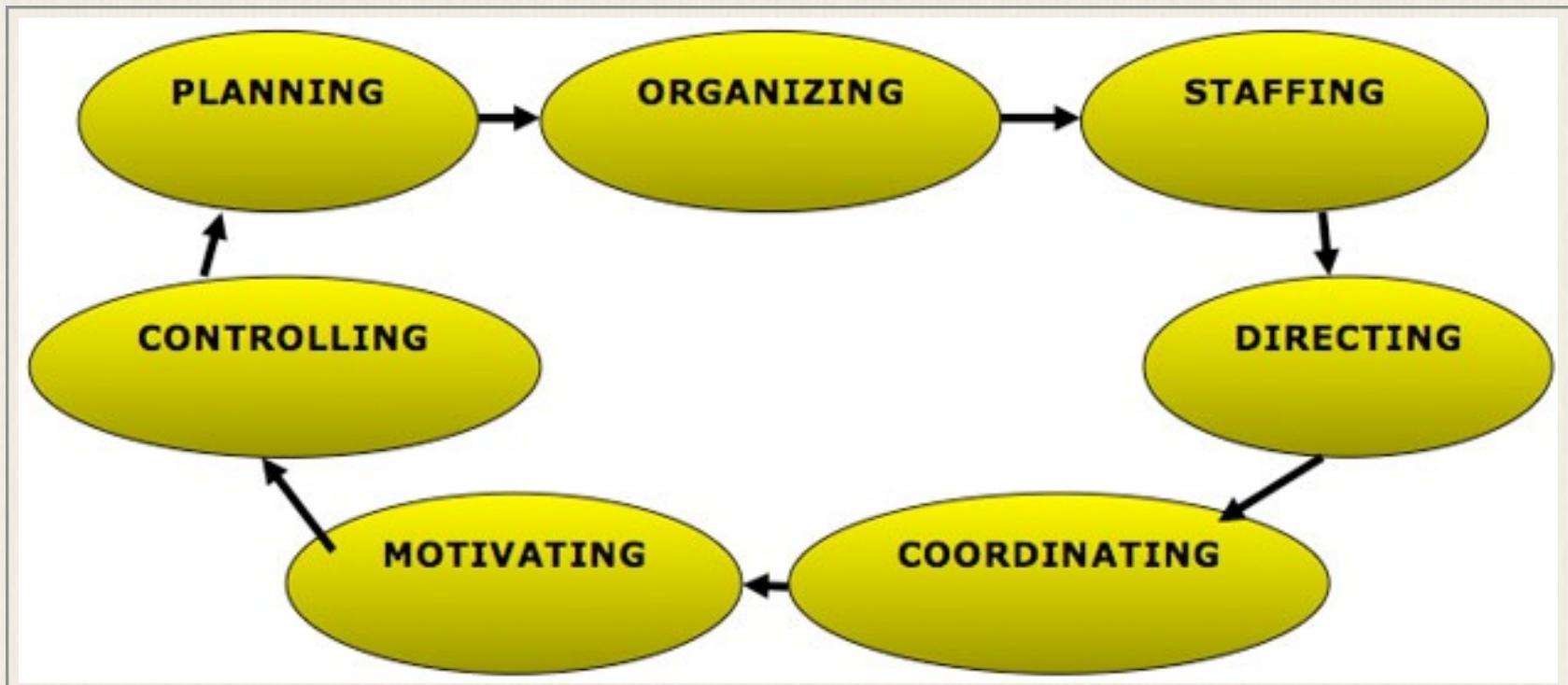
[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

After studying this chapter, you will come to know the definitions of all the seven processes of Scientific Management and you will have clear ideas before you begin your detailed study about these processes.

## Chapter 4 - Seven Processes of Scientific Management

### Structure

- 4.1 Planning
- 4.2 Organizing
- 4.3 Staffing
- 4.4 Directing
- 4.5 Coordinating
- 4.6 Motivating
- 4.7 Controlling
- 4.8 Activities for the students
- 4.9 Summary
- 4.10 Self assessment questions
- 4.11 Multiple choice questions

### 4.1 Planning

---

Planning is the primary function of management. Nothing can be performed without planning. Writing a book starts with planning. Planning refers to deciding in advance what will be done in near future. In the business world, the organization has to achieve the objectives and goals. In order to achieve these objectives and goals the organization plans

- What is to be done
- When it is to be done
- How it is to be done
- By whom it is to be done.

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

Planning involves determining the objectives and goals that an organization aspires to achieve within a given time period, developing alternatives, and selecting the best course of action among the available alternatives to accomplish the set objectives. Thus planning is a forward looking function which involves future forecasting. The future forecasting is done on the basis of past analysis related to present. By anticipating the future destination of an organization, planning provides direction and guidelines to managers to perform different organizational activities. In the planning phase, managers determine in advance where to go, how to go, what is to be done and by whom it is to be done. In addition, they attempt to forecast the problems that may arise in the future and the ways to deal with them.

The planning function involves the following activities:

- Visualizing the future position of the organization
- Determining objectives
- Selecting the best future course of action
- Formulating policies, programs, budgets, schedules

- Establishing procedures, and standards of performance
- Forecasting future problems, and developing means to cope up with them
- Comparing the past activities of the organization with present activities.

An efficient planning function helps the organization to achieve its organizational objectives effectively. Being a managerial function, planning should intend to create maximum utility out of minimum possible resources.

### Example of the process:

To give you an example, Production Planning and control function is very crucial function, which essentially consists of planning production in a manufacturing organization before actual production activities start and exercising control activities in order to ensure that planned production is realized in terms of quality, quantity, delivery schedule and cost of production. This function includes routing, estimating, loading and scheduling, dispatching, expediting, inspection, evaluating and cost control.

## **4.2 Organizing**

---

It can be defined as arranging the work, processes, authority, resources and employees in right order, so that all the organizational activities can take place in a defined and orderly manner. Proper arrangement ensures timely attainment of objectives and minimization of work chaos and miscommunications. Organizing defines various relationships in an organization, such as authority-responsibility, and inter-departmental relationships. It is because of those structural arrangement and relationships, the future plans of an organization are developed and carried out. Similar to planning, organizing is also an on-going activity that changes with any change brought about in any function of an organization. The function of organizing is different for different objectives and goals. For example, organizing the functions and work processes of an accounting department are different from that of a marketing department.

Organizing is the distribution of work in group-wise or section-wise for effective performance. Organization provides all facilities which are necessary to perform the work. After the business gets developed, the organization takes responsibility to create some more departments under different managers. Hence the organization divides the total work and coordinates all the activities by authority relationship. Besides, organizing defines the position of each person in the organization and

## Chapter 4 - Seven Processes of Scientific Management

determines the paths through which communication should flow. The manager would determine who should report to whom and how.

According to Henry Fayol, “Organization is of two kinds: Organization of human factor, and organization of material factor. Organization of human factor covers the distribution of work to those who are best suitable along with authority and responsibility. Organization of material factor covers utilization of raw materials, plant as well as machinery”.

Organizing function may also be defined as a process of integrating, balancing, unifying, and coordinating the activities of employees and different organizational departments for accomplishing predetermined objectives. The organizing function involves:

- Determining and explaining the activities required to achieve planned objectives
- Grouping the activities among different departments
- Assigning activities to individuals at specific positions
- Delegating the authority to individuals for carrying out activities
- Explaining the roles and responsibilities to individuals
- Laying down horizontal and vertical authority relationships throughout the organization

### Example of the process:

To elaborate the subject further, after planning is completed, we have to bring all the resources together in a certain format, which makes easy for us to take actions. As detailed earlier, there are four resources viz. men, machines, material and money which have to be brought together in the proportion as per plan. When we talk about organization, it is not only the organization of men, but also the organization of machines, materials and money. Remember, after planning, we should not jump to actions. Organizing is the function for preparing for action. Before we start any action, the resources must be properly mapped.

As stated earlier, if we are managing an event like marriage ceremony, while performing various activities like booking of hall, sending invitations, receiving guests and putting them into hotels etc., we must ensure that proper time table, schedule, allocation of work to various persons are done systematically and in time. Otherwise, we will be stressed and then will make mistakes because of leakage of energy.

### 4.3 Staffing

---

Staffing is the important function of management that involves employing the right number of people at the right place with right skills and abilities. It also involves training and development of the people so that organizational objectives and goals can be achieved successfully. It comprises the activities of selection and placement of competent personnel. In addition to selection, training, development of personnel, it also comprises of promotion of best persons, retirement of old persons, performance appraisal of all the personnel, and adequate remuneration of personnel. The success of any enterprise depends upon the successful performance of staffing function.

The staffing function involves:

- Determining human resource requirements of the organization
- Recruiting individuals with required skills and competence
- Providing placement and orientation to individuals
- Providing training and development programs to individuals
- Evaluating the performance of individuals
- Transferring, promoting, laying off individuals

Example of the process:

Recruitment is the process of finding proper candidates and inducing them to apply for the jobs in the organization. The recruitment should be sound one. If it is not so, the morale of the staff will be very low and the image of the company will be tarnished.

Recruitment is done through advertisements, word of mouth publicity and with the help of placement agencies.

The success of any recruitment depends upon policies and procedures followed by the company while recruiting the staff members.

Jobs with low salary, uninteresting and difficult jobs are challenging to be filled up easily.

Recruitment means the discovery of the staff members for the present and future jobs.

### 4.4 Directing

---

The actual performance of the work starts with the function of directing. Direction includes guidance, supervision, and motivation of employees. Directing involves influencing, encouraging, counseling, mentoring, and guiding the employees to work towards the accomplishment of organizational objectives and goals. In other words, directing refers to a process in which the managers instruct, guide, and supervise the performance of employees to achieve predetermined objectives and goals. It is regarded as the essence of the management process as the success of all other management functions such as planning, organizing and staffing depends upon the directing function.

Communication and coordination are the two important elements of the directing function. Communication refers to verbal or non-verbal interaction between the managers and subordinates. On the other hand, coordination is defined as an act of enabling different individuals to work together for a common goal.

The directing function involves the following activities:

- Helping and guiding subordinates to achieve predetermined objectives and goals.
- Ordering and instructing subordinates regarding the work assigned to them
- Educating subordinates regarding the methods of performing work efficiently
- Supervising the work being performed by subordinates
- Motivating subordinates to give their best.

According to Joseph Massie, “Directing concerns the total manner in which a manager influences the action of his subordinates. It is the final action of a manager in getting others to act after all preparations have been completed”.

Example of the process:

Directing is a process of top down approach. It is a vertical process in which orders come from top for the subordinates to follow. Directing is person-centric. That's why we often see that one boss is very effective because of his proper directions and the other one is not so effective because of his wrong way of handling things.

I can cite examples of Mr. J.R.D.Tata, Ratan Tata, Narayan Murthy, Dhirubhai Ambani whose crystal clear directions have created history in Indian industry.

### 4.5 Coordinating

---

All the activities are divided group-wise or section-wise under organizing function. Now, such grouped activities are coordinated towards accomplishment of organizational objectives and goals. The difficulty of coordination depends upon the size of the organization. It increases with the increasing size of the organization. According to Knootz and O'Donell, "The last coordination occurs when individuals see how their jobs contribute to the dominant goals of the enterprise. This implies knowledge and understanding of enterprise objectives".

Coordination is the management of interdependence in work situations. It is the orderly synchronization or fitting together of the interdependent efforts of individuals. For example, in a hospital, the activities of doctors, nurses, ward attendants, and lab technicians must be properly synchronized if the patient is to receive good care. Similarly, in a modern enterprise, which consists of a number of departments, such as production, purchase, sales, finance, personnel etc., there is a need for all of them to properly time their interdependent activities and to effectively reunite the subdivided work. To coordinate is to keep expenditure proportional to financial resources; equipment and tools to production needs; stocks to rate of consumption; sales to production. It is to build the house neither too big nor too small; adapt the tool to its use; the road to the vehicle; the safety precaution to the risks.

In a well coordinated enterprise, the following facts are observed:

1. Each department works in harmony with the rest. Stores know what has to be supplied and at what time; production knows its target; maintenance keeps equipments and tools in good order.
2. Each department, division, and sub division is precisely informed about the share it must take in the common task.
3. The working schedule of the various departments is constantly tuned to the circumstances.

#### Example of the process:

Coordinating is a horizontal function. It creates linkages between different verticals. Coordination is a choice whereas directing is compulsion of job. Not many people like to coordinate the activities between various sections. It involves talking to persons across the line to get certain things done. It creates linkages between dissimilar functions. It unifies the work of one section with some other section.

### 4.6 Motivating

---

The objectives and goals are achieved by motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers. This is done by a resourceful leader.

The workers expect favorable climate conditions to work, fair treatment, monetary and non-monetary incentive, effective communication and gentleman approach.

According to Earl P. Strong, “Motivating is the process of indoctrinating personnel with unity of purpose and need to maintain a continuous and harmonious relationship”.

### 4.7 Controlling

---

Controlling is the last step of the management process but plays a crucial role without which the whole management process is incomplete. It can be defined as a function through which the actual and desired output is measured. If the actual output differs from the desired output, the deviations are altogether removed or minimized.

There are basically two types of control mechanisms, viz. pro-active and reactive. The pro-active mechanism tries to predict future hurdles and solve them then and there. The reactive approach tries to rectify the damage done to prevent any similar loss in future.

The main steps in control function include:

- Establishing performance standards
- Measuring actual performance
- Determining the gap between set standards and achieved performance
- Taking corrective measures

An integral activity in the controlling function is feedback. Without appropriate and valid feedback, no control measures can be successfully implemented. Feedback about a particular plan can help in identifying areas of improvement.

The controlling function involves following activities:

- Bringing actual results nearer to the desired results
- Improving the performance level of all activities being performed

## Chapter 4 - Seven Processes of Scientific Management

- Regulating the use of all the resources for achieving planned objectives and goals
- Regulating working behavior of employees for maintaining order and discipline
- Checking distortions and deviations taking place in occurs in conformity the system to make it more cost effective

If in the controlling step, there is a huge gap in the actual and desired performance, the whole management process is revised.

According to Henry Fayol, “Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and the principles”.

### 4.8 Activities for the students

#### Activity A

Visit a nearby company to find out how they have implemented the seven functions of management, with emphasis on staffing and directing.

---

---

---

---

---

#### Activity B

Prepare a write up on how you will control your organization, as a CEO.

---

---

---

---

### 4.9 Summary

---

Management is an art and science and it is a continuous activity. It is a factor of production and it is an organized activity. Management aims at maximizing profit with ethical behavior. It is a profession by itself and involves decision making. It is needed in all levels and develops leadership qualities in people. Planning, organizing, staffing, directing, coordinating, motivating and controlling are the functions of management.

### 4.10 Self-assessment questions

---

1. Explain: Being a managerial function, planning should intend to create maximum utility out of minimum possible resources.
2. Explain the importance of communication in the directing function.
3. Explain: “To coordinate is to keep expenditure proportional to financial Resources”.

### 4.11 Multiple choice questions

---

1. The planning function involves the following activity:
  - a. Determining profits
  - b. Determining objectives
  - c. Applying for bank loan
  - d. Recruiting people
2. Organizing is the -----of work in group-wise or section-wise for effective Performance.
  - a. Starting
  - b. Distribution
  - c. Finishing
  - d. Payment

## Chapter 4 - Seven Processes of Scientific Management

3. Coordination is the management of -----in work situations.

- a. Dependence
- b. Distribution
- c. Interdependence
- d. Labor

4. This is done by a resourceful leader.

- a. Motivation
- b. Promotion
- c. Organizing
- d. Reprimanding

5. There are basically two types of control mechanisms:

- a. Upper and lower
- b. Horizontal and vertical
- c. Electrical and mechanical
- d. Pro-active and reactive

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

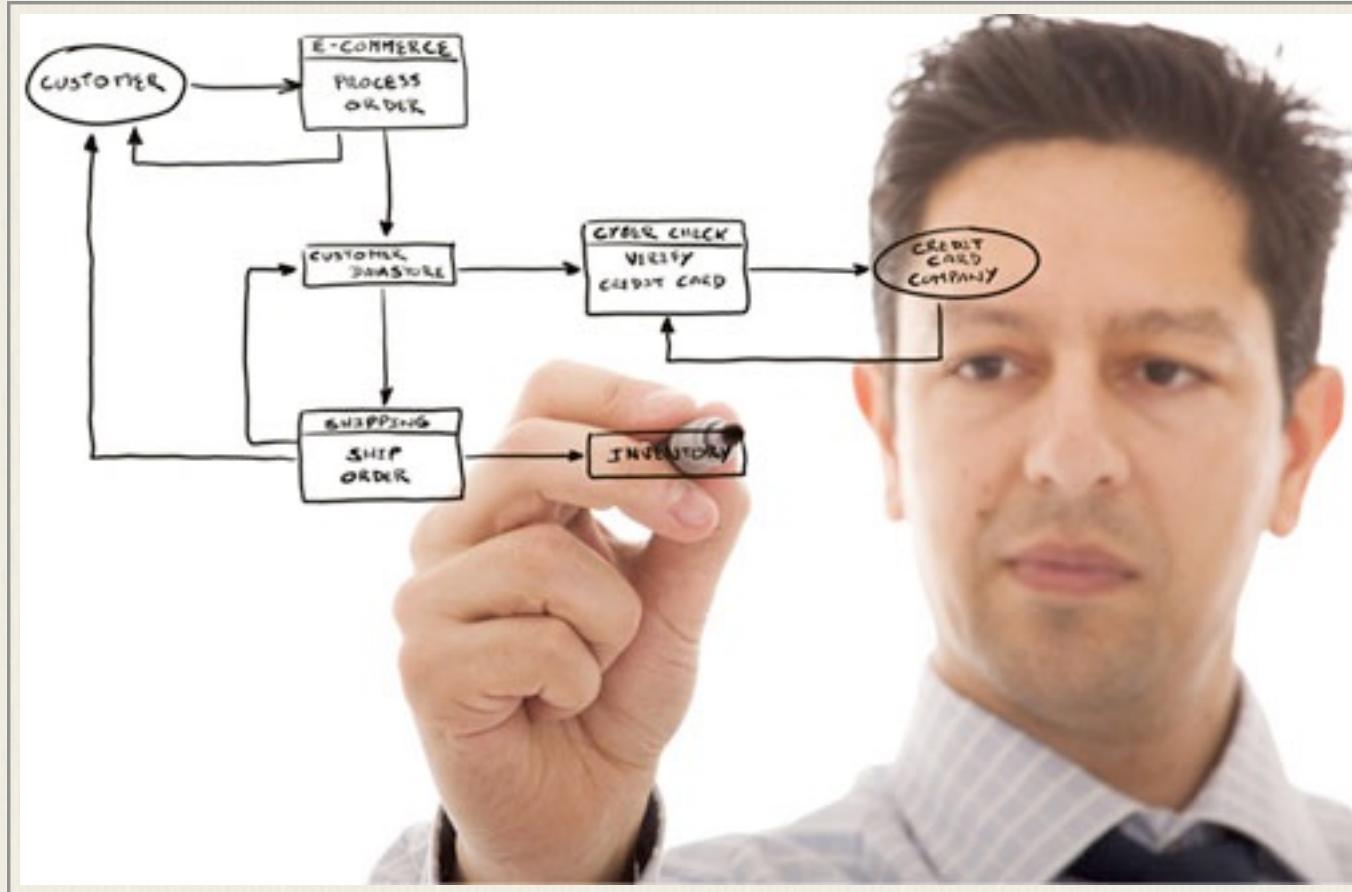
[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video\*\*](#)



## Principles of Management



## Objectives

After studying this chapter, you will get a thorough orientation about planning, the first, foremost and most important function of management.

### Structure

5.0 Introduction

5.1 Steps

    5.1.1 Analysis of external environment

    5.1.2 PESTLE Analysis

    5.1.3 Analysis of internal environment

    5.1.4 SWOT Analysis

    5.1.5 Determination of objectives

    5.1.6 Determining planning premises and constraints

    5.1.7 Examination of alternative courses of action

    5.1.8 Weighing alternative courses of action and its selection

    5.1.9 Establishing the sequence of activities

    5.1.10 Formulation of action program

    5.1.11 Determining secondary action plans

    5.1.12 Securing participation of employees

    5.1.13 Follow up and evaluation

5.2 Alternate Plans and Contingency planning

5.3 BCP

5.4 MBO

5.5 Forecasting

5.6 Activities for the students

5.7 Summary

5.8 Self assessment questions

5.9 Multiple choice questions

### 5.0 Introduction

---

Planning can start only after the goals are set. Planning is nothing but time table of events and activities for deployment of resources or resources to be put in action in order to achieve predetermined goals.

Planning is essential in every walk of life. Everyone needs to plan to reach the goals effectively. The period of planning could be short term, mid-term or long term. The duration of long term can be only one year in case of banking whereas in case of a large manufacturing plant such as steel plant short term itself could be of two years.

We should first do the long term planning, and then do mid-term and then only the short term planning. People generally tend to start action without any planning. They make too much haste. Effective planning facilitates timely achievement of objectives. It reduces tendency for you to fail.

Planning is an intellectual process. It requires humility. Past success may not guarantee future success. Business environments have become very complex. We must keep our mind and eyes open. Future is unknown to us. We have to think differently all the times.

Planning is a process of thinking to choose a course of actions which helps to achieve pre-determined objectives.

Every department, division and branch need to do their individual planning and these individual plans are integrated into master plan of the organization.

As per Koontz and O'Donnell, "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are to where we want to go."

As per Henry Fayol, "Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals.

#### Characteristics of Planning:

1. Planning is looking into the future.
2. Planning involves pre-determined line of action.
3. Planning discovers the best alternative out of available many alternatives.

4. Planning requires considerable time for implementation.
5. Planning is a continuous process.
6. Object of planning is to achieve pre-determined objectives in a better way.
7. Planning integrates various activities of organization.
8. Planning is done for a specific period.
9. Planning not only selects the objectives but also develops policies, programs and procedures to achieve the objectives.
10. Planning required at all levels of management.
11. Planning is inter-dependent process which co-ordinates the various business activities.
12. Planning directs the members of the organization.
13. Growth and prosperity of any organization depends upon planning.

### Objectives of Planning:

1. It reduces uncertainty.
2. Brings cooperation and coordination.
3. Best utilization of resources brings about economy in operation.
4. Anticipates unpredictable contingencies
5. Achieves pre-determined goals
6. The existence of competition enables the enterprise to get a chance for growth. It is possible to reduce competition through planning.

### Nature of planning:

1. Planning is the primary function of all the other functions.
2. Planning contributes to objectives.
3. Planning is an intellectual activity.
4. Planning results in higher efficiency.
5. Planning is a continuous process.
6. Planning is flexible, because it has at least one more alternative if the best selected alternative is proved wrong.

7. Managerial actions of different managers are unified in order to achieve objectives.
8. Planning is done by every person be it a MD or a Foreman. It is common to all.
9. It is a basis for all managerial functions.
10. Without planning, nothing can be coordinated.
11. Every plan is formulated after considering the limiting factors. The limiting factors might be money, skilled labor, quality materials, plant and machinery.

### Importance of planning:

Defective planning and inadequate planning leads to failure of the organization. The business unit has to work in uncertain and ever changing conditions. It is very difficult to continue the business under such conditions. Effective planning can anticipate the uncertain events and help prepare the workforce to meet the situation to survive.

1. Planning makes the organization to focus on the objectives for early achievement.
2. Future is full of uncertainties. These uncertainties may be predicted through forecasting. Then the planning provides necessary provision to face the uncertainties. Planning evaluates the alternative course of action for continuous growth and prosperity of the organization.
3. Best utilization of resources and selection of best alternative brings about economy in operation, because of the best results at minimum cost..
4. Plans are selected courses along which management desires to coordinate group action.
5. Tackling increasing complexities of business
6. Planning is prerequisite for effective controlling.
7. It leads to effective utilization of resources.
8. Planning includes the selection of best alternatives, conversion of uncertainty into certainty, economy in operation, coordination, facing the complexities, effective control and effective utilization of resources and hence avoiding business failures.

### Advantages of planning:

1. Better utilization of resources
2. Helps in achieving objectives
3. Economy in operation
4. Minimizes future uncertainties
5. Improves competitive strengths
6. Effective control
7. Motivation
8. Cooperation
9. Promotes growth and improvement
10. Develops rationality among management executives
11. Prevents hasty judgments
12. Reduces red tapism
13. Encourages innovative thought
14. Improves ability to cope up with change
15. Create forward looking attitude in management
16. Development of efficient methods
17. Delegation of authority is facilitated
18. Anticipation of crisis.

### Methods of Planning:

- Objective Plans (Basic Plans)

These are necessary for all types of planning operation.

- Standing Plans

These are policies and procedures, repetitive action and are ready guidelines for recurring problems.

- Master Plans

These cover the complete course of action along with consideration of time and energy. Small plans are added together in an orderly way to speed up the course of action. In terms of scope, plans may be either broad or detailed in character. These plans could be made function-wise.

### 5.1 Steps In Planning Process

---

The planning process is different from one organization to another. Given below is a planning process which may be treated as commonly acceptable:

#### 5.1.1 Analysis of external environment:

It is necessary to consider the external environment of an organization. The term external environment includes socio-economic conditions and political conditions prevailing in a country.

Socio-economic conditions refer to classification of society on the basis of income, age, class, living conditions, aspirations, expectations etc. These factors are not controllable ones. However, every organization has to prepare the plan according to the changing trends in the external environment.

#### 5.1.2 PESTLE Analysis:

PESTLE stands for - Political, Economic, Socio-cultural, Demographic, Technological, Legal, and Environmental. The term PESTLE has been used regularly in the last 10 years and its true history is difficult to establish. The above mentioned environments change rapidly at different speeds and rates.

- **Political/Legal Factors** center on the political stability of a country, its legal system, and its general attitude towards business. Lack of understanding or respect for a particular nation's political predisposition and legal system can be disastrous for a firm's performance and may result in expensive litigation and loss of good reputation.

A new party gets elected and is not friendly with the business, so it affects planning.

- **Economic factors** relate to a country's inflation or deflation rates, interest rates, tariffs, balance of trade issues, growth of national economies, exchange rates, unemployment rates, labor availability, gross domestic products, savings rates, individual and corporate taxes, monetary gain, GDP etc. If the country is in surplus, taxes might be less and vice versa.

- **Socio-cultural factors** relate to a country's dominant religions, the population's general desire for leisure-time, attitudes toward consumerism, environmentalism, and the role of gender in society and business.

Customers may cancel the orders, suppliers may not supply, there might be a change in behavior of transporters, distributors, and also share holders.

- **Demographic factors** pertain to changes in the population size of a country, geographic distribution of people, ethnic mix, income distribution, average age, number of people in the family, etc.

- **Technological factors** pertain to a country's reception to innovation.

Some national cultures discourage change while others embrace and support it. A country's reception to technology can make the country more competitive, make it more business-friendly, and raise the standard of living of its people. A country's position on technology can change rapidly, especially if there is a change within the governmental structure.

Change in technologies such as computers, ERP systems etc.

- **Environmental Factors:** There are very strict restrictions on emission and other factor which create pollution of air, water, land etc.

**PESTLE analysis** is in effect an audit of an organization's environmental influences with the purpose of using this information to guide strategic decision-making. The assumption is that if the organization is able to audit its current environment and assess potential changes, it will be better placed than its competitors to respond to changes.

To help make decisions and to plan for future events, organizations need to understand the wider 'meso-economic' and 'macro-economic' environments in which they operate.

The meso-economic environment is the one in which we operate and have limited influence or impact.

Meso-economics is the bridge between macro economics and microeconomics.  
The circular flow of the economy is influenced by meso-economics.

Competitions for online banking customers are intense among top U.S. banks; because of increased unemployment, credit crisis and the overall poor health of the U.S. economy. Marc Trudeau states "Americans have less cash, are spending less and have experienced a significant decline in the value of their assets. There are shifts in the way consumers manage their finances online." Less frequent visits to banking websites, has significant implications for banking marketers trying to reach new customers.

Consumer spending is at its all time low with the poor health of the U.S. economy. However, Wal-Mart and Target are competing for consumers who spend less money, because both companies are serious about keeping prices low. In addition, Dollar General, Family Dollar and Radio Shack have reemerged their low prices to compete with Wal-Mart and Target stores. This strategy stops Wal-mart and Target from becoming a monopoly. Although low prices are important to both stores, changes in brand images are the indicator of which store has quality products for lower prices.

Essentially, in the two current events, the consumers are a representation of **microeconomics**. The top U.S. banks, Target and Wal-Mart are representations of **macroeconomics**. Competition and monopolies represent the concepts of **mesoeconomics** that bridge the gap between microeconomics and macroeconomics. Ultimately, meso-economics influences the circular flow of the economy, due to the disaggregated entities that affect each other's behavior.

The macro-environment includes all factors that influence an organization but are out of its direct control.

An organization on its own cannot affect these factors, nor can these factors directly affect the profitability of an organization. But by understanding these environments, it is possible to take the advantage to maximize the opportunities and minimize the threats to the organization. Conducting a strategic analysis entails scanning these economic environments to detect and understand the broad, long term trends.

A PESTLE analysis is a useful tool for understanding the 'big picture' of the environment in which an organization is operating. Specifically a PESTLE analysis is a useful tool for understanding risks associated with market (the need for a product or service) growth or decline, and as such the position, potential and direction for an individual business or organization.

A PESTLE analysis is often used as a generic 'orientation' tool, finding out where an organization or product is in the context of what is happening outside that will at some point affect what is happening inside an organization. The six elements form a framework for reviewing a situation, and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

Managers can monitor the environments through *boundary spanning* — a process of gathering information about developments that could impact the future of the organization. Managers can access information through a variety of sources:

customer and supplier feedback; professional, trade, and government publications; industry associations; and personal contacts.

Managers can also actively work to influence their external environments through lobbying, voting, and using the media to influence public opinion.

### **5.1.3 Analysis of internal environment:**

It can be also called as Resource Audit. Resource audit means an analysis of the strength and weaknesses of an organization. Due consideration is given to availability of resources, profitability, plant capacity, available manpower, communication effectiveness etc.

Internal elements comprise the organization itself. Internal change arises from activities and decisions within the organization. Managers can gather information by conducting a thorough evaluation of the internal operations of the organization. The purpose of this internal analysis is to identify the organizational assets, resources, skills, and processes that represent either strengths or weaknesses. Strengths are aspects of the organization's operations that represent potential *competitive advantages* (any aspect of an organization that distinguishes it from its competitors in a positive way), while weaknesses are areas that are in need of improvement.

Several key areas of the organization's operations should be examined in an internal analysis. Key areas to be assessed include the marketing, financial, research and development, production, and general management capabilities. These areas are typically evaluated in terms of the extents to which they foster quality and support the competitive advantage sought by the organization.

The role of a manager is to monitor and shape the internal and external environments and to anticipate changes and react quickly to them.

### **5.1.4 SWOT Analysis:**

S denotes strengths, W denotes weaknesses, O denotes opportunities and T denotes threats. The brand image of an organization could be its strength and inability to reach all the customers could be its weakness. Generally people focus too much on weaknesses. On the contrary, we must focus more on our strengths and improve on them. Then weaknesses could become lesser. A right hand batsman should not focus on his weakness of not being able to bat by left hand. He should focus on his strength of right hand batting and improve it. We must not focus on our weaknesses at the cost of our strengths.

However, there are external factors in picture. There are opportunities and threats. But these are subjective and imaginary ones. There is a story of a salesman of footwear who went to Africa in 19<sup>th</sup> century for selling the shoes. He found that nobody was wearing shoes and concluded that there was no market for shoes there. Another salesman went there who concluded that since no one used shoes, but they had purchasing power, and hence the market was a huge one.

## SWOT ANALYSIS



### 5.1.1 Determination of objectives:

Once the common vision and mission statements for the organization are made, then it is for the different departments to contextualize these statements in their working.

Every department should have well defined objectives. This will be based on why the department exists and what are its broad expected outcomes. The objective of the design department of an organization may be as follows:

- To design the product optimally using state of the art technology

- To design the product up to the delight of customers found and checked using the state of art management tools
- To incorporate innovativeness and flexibility in the design

The objectives should reflect vision of the organization and should go well with the mission of the organization.

### **5.1.2 Determining planning premises and constraints:**

Planning is nothing but forward looking. Forecasting is fundamental to planning. Forecasts are statements about the future, specifying the volume of sales to be achieved and the equipment, materials and other inputs needed to realize the expected sales. A popular definition of forecasting is that it is estimating the future demand for products and services, and the resources necessary to produce these outputs. Starting point in forecasting is sales or demand forecasting. Sales forecasts trigger all other forecasts.

Forecasting means the assumption of and anticipation of certain events. It implies a calculation of how certain factors will behave in future. The planning must consider the likely behavior of these factors.

Generally, forecasting is made in the following ways:

- What would be the marketing force? Market force refers to demand, supply, buying capacity etc.
- The expectation of sales volume
- What kinds of products are to be sold and at what price?
- What would be their manufacturing costs?
- What would be the tax policy and economic policy of the government?
- The expectation of technology change in production.
- How is the finance raised for expansion and /or modernization of the business?

### **5.1.3 Examination of alternative courses of action**

An action may be performed in many ways but a particular way is most suitable for the organization. Hence the management should find alternative ways and examine them in the light of planning premises.

#### **5.1.4 Weighing alternative courses of action and its selection**

Every alternative has its own strong and weak points. So there is a need for weighing all the alternatives to determine the best alternative. A course of action is selected according to the prevailing circumstances.

#### **5.1.5 Establishing the sequence of activities**

The determined course of action is adopted for each section or department, product, quarter, month, week etc. Finally the manager should draft a final plan in definite terms.

#### **5.1.6 Formulation of action program**

The term action program includes fixing time limit for performance, allocation of work to individuals and work schedule. These are necessary to achieve the objectives within the specified period.

#### **5.1.7 Determining secondary action plans**

Once a basic plan of sales is decided upon, a number of secondary plans could be prepared. The secondary plans include production schedule, purchase of plant and machinery, purchase of raw materials, consumables, selection, training and placement of personnel etc.

#### **5.1.8 Securing participation of employees**

The management should involve employees in planning through communication, consultation and participation.

#### **5.1.9 Follow up and evaluation**

There has to be a system of follow up. The management should watch how the planning is being done. The shortcomings of planning can be identified through the follow up action and rectified then and there. The continuous evaluation of planning is also necessary.

### **5.2 Alternate plans and contingency planning**



### Developing a Good 'Plan B'. Have a solid Plan B ready.

Fires, floods, tornadoes – these are things that we often connect with contingency planning.

But what if your main supplier suddenly goes bankrupt? Or, your entire sales force gets food poisoning at the annual sales conference? Or, your payroll clerk calls in sick on payroll day?

These things can all cause confusion and disorder if you haven't prepared for them properly. Contingency planning is a key part of this preparation.

As you can see, contingency planning is not just about major disasters. On a smaller scale, it's about preparing for events such as the loss of data, people, customers, and suppliers, and other disruptive unknowns. That's why it's important to make contingency planning a normal part of the way your business works.

### Risk Assessment

The need for contingency planning emerges from a thorough analysis of the risks that your organization faces. It's also useful in thinking about new and ongoing projects: what happens when 'Plan A' doesn't go as expected? Sometimes Plan A simply means 'business as usual.' Other times, with more sophisticated risk management plans, Plan A is your first response to deal with an identified risk – and when Plan A doesn't work, you use your contingency plan.

Use these principles in your risk assessment process:

- **Address all business-critical operations** – A good plan identifies all critical business functions, and it outlines ways to minimize losses.
- **Identify risks** – For each of these functions, conduct a [Risk Analysis](#) to identify the various risks that your business may face. What has the potential to significantly disrupt or harm your business?
- The end result of a risk analysis is usually a huge list of potential threats: if you try to produce a contingency plan for each, you may be overwhelmed. This is why you must *prioritize*.
- **Prioritizing risks** – One of the greatest challenges of contingency planning is making sure you don't plan too much. You need a careful balance between over-preparing for something that may never happen, and adequate preparation, so that you can respond quickly and effectively to a crisis situation when it occurs.

- Risk Impact/Probability Charts help you find this balance. With these, you analyze the impact of each risk, and you estimate a likelihood of it occurring. You can then see which risks require the expense and effort of risk mitigation. Business processes that are essential to long-term survival – like maintaining cash flow, staff support, and market share – are typically at the top of the list.
- Note that contingency planning isn't the only action that emerges as a result of risk analysis – you can manage risk by using existing assets more effectively, or by investing in new resources or services that help you manage it (such as insurance). Also, if a risk is particularly unlikely to materialize, you may decide to do nothing about it, and manage around it if the situation arises.

### Contingency Planning Challenges

You should be aware of two common obstacles as you begin your contingency planning process:

- People are often poorly motivated to develop a strong 'Plan B', because they have so much of an emotional investment in the 'Plan A' that they want to deliver. Stress that Plan B needs to be properly thought-through.
- There's often a low probability of a crisis occurring, so people often don't see contingency planning as an urgent activity. Unfortunately, this can mean that it gets stuck at the bottom of their To Do Lists as a task that never gets done.

### Developing the Plan

Remember these guidelines when it's time to prepare your contingency plan:

- **Your main goal is to maintain business operations** – Look closely at what you need to do to deliver a minimum level of service and functionality.
- **Define time periods** – What must be done during the first hour of the plan being implemented? The first day? The first week? If you look at the plan in this way, you're less likely to leave out important details.
- **Identify the trigger** – What, specifically, will cause you to implement the contingency plan? Decide which actions you'll take, and when. Determine who is in charge at each stage and what type of reporting process they must follow.
- **Keep the plan simple** – You don't know who will read and implement the plan when it's needed, so use clear, plain language.
- **Consider related resource restrictions** – Will your organization be able to function the same way if you have to implement Plan B, or will Plan B necessarily reduce capabilities?

- **Identify everyone's needs** – Have people throughout the company identify what they must have, at a minimum, to continue operations.
- **Define 'success'** – What will you need to do to return to 'business as usual'?
- **Include contingency plans in standard operating procedures** – Make sure you provide initial training on the plan, and keep everyone up-to-date on changes.
- **Manage your risks** – Look for opportunities to reduce risk, wherever possible. This may help you reduce, or even eliminate, the need for full contingency plans in certain areas.
- **Identify operational inefficiencies** – Provide a standard to document your planning process, and find opportunities for performance improvement.

### Maintaining the Plan

After you prepare the contingency plan, you need to do several things to keep it practical and relevant – don't just create a document and file it away. As your business changes, you'll need to review and update these plans accordingly.

Here are some key steps in the contingency plan maintenance process:

- Communicate the plan to everyone in the organization.
- Inform people of their roles and responsibilities related to the plan.
- Provide necessary training for people to fulfill these roles and responsibilities.
- Conduct disaster drills where practical.
- Assess the results of training and drills, and make any necessary changes.
- Review the plan on a regular basis, especially if there are relevant technological, operational, and personnel changes.
- Distribute revised plans throughout the company, and make sure that the old plan is discarded.
- Keep copies of the plan off-site, and in a place where they can be accessed quickly when needed.
- Audit the plan periodically:
  - Reassess the risks to the business.
  - Analyze efforts to control risk by comparing actual performance with the performance levels described in the contingency plan.

- Recommend and make changes, if necessary.

### Key Points

Contingency planning is ignored in many companies. Day-to-day operations are demanding, and the probability of a significant business disruption is small, so it's hard to make time to prepare a good plan.

However, if you're proactive in the short term, you'll help ensure a quicker and more effective recovery from an operational setback in the long term, and you may save your organization from failure in the event that risks materialize.

Contingency planning requires an investment of time and resources, but if you fail to do it – or if you do it poorly – the costs could be significant if a disaster happens.

### **5.3 Business Continuity Planning BCP**

---

It identifies an organization's exposure to internal and external threats and synthesizes hard and soft assets to provide effective prevention and recovery for the organization, while maintaining competitive advantage and value system integrity. It is also called *business continuity and resiliency planning* (BCRP). A business continuity plan is a roadmap for continuing operations under adverse conditions such as a storm or a crime. In the US, governmental entities refer to the process as *continuity of operations planning* (COOP).

Any event that could impact operations is included, such as supply chain interruption, loss of or damage to critical infrastructure (major machinery or computing/network resource). As such, risk management must be incorporated as part of BCP.

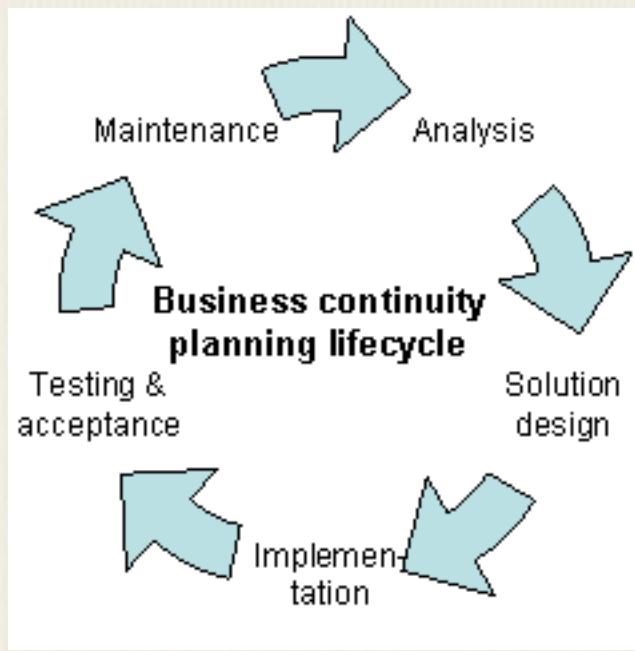
In December 2006, the British Standards Institution (BSI) released an independent standard for BCP — BS 25999-1. Prior to the introduction of BS 25999, BCP professionals relied on information security standard BS 7799, which only peripherally addressed BCP to improve an organization's information security procedures. BS 25999's applicability extends to all organizations. In 2007, the BSI published BS 25999-2 "Specification for Business Continuity

## Chapter 5 - Planning

Management", which specifies requirements for implementing, operating and improving a documented business continuity management system (BCMS).

Business continuity management is standardized across the UK by British Standards (BS) through BS 25999-2:2007 and BS 25999-1:2006. BS 25999-2:2007 business continuity management is the British Standard for business continuity management across all organizations. This includes industry and its sectors. The standard provides a best practice framework to minimize disruption during unexpected events that could bring business to a standstill. The document gives you a practical plan to deal with most eventualities – from extreme weather conditions to terrorism, IT system failure and staff sickness. (British Standards Institution, 2006)

This document was superseded in November 2012 by the British standard BS ISO22301:2012. (British Standards Institution, 2012)



### Analysis:

A Business impact analysis (BIA) differentiates critical (urgent) and non-critical (non-urgent) organization functions/activities. Critical functions are those whose disruption is regarded as unacceptable. Perceptions of acceptability are affected by the cost of recovery solutions. A function may also be considered critical if dictated by law. For each critical (in scope) function, two values are then assigned:

After defining recovery requirements, each potential threat may require unique recovery steps. Common threats include:

- Epidemic

- Earthquake
- Fire
- Flood
- Cyber attack
- Sabotage (insider or external threat)
- Hurricane or other major storm
- Utility outage
- Terrorism/Piracy
- War/civil disorder
- Theft (insider or external threat, vital information or material)
- Random failure of mission-critical systems

**Solution design:** The solution design phase identifies the most cost-effective disaster recovery solution that meets two main requirements from the impact analysis stage.

**Implementation:** The implementation phase involves policy changes, material acquisitions, staffing and testing.

**Testing:** The purpose of testing is to achieve organizational acceptance that the solution satisfies the recovery requirements. Plans may fail to meet expectations due to insufficient or inaccurate recovery requirements, solution design flaws or solution implementation errors.

### **Maintenance:**

Biannual or annual maintenance cycle maintenance of a BCP manual is broken down into three periodic activities.

- Confirmation of information in the manual, roll out to staff for awareness and specific training for critical individuals.
- Testing and verification of technical solutions established for recovery operations.
- Testing and verification of organization recovery procedures.

Issues found during the testing phase often must be reintroduced to the analysis phase.

### 5.4 Management by Objectives MBO

---

MBO is based on participative management. Objectives set by each individual are collected to produce achievable group objectives. Objectives might be short term; long term and they might also be broad objectives/specific objectives.

Objectives should be clearly defined. At top level, organization has broad objectives. Objectives must conform to customer needs. Objectives need a rationale backed up with solid facts.

Organization may have several objectives at a time. These could be changed in due course. They are expressed in numerical terms. The framed objectives should be realistic and achievable.

Purpose of setting objectives is integration of individual plans and organizational plans. Since individual objectives are clear, employee motivation and focus are higher. When objectives are integrated, control becomes easier.

MBO, also known as management by results (MBR), is a process of defining objectives within an organization so that management and employees agree to the objectives and understand what they need to do in the organization in order to achieve them. The term "management by objectives" was first popularized by [Peter Drucker](#) in his 1954 book The Practice of Management.

The essence of MBO is participative goal setting, choosing course of actions and decision making. An important part of the MBO is the measurement and the comparison of the employee's actual performance with the standards set. Ideally, when employees themselves have been involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.

## **Process of MBO**

DEFINING ORGANIZATIONAL OBJECTIVES



DEFINING S-M-A-R-T GOALS OF EVERY SECTION



FIXING KEY RESULT AREAS ON PRIORITY BASIS  
E.G. PROFITABILITY, MARKET STANDING,  
INNOVATION



SETTING SUBORDINATE OBJECTIVES AND  
TARGETS



MATCHING RESOURCES WITH OBJECTIVES  
AND ALLOCATING AND UTILIZING THE  
RESOURCES PROPERLY



**PERIODIC REVIEW MEETINGS FOR  
ACCOMPLISHMENT OF OBJECTIVES**



APPRAISAL OF ACTIVITIES: **SUBORDINATES'**  
**PERFORMANCE** AGAINST THE SPECIFIED  
STANDARDS



**RE-APPRAISAL** OF OBJECTIVES: REVIEWING  
THE OBJECTIVES ACCORDING TO CHANGING  
SITUATION

According to George S. Odiorne, the system of management by objectives can be described as a process whereby the superior and subordinate jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.

### **Unique features and advantages of the MBO process**

Behind the principle of Management by Objectives (MBO) is for employees to have a clear understanding of the roles and responsibilities expected of them. Then they can understand how their activities relate to the achievement of the organization's goal. Also places importance on fulfilling the personal goals of each employee.

### **Some of the important features and advantages of MBO are:**

1. **Motivation** – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.
2. **Better communication and coordination** – Frequent reviews and interactions between superiors and subordinates help to maintain harmonious relationships within the organization and also to solve many problems.
3. Clarity of goals
4. **Subordinates tend to have a higher commitment** to objectives they set for themselves than those imposed on them by another person.
5. Managers can ensure that **objectives of the subordinates** are linked to the organization's objectives.
6. Everybody will be having a **common goal** for whole organization. That means, it is a directive principle of management.

### **Domains and levels:**

Objectives can be set in all domains of activities (production, marketing, services, sales, R&D, human resources, finance, information systems etc.).

Some objectives are collective, for a whole department or the whole company, others can be individualized. Managers must determine the mission and the strategic goals of the enterprise. The goals set by top level managers are based on an analysis of what can and should be accomplished by the organization within a specific period of time. The functions of these managers can be centralized by appointing a projects manager who can monitor and control activities of the

various departments. If this cannot be done or nor is desirable, each manager's contributions to the organizational goal should be clearly spelt out.

### 5.5 Forecasting

---

Consequent to planning, when it comes to forecasting, there is a mixed feeling and cynicism in the minds of many people. Many people feel that forecasting is not required and is a waste of time. Sometimes it clicks and sometimes not. Actually, forecasting is a way of skills development for an executive. Many times, the forecasting is not accurate. However, if an executive does this exercise of forecasting repeatedly, by focusing and collecting relevant data, the processes of left brain as well as right brain start functioning at a meeting point. Left brain has logical function whereas right brain has emotions and intuitions. These are the things which cannot be explained. Initially, the forecasting is a result of intuition and comes out of blue. However, if one believes in forecasting as a necessary management function, he develops the ability to understand what the future could be. Forecasting is a guide to the journey to the future. Some skills cannot be defined. One develops the skill of forecasting by constantly practicing it.

As detailed, in point No. 5.1.6 above, forecasting is fundamental to planning. Forecasts are statements about the future, specifying the volume of sales to be achieved and the equipment, materials and other inputs needed to realize the expected sales. A popular definition of forecasting is that it is estimating the future demand for products and services, and the resources necessary to produce these outputs. Starting point in forecasting is sales or demand forecasting. Sales forecasts trigger all other forecasts.

#### 5.5.1 Forecasts are needed for:

##### **-New facility planning: Long range demand forecasts are needed for:**

- designing and building a new factory
- implementing a new production process

##### **-Production planning: Intermediate range demand forecast are needed for:**

- The rate of production must vary to meet the fluctuating demand from time to time

**-Workforce scheduling: Short range demand forecasts are needed for:**

- necessity to vary the workforce levels to meet the varying demand
- overtime, layoffs, hiring

**-Financial planning:**

- sales forecasts are driving force in budgeting

**-Budgeting is used to:**

- to plan and control financial performance

### **5.5.2 Long Range Forecasts**

Operations managers need long range forecasts to make strategic decisions about products, processes and facilities. Long range forecasts provide operations managers with information to make important decisions such as:

- selecting a product design
- selecting a production processing scheme
- selecting a plan for long range supply of scarce materials
- selecting a long range production capacity plan
- selecting a long range financial plan for acquiring funds for capital investment.

### **5.5.3 Intermediate Range forecasts**

These forecasts are needed for making decisions such as:

- departmental capacities, workforce, purchased materials inventories

### **5.5.4 Short Range forecasts**

These are needed to make decisions about:

- Production issues spanning for next few weeks
- How much inventory of a particular product should be carried next month.
- How much of each product should be scheduled for production next week.
- How much of each raw material should be ordered for delivery next week.
- How many workers should be scheduled to work on regular time and on overtime.

**-Aggregate Production Planning Forecast**

- Medium-term
- Short-term

**-Master Production Scheduling for:**

- Capacity constraints
- Lead-time
- Product (WHAT)
- Time (WHEN)
- Quantity (HOW MUCH)
- Materials requirement planning (MRP)

**-Inventory status**

- Purchasing lot size
- Lead time
- Safety stock

**-Bill of Materials**

**-Planned Order Release**

**-Purchase Orders**

**-Work Orders**

**-Rescheduling Notices**

**5.5.5 Forecasting Methods**

**5.5.6 Quantitative methods**

- Time series method based on past data
- For short periods

## Chapter 5 - Planning

Solved examples for calculating forecast by simple moving average method and weighted moving average method.

### A. Simple Moving average of three months method:

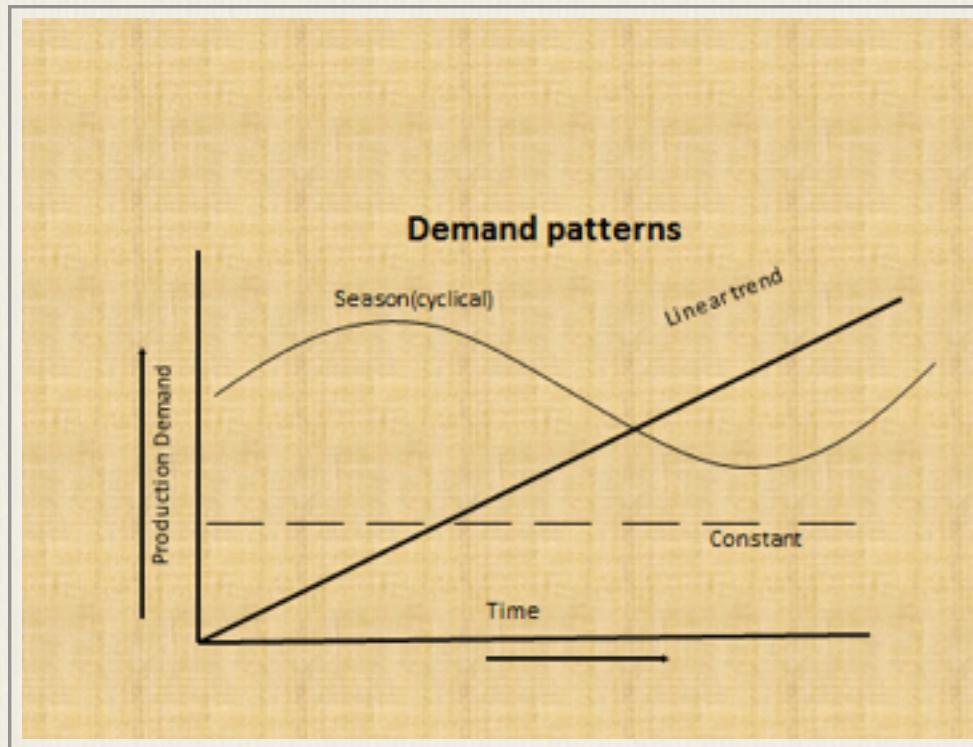
Month	Demand for the month in units	Three months moving total	Three months moving average
1	120		
2	130	360	120
3	110		127
4	140		120
5	110		127
6	130		

Conclusion: The forecast for 7th month will be 127.

### B. Weighted Moving average of three months method:

Month	Demand for the month in units	Three months moving total by giving weightages of 3 for latest month, 2 for earlier one and 1 for earlier than that.	Three months <u>weighted</u> moving average
1	120		
2	130	120 x 1 + 130 x 2 + 110 x 3 = 710	118
3	110		128
4	140		120
5	110		
6	130	140 x 1 + 110 x 2 + 130 x 3 = 750	125

Conclusion: The forecast for 7th month will be 125.



### C. Simple exponential smoothing

**Example 1: To find out forecast for the month of August.**

Exponential smoothing Constant  $\sigma = 0.2$

Forecast for July = 500 units

Actual sales in July = 450 units

Forecast for August =

$$500 + 0.2(450 - 500) = 490 \text{ units}$$

**Example 2: To find out forecast for 10<sup>th</sup> month, when the actual demands are known for first 9 months.**

9 month moving average = 78.33

Exponential smoothing constant =  $\sigma = 2 / (n+1) = 2/10 = 0.2$  ( n=number of months data)

Hence, Forecast for 10th month will be =

$$= 78.33 + 0.2(75 - 78.33) = 77.67 \text{ units}$$

**D. Regression analysis is a forecasting technique that establishes Relationship between variables-one dependent and other One or more independent variables**

#### 5.5.7 Qualitative or Judgmental Method:

##### A. Executive committee consensus

A committee of executives from different departments is entrusted to develop a forecast. They use inputs from organization and staff analysts

### **B. Delphi method**

A pool of experts from inside and outside the organization Who know one aspect of the problem each expert makes independent predictions The coordinator gives them a questionnaire several times and converges the forecast

### **C. Survey of sales force/ field expectation method**

### **D. Survey of customers method/users' expectation method**

### **E. Historical analogy**

The estimate of future sales is tied with knowledge of a similar product sale.

### **F. Market surveys**

**-Questionnaires**

**-Telephone talks**

**-Field interviews**

---

## **5.6 Activities for the students**

### **Activity A**

Consider that your brother or your sister is getting married and you have the responsibility of making the event successful. Make the planning of the ceremony by using the steps given.

---

---

---

---

---

### Activity B

Consider that your college is celebrating its Golden Jubilee and you are the General Secretary responsible for making the event successful. Make a list of objectives.

---

---

---

---

---

### 5.7 Summary

Planning is essential in every walk of life. Everyone needs to plan to reach the goals effectively. The period of planning could be short term, mid-term or long term. The duration of long term can be only one year in case of banking whereas in case of a large manufacturing plant such as steel plant short term itself could be of two years.

We should first do the long term planning, and then do mid-term and then only the short term planning. People generally tend to start action without any planning. They make too much haste. Effective planning facilitates timely achievement of objectives. It reduces tendency for you to fail.

### 5.8 Self-assessment questions

1. Explain the importance of forecasting.
2. Explain “L and E” in PESTLE Analysis.
3. Explain “S” in SWOT Analysis.
4. What is the significance of Plan B?

### 5.9 Multiple choice questions

---

1. The term external environment includes -----conditions and political conditions prevailing in a country.
  - a. Fire and safety
  - b. Critical
  - c. Personal
  - d. Socio-economic
  
2. If the country is -----, taxes might be less and vice versa.
  - a. In surplus
  - b. In loss
  - c. Rich
  - d. Poor
  
3. Fires, floods, tornadoes – these are things that we often connect with -----planning.
  - a. forward
  - b. future
  - c. contingency
  - d. Poor
  
4. It is also known as management by results (MBR)
  - a. Forecasting
  - b. Organizing
  - c. Staffing
  - d. MBO
  
5. Three months moving total of demand by giving weightages of 3 for latest month, 2 for earlier one and 1 for earlier than that, is 750. What is the weighted moving average?
  - a. 118
  - b. 120
  - c. 125
  - d. 128

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)

[\*\*Video3\*\*](#)



## Principles of Management



### Objectives

At the end of this chapter, you will be able to:

- Know the various aspects of organization, its functions, principles, and characteristics.
- Understand difference between formal and informal organization

## Structure

- 6.1 Introduction
- 6.2 Functions of organization
- 6.3 Principles of organization
- 6.4 Nature or characteristics of organization
- 6.5 Importance and advantages of organization
- 6.6 Classification of organization
- 6.7 Process of organization
- 6.8 Organizational Chart
- 6.9 Theories of Organization
- 6.10 Activities for the students
- 6.11 Summary
- 6.12 Self assessment questions
- 6.13 Multiple choice questions

### 6.1 Introduction

---

Here, the meaning of organization is the process and not the company. As you know, there are seven functions of management. After the S\_M\_A\_R\_T goals are fixed, the first and foremost function is planning, which we have discussed earlier. After planning is completed, we have to bring all the resources together in a certain format, which makes easy for us to take actions. As detailed earlier, there are four resources viz. men, machines, material and money which have to be brought together in the proportion as per plan. When we talk about organization, it is not only the organization of men, but also the organization of machines, materials and money. Remember, after planning, we should not jump to actions. Organizing is the function for preparing for action. Before we start any action, the resources must be properly mapped.

The word Organization is derived from the word organism. It means an organized body with connected interdependent parts sharing common life. The human body consists of hands, feet, eyes, ears, nose, fingers, mouth etc. These parts are performing their work independently, and at the same time, one part cannot be a substitute to another. If there is problem in one limb, the health of the body gets affected. Similarly, if there is a problem in one section, the work of the whole company gets affected.

Organization is a mechanism or structure which helps the activities to be performed effectively. The organization is established for the purpose of achieving the basic objectives. Whatever might be the business objectives, there is a need for organizing. Organization comprises structuring the resources in a systematic manner with a view to achieve the pre-set goals of any Endeavour.

Organization is the detailed arrangement of work and working conditions in order to perform the assigned activities in an effective manner. The organization consists of different departments. Each department performs its work independently and cannot be a substitute for another.

As per Haney:"Organization is a harmonious adjustment of specialized parts for the accomplishment of some common purpose or purposes."

As per Allen, "The process of identifying and grouping the work is to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

## 6.2 Functions of Organization

---

### 6.2.1 Determination of activities:

It includes **deciding and division** of various activities required to achieve the objectives of an organization. The entire work is divided into various parts and again each part is sub-divided into various sub-parts. E.g. the purchase work may be divided into requisition of items, placing of an order, storage etc.

### 6.2.2 Grouping of activities:

**Identical activities are grouped** under one individual or one department. The activities of sales such as canvassing, advertisements and debt collection are grouped under sales department.

### 6.2.3 Allotment of duties to specified persons:

In order to ensure effective performance, the grouped activities are allotted to **specified** competent persons, specialized in their fields. Adequate staff members are appointed under them and are appropriately trained.

### 6.2.4 Delegation of authority:

Assignment of duties or allotment of duties to **specified** persons is followed by delegation of authority. While delegating authority, responsibility is also fixed. E.g. the production manager may be delegated with the authority to produce the goods and fixed with the responsibility of producing quality of goods.

### 6.2.5 Defining relationship:

When a group of persons is working together for a common goal, it becomes necessary to define the **relationship** between them in clear terms. Each person has to know as to who is his superior, from whom he has to receive orders, and to whom he is answerable. Each superior must know what authority he has and over which persons.

### 6.2.6 Co-ordination of various activities:

The delegated authority and responsibility should be coordinated by the chief managerial staff. There must be a separate and responsible person to see whether all the activities are going on to accomplish the objectives of the organization or not.

## 6.3 Principles of Organization

---

### 6.3.1 Principle of definition:

Defining and fixing the duties, responsibilities and authority of each worker. In addition, when a group of persons is working together for a common goal, it becomes necessary to define the relationship between them in clear terms.

### 6.3.2 Principle of objective:

The activities at all levels of organization structure should be geared to achieve the main objectives of the organization.

### 6.3.3 Principle of specialization or division of work

It includes deciding and division of various activities required to achieve the objectives of an organization. Identical activities are grouped under one individual or one department. In order to ensure effective performance, the grouped activities are allotted to specified competent persons, specialized in their fields. Adequate staff members are appointed under them and are appropriately trained.

### 6.3.4 Principle of coordination:

Coordination must exist among the workers. The delegated authority and responsibility should be coordinated by the chief managerial staff. There must be a separate and responsible person to see whether all the activities are going on to accomplish the objectives of the organization or not.

### 6.3.5 Principle of authority:

Assignment of duties or allotment of duties to specified persons is followed by delegation of authority. While delegating authority, responsibility is also fixed. The senior members should delegate the authority to their subordinates on the basis of their ability. The subordinates are motivated through the delegation of authority and they perform the work efficiently with responsibility.

### 6.3.6 Principle of responsibility:

Each person is responsible for the work completed by him. Authority is delegated from the top level to the bottom level but the responsibility can be delegated to some extent. While delegating the authority, there is no need to delegate the responsibility. So, the responsibility of the junior staff members should be clearly defined.

### 6.3.7 Principle of explanation:

While allocating duties to persons, the extent of liabilities of the person should be clearly explained to the concerned person. It will enable the person to accept the authority and discharge his duties efficiently.

### 6.3.8 Principle of efficiency:

Each work can be completed efficiently wherever the environment as well as the organizational structure facilitates the completion of work. The work should be completed with minimum members, in less time, with minimum resources and within the right time.

### 6.3.9 Principle of uniformity:

The organization should distribute the work in such a way that there should be an equal status and equal authority and powers among the same line officers.

### 6.3.10 Principle of correspondence:

Authority and responsibility should be in parity with each other. If authority alone is delegated without responsibility, it could be misused. Secondly, if responsibility is delegated without authority, it will not work.

### 6.3.11 Principle of unity of command:

A subordinate should receive the instructions or directions only from one superior.

### 6.3.12 Principle of balance:

Sequence of work between various units of the organization should be arranged scientifically.

### 6.3.13 Principle of equilibrium:

In certain periods, some departments are overloaded and some are under loaded. The overloaded departments should be further divided into sub sections. This would facilitate effective control.

### 6.3.14 Principle of continuity:

There should be reoperation of objectives, readjustment of plants and provision of opportunities for the development of future management.

### 6.3.15 Principle of span of control:

It refers to the maximum number of members effectively supervised by a single individual. In the administration area, under one executive, four or five subordinates may work. In the factory level, under one supervisor, twenty or

twenty five workers may work. The span of control enables smooth functioning of the organization.

### 6.3.16 Principle of leadership facilitation:

The organizational set up may be arranged in such a way that the persons with leadership qualities such as honesty, devotion, enthusiasm and inspiration are appointed in key positions.

### 6.3.17 Principle of exception:

The junior officers should be disturbed by the seniors only when the work is not done according to the plans laid down. It automatically reduces the work of middle level as well as top level officers. The top level officers will have more time to frame policies and chalk out the plans of the organization.

### 6.3.18 Principle of flexibility:

The organizational set up must be flexible to adjust to the changing environment of the business.

### 6.3.19 the Scalar principle:

The line of authority flows from the top level to bottom level. It also establishes the line of communication. Each person has to know as to who is his superior, from whom he has to receive orders, and to whom he is answerable. Each superior must know what authority he has and over which persons.

### 6.3.20 Principle of simplicity and homogeneity:

The organization structure should be simple. It enables the staff members to maintain equality and homogeneity.

It is necessary to understand a person who is working in the organization. If the organization structure is complex, junior officers will not understand the level and the extent of responsibility for a particular activity.

### 6.3.21 Principle of unity in direction:

The major plan is sub-divided into sub-plans which are taken by groups or departments. All these groups have to cooperate to attain the main objectives by implementing major plan.

### 6.3.22 Principle of joint decisions:

In the business organization, there are number of decisions taken by the officers to run the business. If a complicated problem arises, more than one member

examines the problems and takes decisions. Whenever the decision is taken jointly, it gives a benefit for a long period.

### 6.4 Nature or characteristics of organization

---

A palace may be constructed only when a strong foundation is laid. Organization is the foundation of management. Organization supplies the resources such as men, machines, material and money and helps to achieve organizational objectives. Organization provides the means or techniques with strong efforts for more production and effective completion of work. Organization increases the certainty and promptness in completion of work by assigning fixed duties to every person. Whenever the duties are fixed, it automatically develops team spirit towards the realization of common goals. The connection of various parts of organization is given by the authority relationship of organization structure. The relationship may operate upward, downward and sidewise of the organization.

1. Division of labor: It includes deciding and division of various activities required to achieve the objectives of an organization. The entire work is divided into various parts and again each part is sub-divided into various sub-parts.
2. Coordination: The delegated authority and responsibility should be coordinated by the chief managerial staff. There must be a separate and responsible person to see whether all the activities are going on to accomplish the objectives of the organization or not.
3. Objectives: The objectives of the organization should be defined clearly.
4. Authority responsibility structure: A subordinate has one superior and a superior has control over the subordinate specifically. The position of each executive is defined with regard to the extent of authority and responsibility vested in him to discharge the duties.
5. Communication: The success of management depends upon the effective system of communication. The channels of communication may be formal, informal, downward, upward or horizontal.

## 6.5 Importance and advantages of organization

---

Organization creates the relationship between top level executives and lower level staff members.

1. Facilitate administration
2. Increases efficiency of management
3. Facilitates growth and diversification
4. Ensures optimum utilization of material resources and human efforts
5. Adaptation of new technology
6. Places proportionate importance to the various activities of the enterprise
7. Encourages creativity and initiative
8. Facilitates coordination
9. Facilitates training and development of managerial personnel
10. Prevents the growth of secret, influence and corruption

## 6.6 Classification of organization

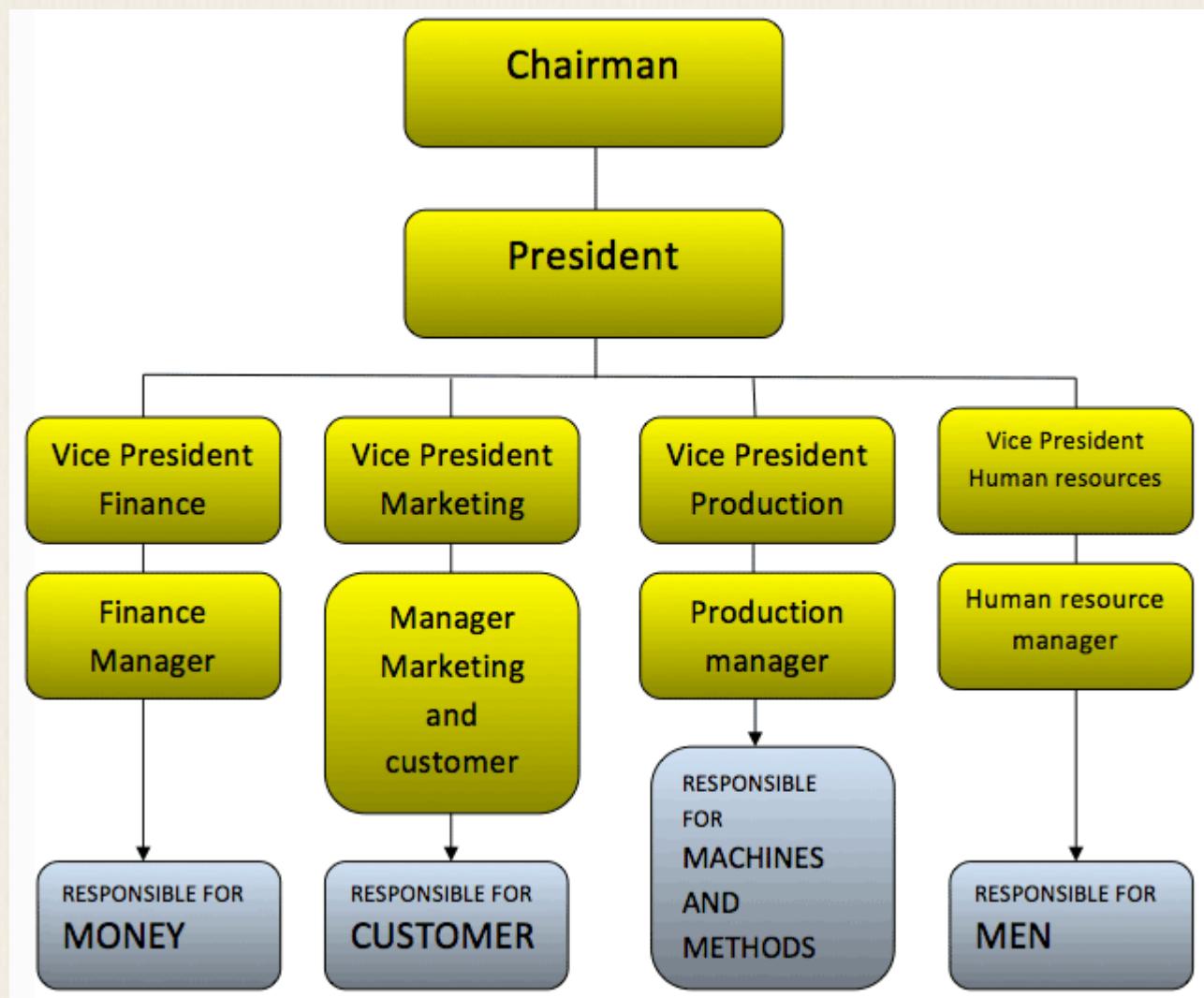
Sr.	Formal Organization	Informal Organization
1	Classification of activities within the enterprise, indicates who reports to whom, and explains the vertical journal of communication which connects the chief executive to the workers.	An organization structure which establishes the relationships on the basis of likes and dislikes of officers without considering the rules, regulations and procedures.
2	An organization structure clearly defines the duties, responsibilities, authority and relationship as prescribed by the top management.	Friendship, mutual understanding and confidence are some of the reasons for this type of organization.
3	Each and every person is assigned duties and given the required amount of authority and responsibility to carry out this job.	It arises voluntarily.
4	It creates the coordination of activities of every person to achieve the common objectives.	It is a social structure formed to meet personal needs.
5	It induces the worker to work most efficiently.	No place in organization chart
6	The interrelationship of staff members can be shown in the organization chart and manuals.	It develops from habits, conduct, customs and behavior of social groups
7	It is properly planned	Informal organization is one of the parts of the total organization
8	It is based on delegated authority	There is no structure and definiteness to the informal organization
9	It is deliberately impersonal.	It fills up gaps and deficiency of formal organization
10	A sense of security arises from classification of task.	It is a useful channel of communication.
11	Unity of command is maintained.	It acts according to mob psychology
12	Provides for division of labor.	It indirectly reduces the efforts of management to promote greater productivity
13	It does not consider the sentiments and values of the employees.	It has the nature of upsetting the morality of the workers
14	It may reduce the speed of informal communication.	Spreads rumors among the workers regarding functioning of organization.

## 6.7 Process of organization

---



## 6.8 Organizational Chart



## 6.9 Theories of Organization

Organization theory means the study of structure, functioning and performance of organization and the behavior of individuals and groups in it.

The various theories of organization are:

1. Classical theory
2. Neo-classical theory
3. Modern theory
4. Motivation theory
5. Decision theory

### **Classical theory**

It was founded by F.W.Taylor, father of scientific management. This theory is based on the following four principles:

**Division of labor:**

The production of a commodity is divided into the maximum number of different divisions. The work of each division is looked after by different persons. Each person is specialized in a particular work. In other words, the work is assigned to a person according to his specialization and the interest he has in the work. The division of labor results in the maximum production or output with minimum expenses incurred and minimum capital employed.

**Scalar and functional processes:**

The scalar process deals with the growth of organization vertically. The functional process deals with the growth of organization horizontally. The scalar principles refer to the existence of relationship between superior and subordinate. In this way, the superior gives instructions or orders to subordinates of various levels of management and gets back the information from the subordinate regarding the operations carried out at different levels or stages. This information is used for the purpose of taking decision or remedial action to achieve the main objectives of the business.

The scalar chain means the succession of domination by the superior on the subordinate from the top to the bottom of organization. The line of authority is based on the principle of unity of command which means that each subordinate does work under one superior only.

**Structure:**

The organization structure may be defined as the prescribed patterns of work related behavior of workers which result in the accomplishment of organizational objectives. Specialization and coordination are the main issues in the design of an organizational structure.

**Span of control:**

It means an effective supervision of maximum number of persons by a supervisor.

To summarize, classical theory emphasizes unity of command and principle of coordination. Most of the manager's time is wasted in coordination and control of the subordinates. According to Lyndall Urwick, a superior can supervise a

maximum of four members at higher levels and between 8-12 members at lower levels to constitute an ideal span of control.

### Characteristics of classical theory

- It is based on division of labor.
- It is based on objectives and tasks of organization.
- It is concerned with formal organization.
- It is based on coordination of efforts.
- Division of labor has to be balanced by unity of command.
- It fixes a responsibility and accountability for work completion.
- It is centralized.

### **Neo-classical theory**

It is developed to fill up gaps and deficiencies in the classical theory and is concerned with human relations movement. The study of organization is based on human behavior such as how people behave and why they do so in a particular situation. The main contribution of this theory highlights the importance of the committee management and better communication. Further, this theory emphasizes that the workers should be encouraged and motivated to evince active participation in the production process. The feelings and sentiments of the workers should be taken into account and respected before any change is introduced in the organization. The classical theory was production oriented while neo-classical theory was people oriented.

### Contributions of neo-classical theory:

- Person should be the basis of an organization.
- Organization should be viewed as a total unit.
- Individual goals and organization goals should be integrated.
- Communication should move from bottom to top and from top to bottom.
- People should be allowed to participate in fixing work standards and decision making.
- The employee should be given more power, responsibility, authority and control.

- Members usually belong to formal and informal groups and interact with others within each group or sub-group.
- The management should recognize the existence of informal organization.
- The members of sub-groups are attached with common objectives.

### **Modern organization theory**

This theory is composed of the ideas of different approaches to management development. The approach is fully based on empirical research data and has an integrating nature. The approach reflects the formal and informal structure of the organization and due weightage is given to the status and roles of personnel in an organization.

1. The modern theory studies the individuals in aggregates and the movement of individuals in and out of the system.
2. It studies the interaction of individuals with the environment found in the system.
3. It studies the interaction among individuals in the system.

Modern theories include the systems approach, the socio-technical approach and the contingency or situational approach.

**Systems approach:**

It considers the organization as a system composed of a set of inter-related and thus mutually dependent sub-systems, linking processes and goals.

**Socio-technical approach:**

It considers organization as composed of a social system, technical system and its environment. These interact among themselves and it is necessary to balance them appropriately for effective functioning of the organization.

**Contingency or situational approach:**

It recognizes that organizational systems are inter-related with their environment and that different environments require different organizational relationships for effective working of the organization.

The following are some of the essentials of modern theory:

1. It views the organizations as a whole.
2. It is based on systems analysis

3. The findings of this theory are based on empirical approach.
4. It is integrating in nature.
5. It gives importance to inter-disciplinary approach to organizational analysis.
6. It concentrates on both quantitative and behavioral sciences.
7. It is not a unified body of knowledge.

### Motivation theory

It is concerned with the study of work motivation of employees of the organization. The works are performed effectively if proper motivation is given to the employees. The motivation may be in monetary as well as non-monetary terms. The inner talents of any person can be identified after giving adequate motivation to employees.

### Decision theory

This theory was given by Herbert A. Simon who was awarded Nobel Prize in the year 1978 for it. He regarded organization as a structure of decision makers. The decisions were taken at all levels of the organization and important policy decisions were taken at higher levels of the organization. Simon suggested that the organizational structure be designed through an examination of the points at which decisions must be made and the persons from whom information is required if decisions should be satisfactory.

## **6.10 Activities for the students**

---

### **Activity A**

Consider that you are responsible for organizing the event of your friend's marriage reception. Describe how you will organize the four M's.

---

---

---

---

## Activity B

Describe the organization at the college where you did your graduation, focusing on whether it was a formal or informal one.

---

---

---

---

### 6.11 Summary

Organization is a mechanism or structure which helps the activities to be performed effectively. The organization is established for the purpose of achieving the basic objectives. Whatever might be the business objectives, there is a need for organizing. Organization comprises structuring the resources in a systematic manner with a view to achieve the pre-set goals of any Endeavour.

### 6.12 Self-assessment questions

1. Discuss the importance of organization.
2. Mention the difference between formal and informal organization.
3. Explain the principle of authority.

### 6.13 Multiple choice questions:

---

1. The work should be completed with minimum members, in less time, with minimum resources and within the right time.
  - a. Principle of objective
  - b. Principle of efficiency
  - c. Principle of definition
  - d. Principle of authority
  
2. The line of authority flows from the top level to bottom level. It also establishes the line of communication.
  - a. The scalar principle
  - b. The vector principle
  - c. Principle of unity of command
  - d. Principle of correspondence
  
3. It includes deciding and division of various activities required to achieve the objectives of an organization. The entire work is divided into various parts and again each part is sub-divided into various sub-parts.
  - a. Division of labor
  - b. Distribution
  - c. Coordination
  - d. Communication
  
4. An organization structure clearly defines the duties, responsibilities, authority and relationship as prescribed by the top management.
  - a. Formal organization
  - b. Informal organization
  - c. Management system
  - d. Autocratic system
  
5. Out of 4 M's, the production manager is responsible for:
  - a. Man

## Chapter 6 - Organization

- b. Machine
- c. Material
- d. Money

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video\*\*](#)



## Principles of Management

### Objectives

At the end of this chapter, you will be able to:

- Have knowledge about line organization, functional organization, Line & Staff organization, various aspects related to them, advantages/disadvantages.
- Committee organization, project organization, matrix and free form organization, various aspects related to them, advantages/disadvantages.

### **Structure**

- 7.1 Introduction
- 7.2 Line, military or scalar organization
- 7.3 Functional organization
- 7.4 Line and staff organization
- 7.5 Committee Organization
- 7.6 Project Organization
- 7.7 Matrix Organization
- 7.8 Free form Organization
- 7.9 Case examples
- 7.10 Activities for the students
- 7.11 Summary
- 7.12 Self-Assessment Questions
- 7.13 Multiple Choice Questions

### 7.1 Introduction

---

Purpose of studying this chapter is as follows:

When an organization is created, it has got its structure and span of control, which is nothing but the interrelations between various employees working in the company. There are seniors, middle managers, and the operation level people at the bottom. Different types of requirements need different type of structures of organizations. Depending upon certain factors, we have to design our organizations accordingly. It gives us snapshot about under what conditions we need what kind of organization. After learning this chapter, you will be able to correlate and understand as to which type of business requires which type of organization.

Organization is designed on the basis of principles of division of labor and span of management. The success of the organization depends upon the experience and competence of the officers of the organization. There is a necessity of chalking out the line of authority among the people who are working in an organization to achieve the desired results. Further, it involves determination of duties among the officers and combining the activities of all officers to get the desired results.

Nature, scale and size of the business are the normal factors which determine the forms of internal organization. The following common types of organizations find a place in the structure of internal organization.

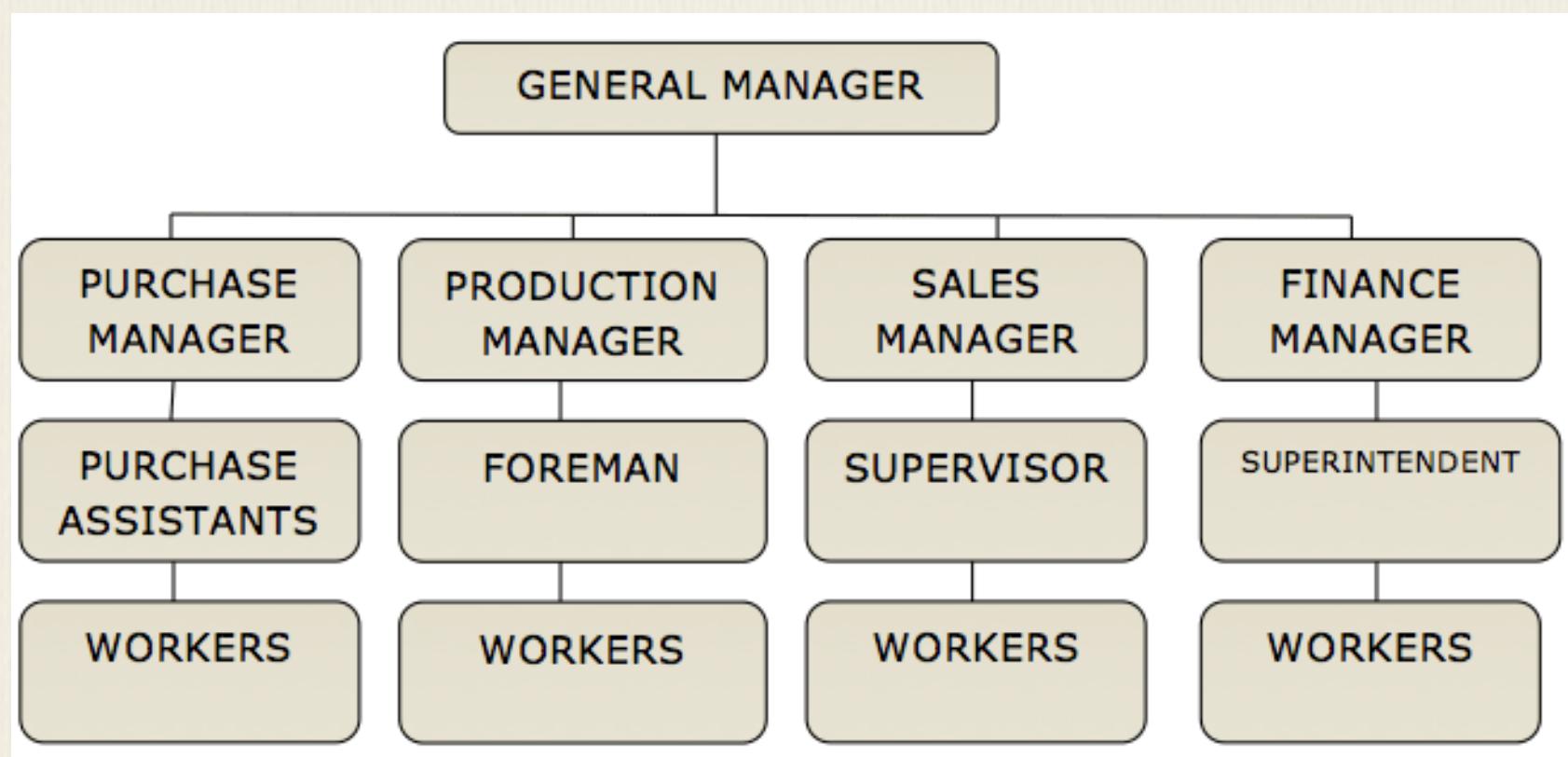
1. Line, military or scalar organization
2. Functional organization
3. Line and staff organization
4. Committee organization
5. Project organization
6. Matrix organization
7. Free form organization

### 7.2 Line, military or scalar organization

Line organization is the simplest and the oldest type of organization followed in the company. Under this organization, each department is generally a complete self-contained unit. A separate person will look after the activities of the department and he has full control over the department.

There are certain powers which will be given to the line executives to take decisions whenever a need arises. He communicates his decision and orders to his subordinates. The subordinates, in turn, communicate the decisions to those who are immediately working under them.

Such decision making authority flows from top management level to the bottom. The top management people have greater decision making authority than the bottom level executives. In this type of organization, an executive is independent of other executives of the same level, say departmental heads. In other words, the same level executives do not give or receive orders amongst themselves. But they receive orders from their immediate boss – General Manager – and give orders to their subordinates. It is clear that all the departmental heads are responsible to the general manager, who, in turn, is responsible to the Board of Directors.

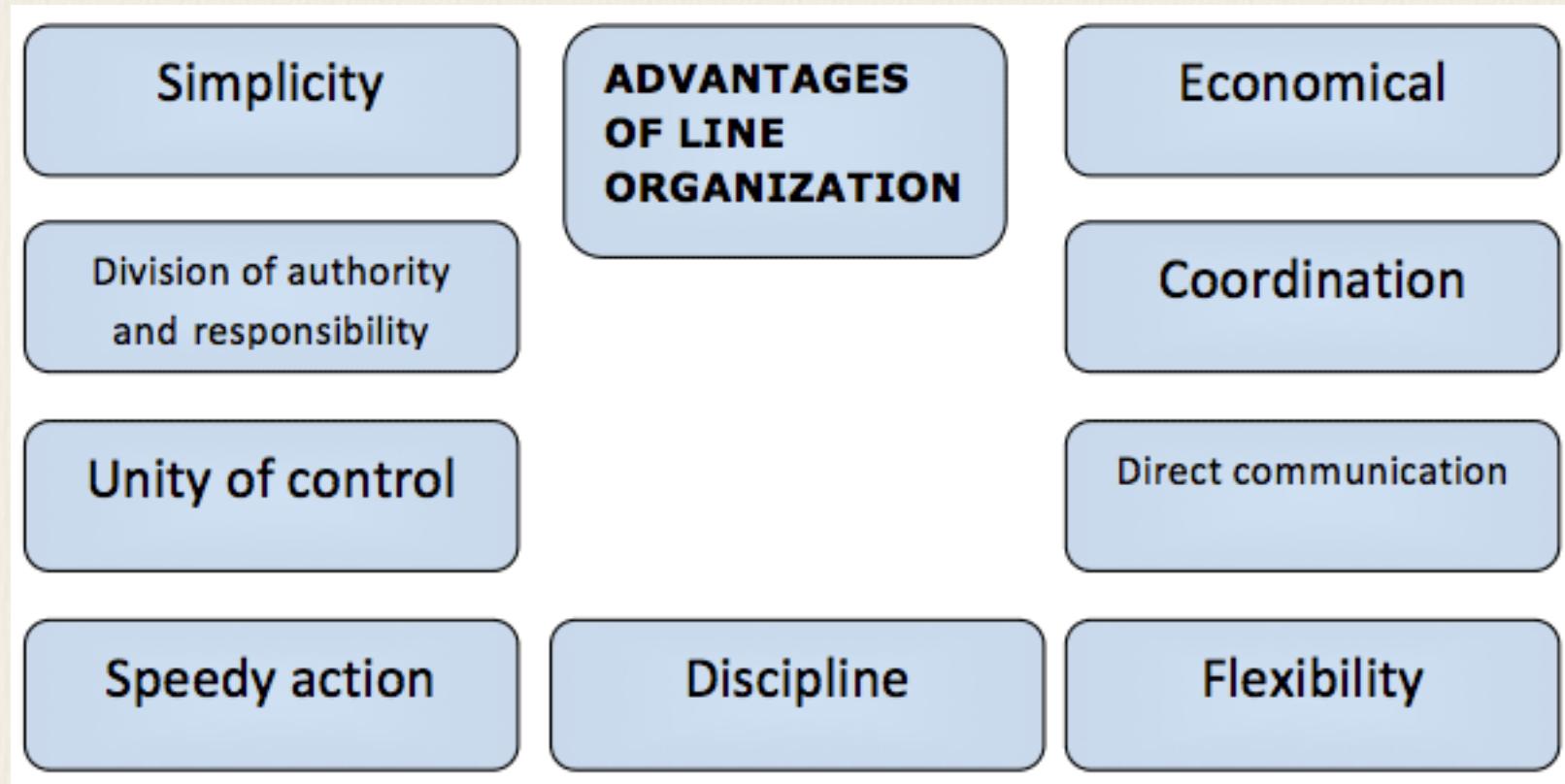


Since this type of organization is followed in the Army, it is also called as military organization. Under this organization, the line of authority flows from top to bottom vertically. So, it is called line organization.

### **Characteristics of Line Organization:**

1. Direct vertical relationships
2. Authority flows from top level to bottom level.
3. Departmental heads are given full freedom to control their departments.
4. Each member knows from whom he would get orders and to whom he should give orders.
5. Operation of this system is very easy.
6. A senior member has direct command over his subordinates.
7. Existence of direct relationship between the superiors and subordinates.
8. Each member knows to whom he is responsible for the accomplishment of objectives of the organization.
9. The superior takes the decision within the scope of his authority.

### **Advantages of Line Organization:**



### **Disadvantages of Line Organization:**

#### **1. Lack of specialization:**

Each person is responsible for the overall exhibition of activities relating to his department alone. He is not expected to be an expert in all aspects of managerial task. He simply gives instructions to his subordinates but does not specialize in certain phases of operation.

#### **2. Overloading:**

Whenever the scale of operations increases, this system overloads the existing executives. So they are not able to direct and control their subordinates properly.

#### **3. Lack of initiative:**

Since maximum authority is invested with the top management, the departments lose their initiative.

#### **4. Scope for favoritism:**

Only one person controls the activities of the department. So, there is scope for favoritism and nepotism.

#### **5. Dictatorship:**

A subordinate has to carry out the instructions and orders given by the superior. If the subordinate fails in this, he is penalized. This results in autocratic and aristocratic approach.

#### **6. Limited communication:**

In normal time, the communication moves downwards, but very rarely it moves upwards. The downward communications can be orders, instructions etc. If upward communication is allowed, the management may know the grievances of the employees. However, upward communication is not appreciated by management.

#### **7. Unitary administration:**

Activities of each department are looked after by a single executive who takes all the decisions relating to the department. Hence the successful functioning of the department depends on his abilities.

#### **8. Subjective approach:**

## Chapter 7 - Types of Organizations

The degree of availability of authority is more to the superior than to the subordinates. So the superior takes the decisions without considering the opinions of the subordinates.

### 9. Instability:

The success of this type of organization depends mostly on ability of a few strong persons and if they are not strong enough, the organization fails.

### 10. Lack of proper coordination:

The coordination among the departments is not easy to achieve. The reason is that the executive of the department does not consider other departments important. This results in lack of cooperation and team spirit.

### 11. Unsuitability for large scale enterprise

This is not suitable for organizations requiring specialization.

12. The business activities may be divided according to the will of the manager rather than according to any scientific plan.

13. The system has no means of appreciating efficient workers or punishing inefficient workers.

14. It is very difficult to find efficient persons which are essential for the top management.

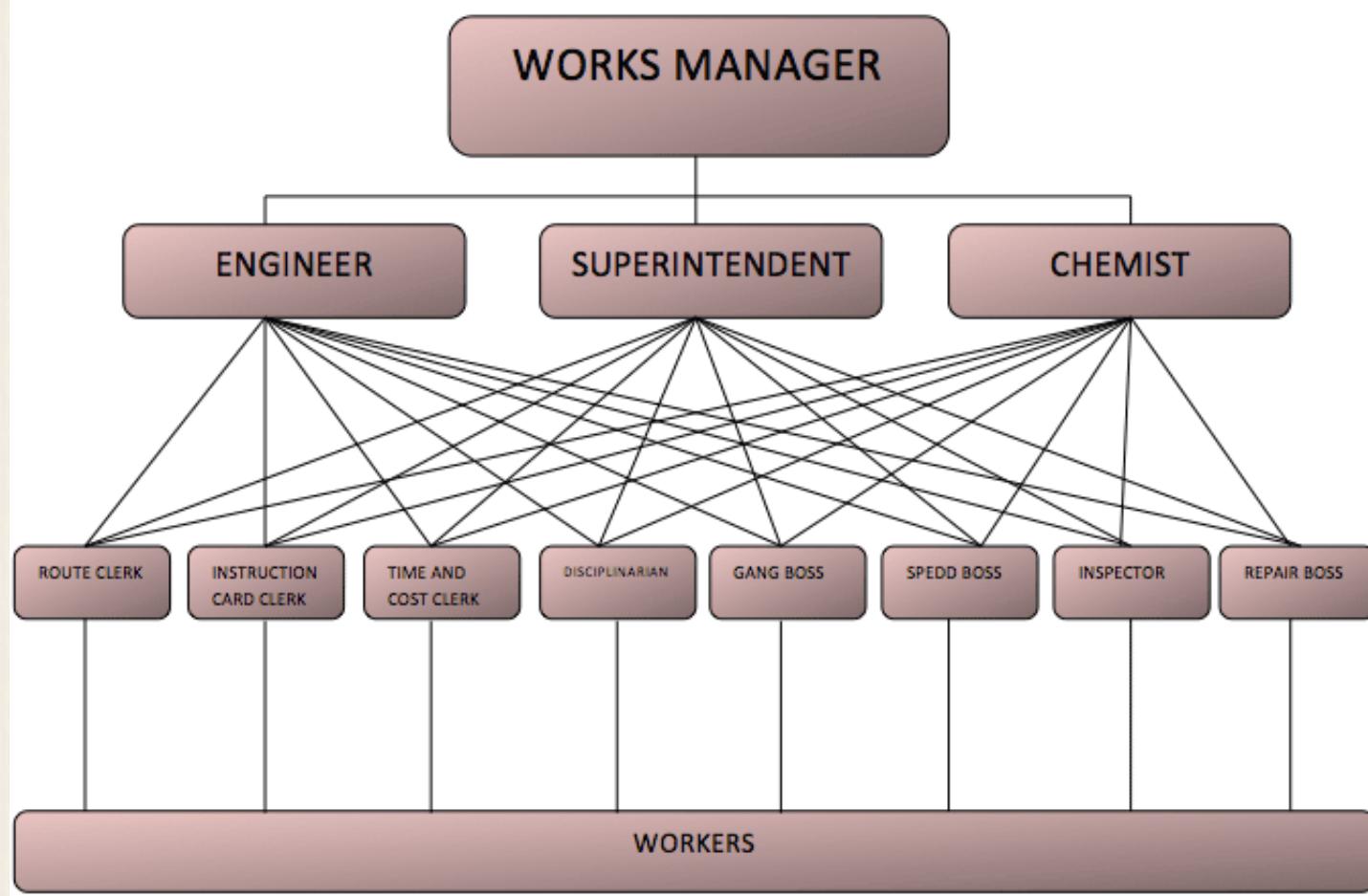
15. The required time and efforts are insufficient for managerial planning, research & development and controlling activities of the organization.

### **Suitability:**

1. Suitable for small size business units
2. Suitable for routine nature or machine based activities
3. Suitable for service minded business activities
4. Suitable for less number of persons working.
5. Suitable for operations simple in nature.
6. Suitable for a business unit having straight methods of operations.

### 7.3 Functional organization

Under functional organization, various specialists are selected for various functions performed in the organization. These specialists attend to the work common to different functions various departments. The workers receive instructions from various specialists. The specialists work at supervision level. Thus the workers are accountable to not only one specialist but also to the specialist from whom instructions are received. F.W.Taylor advocated this organization as a point of scientific management. In this type of organization, directions of work are decided by functions, and not merely by authority.



The need for functional organization arises out of:

1. A desire to use the specialization in full
2. To avoid workload of line managers with complex problems and decision making
3. To deal with complexity of modern and large scale organization.

#### **Characteristics of functional organization:**

1. The work is divided according to specified functions.
2. Authority is given to a specialist to give orders and instructions in relation to specific function.

3. Functional authority has a right and power to give command throughout the line with reference to his specified area.
4. The decision is taken only after making consultations with the functional authority relating to his specialized area.
5. The executives and supervisors discharge the responsibilities of functional authority.

**In the above diagram, various specialists are mentioned as follows:**

1. Route clerk:

He fixes the route through which each work should travel up to the stage of completion.

2. Instruction card clerk:

He is expected to draft instructions to workers on the basis of the route fixed by the route clerk.

3. Time and cost clerk:

He fixes the standard time and cost incurred for each work. He gives instructions to workers to record the time actually spent by them and actual cost incurred for completion with reference to the standards.

4. Gang boss:

This worker is expected to see the various machines and materials kept ready for workers to perform the work.

5. Speed boss:

He advises the workers to complete the work within the standard time considering the speed of the machines. Further, the speed boss sees whether each work is completed in time or not.

6. Inspector:

The inspector checks up the quality of each work and certifies it as standard. Actually, the accuracy of work is checked with reference to the specification.

7. Repair boss:

His work starts only after the actual work is performed by the workers. He is concerned with upkeep of machines and equipments. It means that his responsibility is maintenance of machines.

### 8. Disciplinarian:

He implements the rules and regulations of the entire organization. He is a peacemaker of the organization. He also checks whether each work is performed in a systematic and perfect manner.

The Route clerk, Instruction card clerk and Time & cost clerk work in the planning department. The gang boss, speed boss, inspector and repair boss belong to the factory section. The disciplinarian is not a staff of any section but is responsible for workers' conduct.

### **Advantages of functional organization:**

Benefit of specialization

Relief to line executives because instructions given by specialists to workers

Application of expert knowledge

Cooperation

Reducing the workload on each person because only one type of work

Mass production

Better efficiency and proficiency because of focused work

Economy

Adequate supervision

Flexibility

### **Disadvantages of functional organization:**

Complex relationship

Speed of action gets hampered

Difficult to maintain discipline

Centralization

Overspecialization

Lack of responsibility

Ineffective coordination

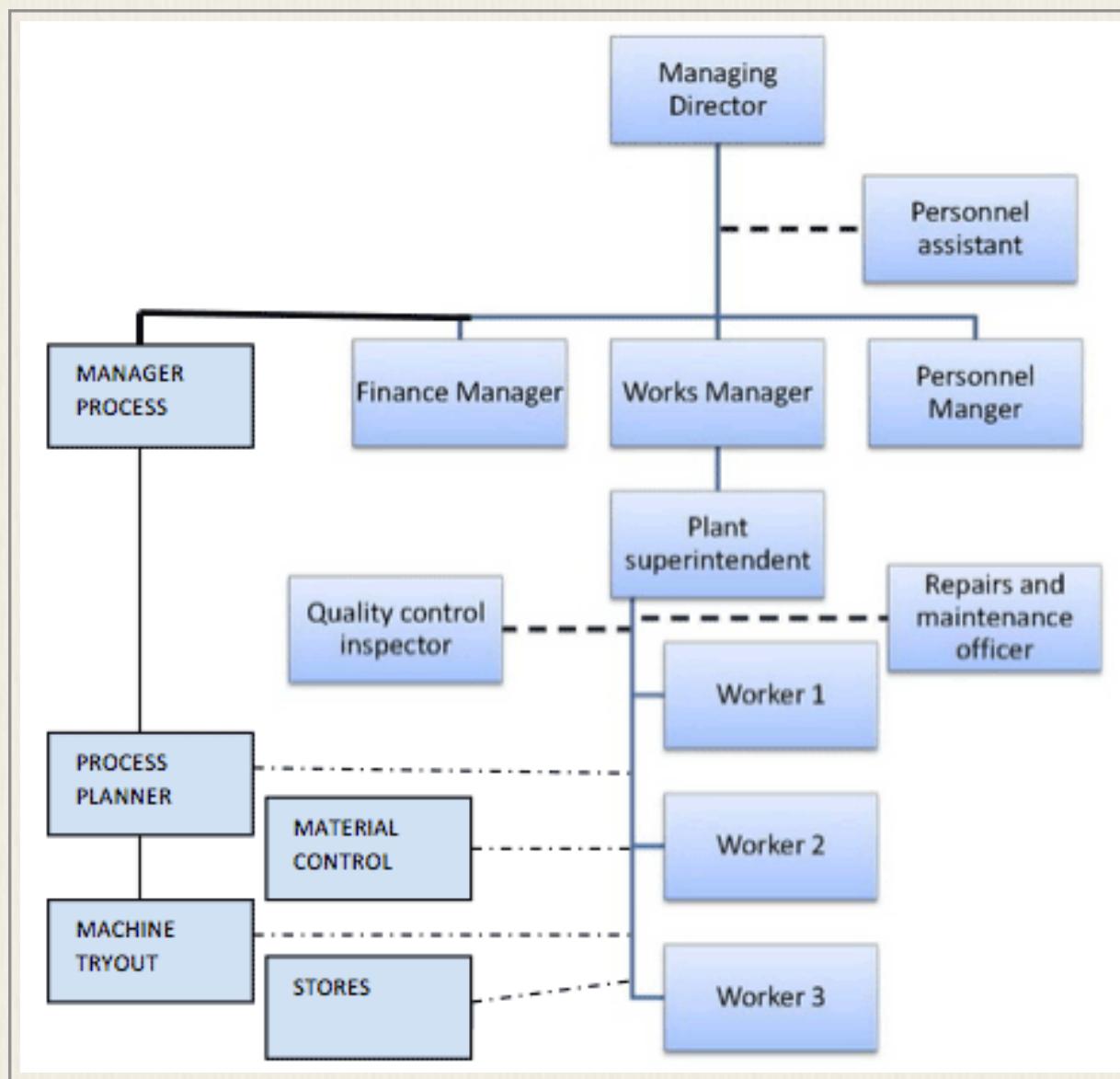
Increase in overheads

Poor administration

### Suitability:

It is very suitable to a business unit which is engaged in manufacturing activities of special processes.

## 7.4 Line and staff organization



In order to reap the advantages of both the line organization and functional organization, a new type of organization is developed, which is line and staff organization. In this, the disadvantages of line as well as functional organization can be avoided to some extent.

The line officers have the authority to take decisions and implement them to achieve the objectives of the organization. The line officers are assisted by the staff officers while framing the policies and plans and taking decisions.

In the fast developing technical world, the line officers are not in a position to acquire the technical knowledge. E.g. for taking decisions in production, technical knowledge is needed to take correct decisions. This gap will be bridged by staff officers who are experts in a particular field. The line officers can get expert advice from the staff officers before taking any final decisions.

The authority flows from top level to the lower level of the organization through the line officers while the staff officers attached to the various departments advise

the departments. The staff officers do not have any authority to control anybody in the organization. Further, the staff officers are not in a position to compel the line officers to follow the advice given by them.

Each department is headed by a line officer who exercises full authority regarding planning, implementation and control of workers under him with the help of staff officers. The workers get instructions only from line officers. Hence there is unity of command and specialization.

### **Types of staff:**

#### 1. Personal staff:

Personal staff means a person who assists another person in the performance of work effectively. This type of a person is appointed at the top level of organization. The personal staff members do not supervise the subordinates of line officers.

#### 2. Specialized staff:

The specialized staff members render service to the line officers at all levels of the organization.

#### 3. General staff assistant:

They are a group of persons who are rendering service as advisors to top management in specific matters. The primary feature of the general staff is that they give advice regarding overall plans and policies of the organization. But they are not specialized in any area.

### **Functions of staff officers:**

- The staff officers assist the line officers in the planning of business activity.
- The board of directors frame the policies of the business on the basis of recommendations given by the staff officers.
- The managers can get the advice from the staff officers regarding the selection, training, placement and remuneration fixation of the personnel.
- The staff officers give advice regarding the method of improving the product, the technique of reducing the cost of production, increasing the profits of the concern etc.
- The staff officers prescribe the procedures to be followed by the line officers in the execution of policies and programs.

## Chapter 7 - Types of Organizations

- The staff officers of a department help the manager in the preparation of budget of the department.
- The staff officers may be called to solve the administrative problems encountered by the line officers in general.

The line officers have to extend their full cooperation to staff officers and vice versa. This ensures smooth functioning of the organization. In certain circumstances, conflicts may arise between them. However, blaming each other should be avoided.

### **Arguments of Line Officers against Staff Officers**

1. The staff officers have only theoretical academic knowledge but not practical knowledge.
2. Frequently, the staff officers go beyond their sphere of activity and assume that they have line officers' authority.
3. Much of the advice given by the staff officers is impractical.
4. Since the staff officers are not responsible for the results they suggest unfruitful ideas.
5. The staff officers unnecessarily increase the paperwork of the officers.
6. The staff officers give advice without considering the nature of business as a whole.
7. The ideas of staff officers take into consideration only the objectives of the departments to which they are attached instead of the broad objectives of the business.
8. Staff officers are very much interested in becoming line officers of the organization rather than imparting advice to them.
9. Staff officers blame the line officers for the failure of the project but are keen on getting credit for the success of the project.

### **Arguments of Staff Officers against Line Officers**

1. The line officers completely neglect the advice given by the staff officers.
2. The line officers hesitate to accept new ideas.
3. The line officers do not follow the advice of staff officers properly.
4. Some line officers simply reject the advice without considering its validity.

## Chapter 7 - Types of Organizations

5. Some line officers are not ready to ask for any advice from the staff officers
6. The line officers do not exploit the full services of the staff officers.
7. The line officers dissuade the management from giving authority to staff officers to implement new schemes.

### **Solution to the conflict between line officers and staff officers**

1. Both line officers and staff officers should clearly understand the nature of relationship prevailing between them.
2. A separate staff member should be appointed to bring about co-operation between the line officers and staff officers.
3. The line officers should be encouraged to use the advice of staff officers.
4. Only qualified persons should be selected and placed as staff officers.
5. The line officers should convince the staff officers if their advice is not accepted.
6. The responsibility for results could be fixed on both line officers and staff officers.
7. Some line officers may resist the change, when it is the duty of staff officers to encourage the line officers to participate in the proposed scheme of change.
8. Only experienced persons alone should be promoted as line executives.
9. The staff officers can give full credit to the line officers for the results obtained.
10. Remove the fear of both line officers and staff officers whether the new ideas of advice would be properly put into use or not.
11. If the favourable results are obtained, the line officers may appreciate the staff officers.
12. A special privilege may be given to the line officers to reject or accept the advice given by the staff officers.

### **Advantages of Line and Staff Organization**

1. It facilitates the workers to work faster and better.
2. Specialization is attained when the staff officers concentrate on planning function and the line officers concentrate on execution function.

## Chapter 7 - Types of Organizations

3. It enables the organization effectively utilize the staff officer's experience and advice.
4. The line officers can take sound decisions with the help of proper advice from the staff officers.
5. A new technology or a new procedure may be introduced in the organization without any dislocation.
6. A new variety of responsible jobs can be given to skilled workers.
7. The work of line officers would be reduced to some extent if they were relieved of the work of taking divisions.
8. It promotes the efficient functioning of the line officers.
9. The Principle of the unity of command is followed in the line and staff organization. Hence, the line officers can maintain discipline among the workers and exercise control over the workers.
10. A very good opportunity is made available to the young person to get training.

### **Disadvantages of Line and Staff Organization**

1. If the powers of authority pertaining to the line officers and staff officers are not clearly defined, there may arise confusion throughout the organization.
2. It is very difficult to control the line officers to when they reject the advice of the staff officers.
3. The line officers may reject the advice without assigning any reasons for their action.
4. The staff officers may under-estimate the authority of line officers. The reason is they are superior the line officers.
5. The staff officers are not involved in the actual implementation of the program. Therefore, it is not obligatory on their part to give advice with care and caution.
6. The staff officers are not responsible if favourable results are not obtained.
7. It requires the appointment of staff officers who are specialized in various areas. It increases the administrative expenses of the organization.
8. There is no authority to the staff officers to compel the line officers to accept and implement the advice given by them.

9. There is a communication gap between line officers and staff officers. It reduces the degree of co-operation between them.
10. The differences of opinion between line officers and staff officers and staff officers will defeat the very purpose of specialization.
11. The line officers may misunderstand the advice given by the staff officers and proper results cannot be obtained. Sometimes, the staff-officers cannot give unambiguous advice to the line officers.
12. Line officers blame the staff officers for unfavourable results and want to get rewards for favourable results.
13. Frequently, the line officers want to get advice from the staff officers not only on important matters, but also on ordinary matters. It reduces the effectiveness of control of line officers.

### 7.5 Committee Organization

---

In the modern business world, a single person alone cannot perform some administrative tasks when two or more persons are required to perform the same administrative task collectively. It shapes into a committee of an organization. A committee is group of persons to whom certain managerial functions are assigned and from whom some advice or recommendation are expected.

According to Hicks,

“A committee is a group of people who meet by plan to discuss or make a decision for a particular subject.” The top management fixes the duties, responsibilities and authority and the committee is accountable to the management.

Terry has defined the committee as “Body of persons elected or appointed to meet on an organized basis for the discussion and dealing of matters brought before it.”

Webster’s New International Dictionary defines committee as a, “Body of persons appointed or elected to consider, investigate or take action upon and usually repose concerning some matter or business, as a court, legislative body or a number of persons.”

Haimahh has defined a committee as a “group of persons either appointed or elected who are to meet for the purpose of considering matters assigned to it.”

### **Types of Committees**

#### **1. Advisory committee (or) problem solving committee**

This committee examines the problems which are referred to it.

If a committee is requested to solve a given problem, it should give the best solution. The reason is that committee members have wide knowledge, offer different opinions and suggest approaches to solve a problem, before solving a problem the problem is analyzed by the committee after considering the pros and cons of the proposed solutions.

#### **2. Fact-finding committee**

This type of committee is formed only of the purpose of collecting information on a particular subject. A detailed report is submitted with recommendations to the management . This is the most common committee formed in any organization.

#### **3. Action committee (or) executive committee**

This committee consists of line officers. This committee can take the decisions and it has power to implement the decisions. The committee is permanent in nature. Board of Directors of a company is the best example for the Action committee.

### **Functions of a Committee**

1. Collect the necessary information from different sources and arrange the information orderly.
2. The collected information is critically analyzed.
3. Draft a detailed report containing the recommendation for the purpose of implementation.
4. Formulate the standard of performance for the purpose of evaluation of actual performance in future.
5. Take a decision if the committee is requested to do so.
6. Framing the policies if the organization.
7. The committee can select personnel or carry out the business operations.
8. Directing and controlling the officers at regular intervals to achieve the goals said above.

### **Advantages of Committee Organization**

1. The committee can take valuable decisions. The committee members can make use of their experience and knowledge while taking decisions.
2. Hasty decisions are avoided by the committee. Normally, the hasty decisions do not give maximum benefit to the organization. Hasty decisions are not worthy from a long term of point view.
3. The committee members are encouraged to participate in the decisions making process. Each committee member can acquire a knowledge of and understand the feelings of the people in other parts of the company, keeping these in view, the decision is taken by the committee.
4. The committee decisions will certainly be the best one. There is proverb ."Two heads are better than one."
5. By participating in the decision making process, an officer is persuaded to accept the decision and implement the decision without any delay.
6. Co-ordination between the various departments becomes very easy. The reason is that the committee consists of members from various departments. According to Koontz and O'Donnell, "Committee is a useful device of co-coordinating business planning and the executing of the business polices."
7. The committee members have authority to implement the decisions. If any individual takes a decision, the committee may not implement the decision. The reason is that there is no authority for the committee to implement to decision taken by an individual.
8. If a young person is motivated to participate in the decision making process of a committee, he can get a very good training. It is one way of utilizing the opportunity offered to him.
9. Normally the committee consists of specialists from various fields. Then, new ideas may be developed by the committee in the area of production, sales, customer series and the like.
10. Whenever decision is taken in an organization, it should be communicated to all the employees. The committee members can disseminate the decision taken by the committee to the employees immediately. It saves a considerable time in communication.

## Chapter 7 - Types of Organizations

11. The decision taken by the committee reveals the feelings, ideas and thoughts of all the members of the committee. The decision is taken only after obtaining the approval of all the persons who are participating in the decision-making.
12. Sometimes the decision is arrived at after getting the approval of the majority of the members participating in the decision making. Therefore, the committee follows a democratic process in the decision-making.
13. Even if a person is opposed to the decision taken, he may accept the decision taken by the committee. He will act so, even though he will not be compelled to accept the decision. It means voluntary acceptance on the part of the concerned persons.
14. Committee members are requested to express their views, ideas and feeling freely. It will minimize the clashes of interests among the employees of the organization. The discussion may be pertaining to wages, salary, bonus, welfare schemes and the like.
15. The line executives are included in the committee for decision-making. It prevents the line executives from feeling that they are not consulted while taking decisions.
16. If any problem is to be solved by the committee, it can be done by following the principle of division of labor. Each committee member can analyze the problem from various angles at the same time and arrive at fruitful solution.
17. An individual is empowered to take decision and implement it when he has full authority and responsibility. In other words, there is a concentration of authority and responsibility. Concentration of authority and responsibility is avoided in the committee organization. In this organization, all the members of the committee have authority and responsibility.
18. Normally, the committee is formed with the interested persons of the organization.

### **Disadvantages of Committee Organization**

1. Men from various fields are included in the committee. Each member expresses his own ideas and decisions or solutions. It results in delay in taking a decision.
2. It increases the administrative expenses of the organization. Expenses are incurred whenever the committee is convened for solving a problem or taking a decision.

## Chapter 7 - Types of Organizations

3. In case, if there is an absence of mutual co-operation, and the members do not have confidence in the ability of the other members of the committee, they fail to work efficiently and the committee is dissolved without any decision being taken.
4. The secrecy of the committee's decision cannot be maintained under committee organization. The reason is that there are a large number of members in a committee.
5. The responsibility cannot be fixed on any person if the decision does not produce favorable results to the organization. Each one blames the other for faulty decision making and unfavorable results.
6. Sometimes, the decisions may be taken on the basis of compromise, when the decision does not reflect the viewpoints of the members of the committee.
7. It has been observed that irrelevant matters are at times discussed. The decision should be taken by a committee within a short period of time.
8. In the committee organization, each member is expected to express his own ideas. It may result in heated arguments among the committee members. It does not give any benefit to the organization.
9. The members of a committee do not use their initiative because of their ignorance, or dominance by the committee members. Thus, the representative character of the decision taken by the committee is not preserved.
10. The committee members who meet frequently, may not be able to devote full attention to their duties.
11. A committee is formed to reap benefits as in a democracy. But, in majority of the cases the committee acts as a puppet of the management.
12. The committee members are not able to develop their own ability or talents individually. Further, it deteriorates the ability of the committee members in various other fields.

### **Recommendations for efficient functioning of a committee**

#### **1. Clear objectives**

A committee can function efficiently if the objectives of the organization are clearly stated. The scope of the function of a committee should be clearly laid down.

#### **2. Size of the committee**

## Chapter 7 - Types of Organizations

The number of members of a committee should not be too large or too small. Only necessary members should be included in a committee. The members who are working at executive levels should not be members of more than three committees. The ideal number of members of a committee is 6 to 8.

### 3. Selection of meetings

The success of a committee depends upon the members of a committee. Therefore, the management should be very careful while selecting a member of a committee. Due weightage should be given to skill, knowledge and experience of the person while selecting a committee member.

### 4. Role of committee

The authority and responsibility of a committee should be clearly laid down, so that the members of a committee will act according to the regulations of the committee formed.

### 5. Role of Chairman

Great care should be taken while selecting the chairman at a committee. Sometimes, the chairman of a committee may be selected by the committee members or nominated by the management. The chairman should act as a man to whom every member at the committee could have easy access and he should encourage the members and extend his cooperation to everyone of the members of the committee.

### 6. Preparation for a meeting

The committee meeting should be periodically convened so as to take prompt decisions and actions to tackle the problems of the management. The flow of work should be maintained by taking correct decisions. It is desirable to collect essential information necessary to take a decision.

### 7. Follow-up

The minutes of the meeting should be intimated to all the members of a committee. The follow-up procedure is also carried on for the purpose of ensuring proper implementation of the decisions.

### 8. Evaluation

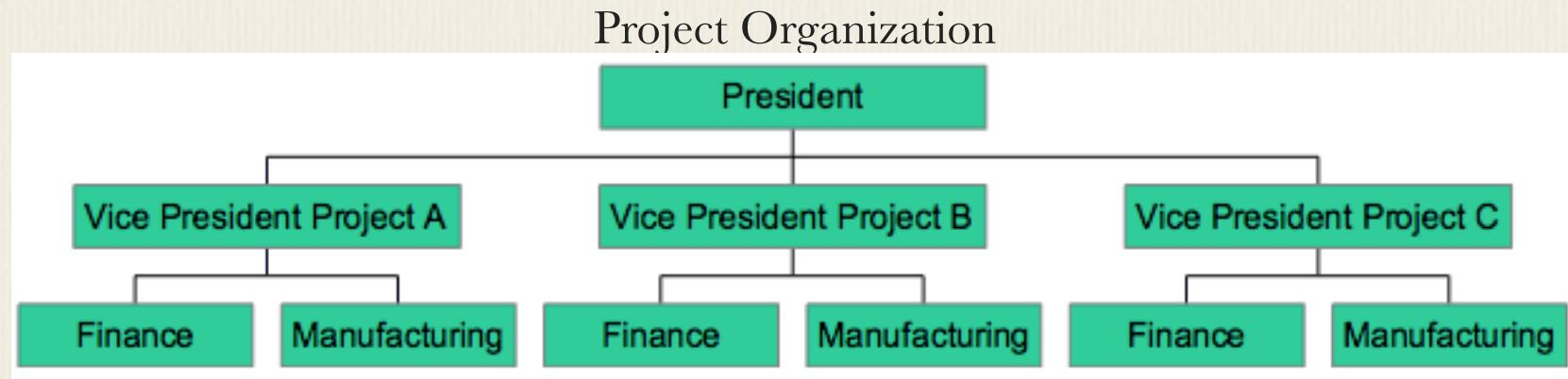
The functioning of the committee should be periodically evaluated. If any need arises, certain members may be included in or excluded from the committee. The benefits accruing the committee should overbalance the expenses incurred for the functioning of committee.

### 9. Selection of subject matter

An individual can deal with certain kinds of subjects only. Such type of subjects cannot be placed before the committee for discussions. The committee can handle only complicated matters.

## 7.6 Project Organization

---



The idea of project organization was developed after the Second World War. This organization is developed to eliminate the defects of functional organization. Delay in taking in decisions and lack of co-ordination are some of the defects of functional organization.

Project organization is designed to accomplish a program or project. The project organization is dispensed with after the accomplishment of a program or project. The project organization is composed of a core of functional departments in addition to its specific programs or projects. In other words, project organization consists of important functional departmental heads.

A project organization is suitable for the accomplishment of a small number of large projects. According to Middleton, “A project organization can also be the beginning of an organization cycle. The project may become a long-term or permanent effort that eventually becomes a program or branch organization. The latter may, in turn, become separated from the parent organization and be established as a full-fledged product division functionally organized.”

### **Features of Project Organization**

1. The success of the project organization depends upon the co-ordination of activates.

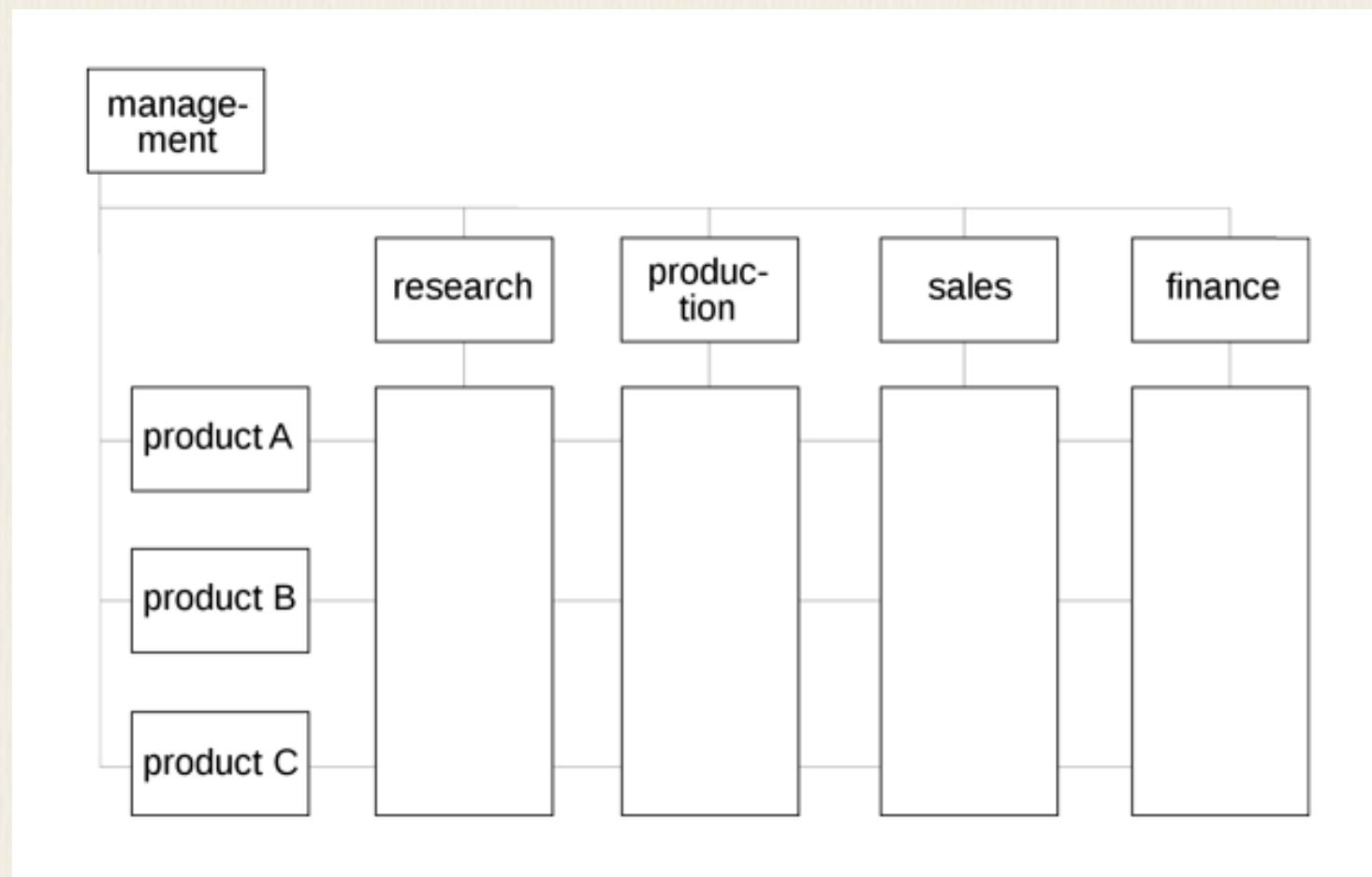
2. There is a grouping of activities for each project. It leads to the introduction of a new line of authority.
3. The responsibility is fixed for each group with regard to the respective projects and it results in the meaningful control.

### **Drawbacks of Project organization**

1. The professionals are deputed for the project. But there is no assurance of continuous work for the professionals in a project organization.
2. Under project organization, there is absence of proper communication and standards for comparing the performance. It reduces the motivation and control over the staff in an organization.
3. The decision is taken in the project organization under pressure of the top management. It results in dangerous consequences.
4. The top management does not extend its full co-operation for the effective functioning of the project organization. The top management may cause some hindrance.

### **7.7 Matrix Organization**

---



## Chapter 7 - Types of Organizations

It is a type of organizational management in which people with similar skills are pooled for work assignments, resulting in more than one manager (sometimes referred to as solid line and dotted line reports, in reference to traditional business organization charts).

For example, all engineers may be in one engineering department and report to an engineering manager, but these same engineers may be assigned to different projects and report to a different engineering manager or a project manager while working on that project. Therefore, each engineer may have to work under several managers to get his or her job done.

There are several departments under Matrix organization. Each department is assigned with a specified task. The available resources of the organization can be used by each department along with the co-ordination of other departments in an organization.

According to Stanley Davis and Paul Lawrence, matrix organization is “Any organization that employs a multiple command structure but also related support mechanisms and an associated organization culture and behavior pattern.” The matrix organization may be followed where a large number of small projects have to be managed.

### **Conditions for effective matrix organization**

The matrix organization can effectively function if the following conditions are present:

1. The principle of scalar chain of command is not followed in the matrix organization. A project manager should give his report to more than one superior.
2. There should be an agreement among the managers regarding the authority of utilizing the available resources. The term resources includes physical resources, financial resources and human resources.
3. A conflict may arise among the managers regarding the utilization of available resources. There should be a common willingness among the authority holders to face the conflicts with a view to resolving them.

### **Merits of matrix organization**

The merits or advantages of a matrix organization are discussed below:

#### **1. Achievement of objectives**

The matrix organization reaps the benefits of functional organization and line and staff organization. It ensures the achievement of objectives with technical specialization.

#### **2. Best utilization of resources**

The available resources are used by the managers for the specified project. At the same time, the resources are utilized by the managers—with full understanding among them.

#### **3. Appropriate structure**

Matrix organization is an appropriate structure of an organization to adopt to the external changes. For example, in order to survive the competition, matrix organization is used to meet customer demands according to the expectations without affecting the marketing of the existing product.

#### **4. Flexibility**

Matrix organization is a highly flexible organization. The rules and procedure are framed on the basis of the experience of the organization.

#### **5. Motivation**

If any department is functioning slowly towards the completion of the particular project, proper motivations provided the concerned department.

#### **6. Personal development**

Matrix organization gives an excellent scope for training and development of efficient persons.

### **Demerits of matrix organization**

The following are the demerits or disadvantage of matrix organization.

#### **1. Complex relationship**

The matrix organization does not follow the principle of scalar chain of command. Here, a single person gives report to more than one superior. It entails in having less opportunity for having rapport with their respective superiors.

### 2. Struggle for power

Many superiors control a subordinate. It means many authority holders use the power over the subordinate. It results in delay in the completion of the project.

### 3. Excessive emphasis on group decision-making

The department utilizes the available resources for taking group decisions. There is no spirit of accommodation and understanding under the matrix organization. So, there is delay in taking a group decision. It leads to delay in the completion of the project.

### 4. Arising conflict resolution

The resolution or the decision is taken under matrix organization with too much of self-analysis of decision makers. The work of decision makers or the managers may be slow in the accomplishment of the project.

### 5. Heterogeneous

A matrix organization is created by deputing the staff temporarily. They are skilled professionals of various departments. It is difficult to co-ordinate the work of the skilled staff members when there is a lack of unity of command in an organization.

## 7.8 Free form Organization

---

This type of organization is formed whenever a need arises to form an organization, for achieving a particular object. It will be dissolved after achieving the object of the organization. In many ways, the Free Form Organization resembles the project and matrix organization. It is otherwise called organic or ad hoc (ratio) organization.

The formation of the Free Form Organization depends upon the external environment of the business. If the business is highly affected by the external environment, the Free Form Organization will be established.

Decision is taken under Free Form Organization without following the policies or guidelines, which are determined in advance. Normally, the decision is taken in any organization by following the organizational policies, rules and regulation. These are framed well in advance and followed while taking decisions.

The structure of Free Form Organization is related to individual expertise used in resolution of the problems at hand. The nature of problems may be changed

## Chapter 7 - Types of Organizations

according to the situations prevailing in the business world. When there is change of structure of Free Form Organization, no task is assigned to it specifically. But tasks are assigned to superiors and subordinates according to their level of experience and competence. Therefore, the authority is available to the persons according to their competence in performing the given task under this organization.

There is no channel of communication due to the absence of a formal structure in the Free Form Organization, So, the communication flows in any direction viz., upwards, downwards, and horizontally.

### 7.9 Case examples

---

Dow Chemicals



Bill Pugliano/Getty Images

Dow Chemical and Du Pont of USA, ICI of great Britain, BASF, Hoechst and Bayer of Germany are the handful major players who compete head to head. The environment of severe recession, free flow of chemicals etc ushered in intense price competition. The company that won the race was Dow Chemical which had lowest costs.

Dow Chemical managers believed that some credit for the success belonged to the matrix organization. The organizational matrix had three interacting elements:

- Functions such as R&D, manufacturing, marketing

## Chapter 7 - Types of Organizations

- Businesses such as ethylene, plastics and pharmaceuticals
- Geography such as Spain, Germany, Brazil

The manager's job title was like "Plastics Marketing Manager for Spain" which had all the three elements. Most managers reported to at least two bosses. The Plastics Marketing Manager for Spain might report to both the head of worldwide plastics business and the head of Spanish operations.

But the results were less than promising. Multiple reporting channels led to confusion and conflict. Too many bosses created an unwieldy bureaucracy. The overlapping responsibilities resulted in battles and lack of accountability.

Instead of abandoning the matrix structure, Dow decided to make it more flexible to better accommodate different businesses such as pharmaceuticals. After priorities were identified for each business sector, one of the three elements of the matrix was given primary authority in decision making.

In 1995 the company decided to divest itself of the pharmaceutical business and abandon its matrix structure in favor of a more streamlined structure based on global market divisions. The matrix structure was just too complex and costly to manage in the intense competitive environment of the time, given the company's renewed focus on its commodity chemicals where competitive advantage often went to the low cost producer. As Dow's CEO put it in 1999, "We were an organization that was matrixed and depended on team work but there was no one in-charge. When things went well, we did not know whom to reward and when things went poorly, we did not know whom to blame. So we created a global divisional structure and cut out layers of management. There used to be eleven layers of management between me and the lowest level employees. Now there are five."

## 7.10 Activities for the students

---

### Activity A

Based on a manufacturing industry, study the types of problems a staff officer and a line officer can have. Make suggestions to them as to how they can resolve the problematic issues.

---

---

---

---

---

---

---

---

### Activity B

If you were CEO of DOW, how would you have handled the issue there?

---

---

---

---

---

---

---

---

### 7.11 Summary

---

The success of the organization depends upon the experience and competence of the officers of the organization. There is also necessity of chalking out the line of authority among the people who are working in an organization to achieve the desired results. A few types of organization find a place in the structure of internal organization.

- Line organization
- Functional organization
- Line and staff organization
- Committee organization
- Project organization
- Matrix organization
- Free form organization

### 7.12 Self-assessment questions

---

1. Write about the conflicts between line and staff officers and about how they can solve them.
2. Talk about the types of committee organizations and discuss their merits.

### 7.13 Multiple Choice Questions

---

1. The following characteristics are of -----organization.
  - Direct vertical relationships
  - Authority flows from top level to bottom level.
  - Departmental heads are given full freedom to control their departments.
  - Each member knows from whom he would get orders and to whom he should give orders.
  - Operation of this system is very easy.

**Options:**

- a. Line and staff organization
  - b. Matrix organization
  - c. Line organization
  - d. Functional organization
2. The following characteristics are of -----organization:
- The work is divided according to specified functions.
  - Authority is given to a specialist to give orders and instructions in relation to specific function.
  - Functional authority has a right and power to give command throughout the line with reference to his specified area.
  - The decision is taken only after making consultations with the functional authority relating to his specialized area.
3. The following are the functions of -----
- Collect the necessary information from different sources and arrange the information orderly.
  - The collected information is critically analysed.
  - Draft a detailed report containing the recommendation for the purpose of implementation.
  - Formulate the standard of performance for the purpose of evaluation of actual performance in future.

**Options:**

- a. Committee
- b. Project manager
- c. CEO

- d. Staff organization
4. It is otherwise called organic or ad hoc (ratio) organization.

**Options:**

- a. Matrix
- b. Project
- c. Free form
- d. Line and staff

5. This type of committee is formed only of the purpose of collecting information on a particular subject. A detailed report is submitted with recommendations to the management. This is the most common committee formed in any organization.

**Options:**

- a. Advisory committee
- b. Fact finding committee
- c. Action committee
- d. Executive committee

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

At the end of the chapter, you will be able to:

- Have good knowledge about staffing, its functions, process, proper staffing, its advantages
- Learn about recruitment, internal and external sources
- Know about selection, its importance, stages
- Understand about tests
- Know about interview, kinds, process and principles
- Know about promotion, transfer and job rotation

### **Structure**

- 8.1 Introduction
- 8.2 Definitions
- 8.3 Elements of staffing
- 8.4 Objectives and functions of staffing
- 8.5 Processes in staffing
- 8.6 Proper and effective staffing
- 8.7 Recruitment
- 8.8 Selection
- 8.9 Tests
- 8.10 Interview
- 8.11 Promotion, transfer, job rotation
- 8.12 Case example
- 8.13 Activities for the students
- 8.14 Summary
- 8.15 Self-assessment questions
- 8.16 Multiple choice questions

### 8.1 Introduction

---

Staffing involves human resources management and although it is very important, it is often the most neglected function. If staffing is not taken care, the organization faces many problems. Careful attention must be given to this function. This function ensures the right person for the right job. It is not just fitting someone for some job. We must carefully see the human aspect of this. We must see how the human being is developed to be most suitable for the organization.

In any organization, staffing follows the planning and organizing functions. It is a continuous process similar to planning as well as organizing. It is initiated by the organization and kept going on to be fully effective. It includes processes such as manpower planning, recruitment, selection, training and development, promotion and compensation of the personnel.

Organization is a social entity, continuously supplying goods and services to the society and the society also needs them continuously. For the success of this organization, and for achieving the objectives, management is required and staffing is the important function which takes care of the man as a resource. Staffing is a broader function than HRM. Staffing is more a strategic function and HRM makes it sure that they are treated properly.

Out of the four M's, viz. man, machine, materials and money, man is a living entity, which thinks, discriminates, has judgment, has knowledge, and develops wisdom. He adds more and more value, over a period of time, after getting experience. He appreciates with the use of time. Other M's are inanimate, they do not think, do not have wisdom, get used up, get converted into finished goods, and depreciate. People are those who can make or mar the organization. The fifth M is methods which are created by man. People make the things happen. Very few organizations understand that the people have to be developed and maintained in the company. In the environments which are changing rapidly, if the company is in a crisis situation, the first knee jerk reaction is felt on human beings. Are we not considering human beings as resources? When we go to work, we are not sure if we will stay in the job or will get removed from there. Business cycles keep happening up and down. But it is improper to kick the people out. If the top management knows what is wanted, they should take proportional number of people and not too many. Before taking extreme steps, the people must be given a last chance to perform.

The belief system or value system of the person entering the organizations should match the value system of the organization. The human beings are not a cost to

the company; on the other hand, they are the investment for the future. For ensuring that the right people are hired, top management must get involved in the process.

### 8.2 Definitions

---

Staffing is: “The process involved in identifying, assessing, placing, evaluating and directing individuals at work.”

“Staffing function is concerned with the placement, growth and development of all those members of the organization whose function is to get things done through the efforts of other individuals.”

### 8.3 Elements of Staffing

---

While performing the staffing function, the manager has to see that men are fit for jobs and jobs are not altered for men. The major elements of staffing are:

1. Effective recruitment and selection
2. Proper classification of personnel and pay fixed to them.
3. Fitment through placement. Right man for the right job.
4. Adequate and appropriate training for development.
5. Satisfactory and fair transfer and promotion
6. Sound relationship between management and workers. Harmonious human relations.
7. Adequate policy and provision for retirement.

### 8.4 Objectives and functions of staffing

---

#### 1. Manpower planning:

The short term manpower planning may achieve the objectives of the company at present conditions. The long term manpower planning should be concerned with the estimation of staff members required in future.

#### 2. Development:

It is concerned with the development of staff members through adequate training programs. The training is given to the needy persons. It is also concerned with the development of the organization itself through the development of manpower.

#### 3. Fixing the employment standards:

It involves job specification and job description. These enable the management to select the personnel and train them adequately. Job description is a systematic and organized written statement of the duties and responsibilities in a specific job. Job specification is a statement of personal qualities that an individual must possess if he is to successfully perform the job.

#### 4. Sources:

It is concerned with the method by which the staff members are selected. The sources may be internal and external ones. Internal source means that a vacancy is filled up by the company from the available staff members. The external source means that a vacancy is filled up by the company from outside of the company. The selected person could be unemployed or working in some other company.

#### 5. Selection and placement:

It includes the process of selection of the staff members. The placement includes giving a job to a person on the basis of his ability, education, experience etc.

#### 6. Training:

It can be arranged by the company itself. In certain cases, the staff members may be sent out by the company to get the training. The expenses are borne by the company. The training may be required not only by the new staff members but also by the existing staff members.

#### 7. The other functions are coordination, promotion, transfer, maintenance of employee records, rating of employees, motivation etc.

## 8.5 Processes in staffing

---

Estimation of total number of staff members required by the company in various grades depending upon size of the company and policy



Selection of qualified applicants for filling the jobs by using a standard procedure.



Training and development: For new staff members as well as existing employees for improving work efficiency



Performance management: assessment of the work performed by the staff members in an organization as per a standard fixed.

## 8.6 Proper and effective staffing

---

Proper staffing means providing adequate qualified staff members for the purpose of effective functioning of organization. Top management is responsible for effective functioning, hence, the chief executive or the general manager undertakes this function. Involvement of top management is absolutely necessary. Identifying appropriate staff members is a difficult and challenging task and it requires special skills. Due to complexity of the process, it is sometimes outsourced to expertise in staffing.

Advantages of proper staffing:

1. It helps in recruitment of efficient staff members.
2. It helps the proper placement of staff members according to their ability.

3. Proper selection, training, and development of staff members will result in the maximum production in an organization.
4. Increasing the efficiency of the workers will increase the earning capacity of the workers.

### 8.7 Recruitment

---

Recruitment is the process of finding proper candidates and inducing them to apply for the jobs in the organization. The recruitment should be sound one. If it is not so, the morale of the staff will be very low and the image of the company will be tarnished.

Recruitment is done through advertisements, word of mouth publicity and with the help of placement agencies.

The success of any recruitment depends upon policies and procedures followed by the company while recruiting the staff members.

Jobs with low salary, uninteresting and difficult jobs are challenging to be filled up easily.

Recruitment means the discovery of the staff members for the present and future jobs.

#### Internal sources:

Whenever there is a job vacancy, it can be filled up by giving a promotion to the present employee of the company. It is based on the promotion policy followed by the company. In certain cases, a same cadre staff member is deputed to the job. It is called a transfer. It is also based on transfer policy of the company.

#### **Advantages:**

1. It improves the morale among the staff members
2. Employee is happy because of promotion.
3. It attracts efficient staff members
4. Training expenses are reduced.
5. Promoted employee inspires other staff members to acquire a thorough knowledge of his job.
6. It derives job satisfaction

7. Promoted employee uses his past experience in the new job
8. It improves job security for the staff member
9. A new responsibility can be entrusted safely
10. Continuity of the job for the employee and stability of the organization
11. Employees are induced to work hard to get the promotion
12. Expenses such as advertisement, recruitment, test and interview are avoided.

### **Disadvantages:**

1. Lack of fresh and original ideas and initiative from promoted staff members
2. An under-qualified person may be appointed for the higher post.
3. If there is a guarantee of promotion to the internal staff members, they may not work efficiently.

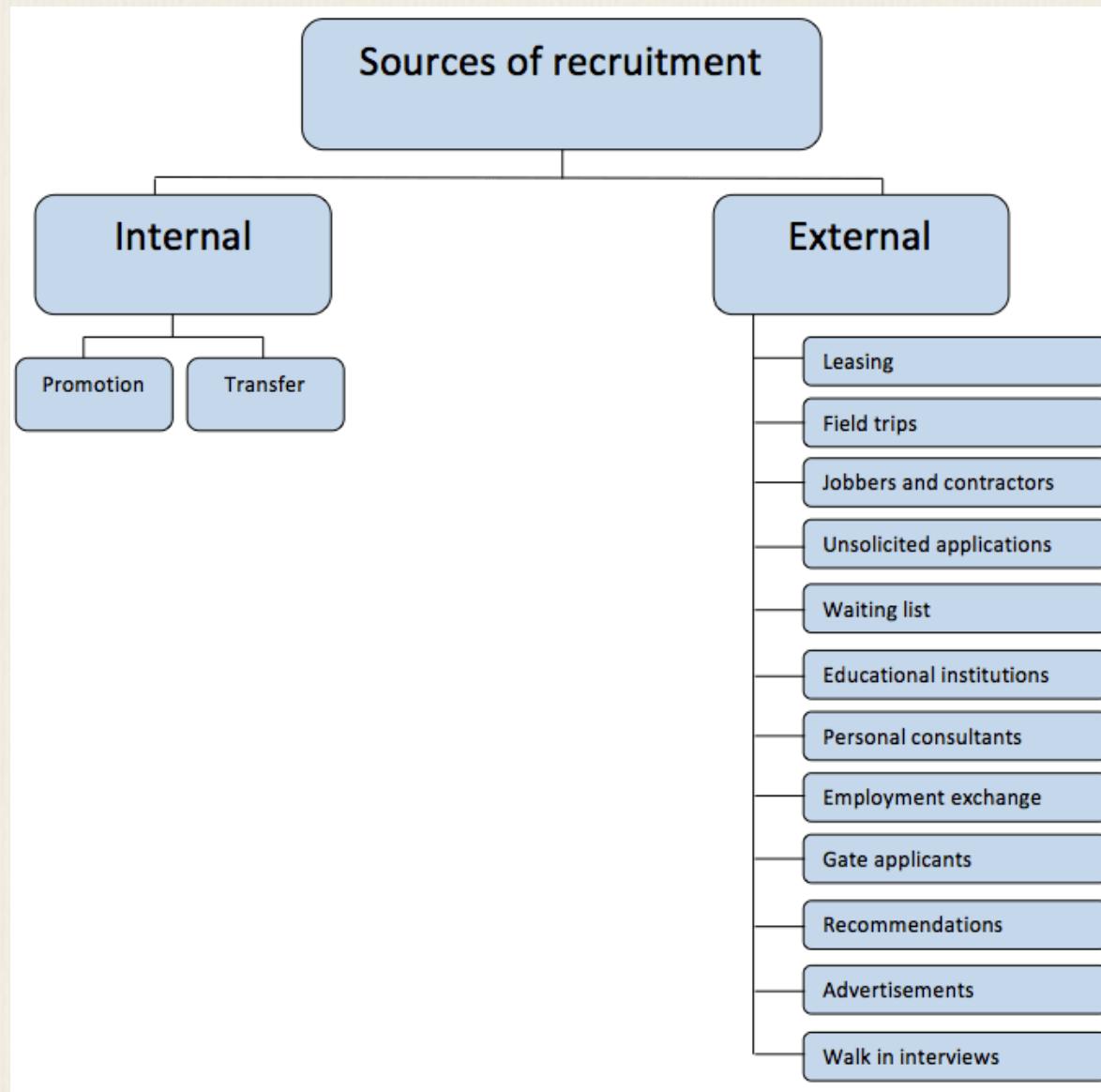
### **External sources**

#### **8. Advertisement**

When a company wants to inform the public that it has a vacancy, it puts up an advertisement. The details of the job and required qualification and experience of the candidates are given. The company receives the applications in response to the advertisement. After that an interview is conducted. In some cases, walk in interview method is adopted. The date, time and place of the walk in interview are mentioned in the advertisement. In this way, a person is recruited immediately through an advertisement.

#### **9. Recommendations:**

Recommendation means appointment of a person on getting a recommendation letter from a person reliable and well known to the company. In some cases, the employee of the company may bring the candidates to the company for the purpose of being appointed. In such cases, company may not conduct an interview for selection.



### 10. Gate applicants:

The educated and unemployed young people submit their applications at the gate, although there may not be any advertisement issued by the company. These candidates may not have any recommendations either. The candidate personally approaches the appointing authority of the company. If such candidate is found fit, he is appointed.

### 11. Employment exchange:

The job seekers register their names with their qualifications with the employment exchange. The company can get the list of candidates who have requisite qualifications to fit in a job. The employment exchange is of two types: The public one and the private one. The public one is run by the government. The private one is run by a private party who may get commission from both the job seekers and the company.

### 12. Personal consultant:

Private consultant is a separate specified agency doing the function of recruitment of the personnel on behalf of the company. He receives the applications, verifies

them, conducts interviews, and selects the candidates. He receives fees from the company for his service.

### 13. Educational institutions:

Universities, colleges and institutions are formed to offer specific courses. The educational institutions make an arrangement for campus interview. The business concerns come to the campus of the educational institutions to recruit the students for various posts. The selected students are told to join the post after completing the course.

### 14. Waiting list:

The business concern prepares a waiting list of the candidates who have already been interviewed. Whenever a vacancy arises, it can be filled from candidates out of the waiting list.

### 15. Unsolicited applicants:

This means the application received from the candidate through mail. If there is any vacancy, the candidate may be recruited if found fit for the job.

### 16. Jobbers and contractors:

The casual vacancy may be filled by the company through the jobbers and contractors. Normally unskilled candidates are appointed in this way.

### 17. Field trips:

A company may send a group of experts to the cities where the various kinds of candidates required by the company are available. In this case, a prior advertisement about date, time and place of the interview is issued in newspapers.

### 18. Leasing:

Before recruiting the staff members, the period of service is fixed by the company and it is conveyed to the staff members.

### **Advantages:**

1. **Choice:** A company recruits a person out of a large number of applications. The plus and minus points of each and every candidate is taken into consideration and the best candidate is selected.
2. **New outlook:** A new approach of the recruited employee may solve some existing problem which will give benefit to the company.

3. Wide experience: The recruited new employee has experience in various fields. By this, the company gets the benefit.

### **Disadvantages:**

1. The existing staff may have a grudge against newly recruited employee.
2. Lack of cooperation.
3. Recruitment of a person from outside is expensive.
4. There could be a resistance from trade union for the recruitment of new employee.
5. If the new person fails to adjust himself to the working conditions of the company, it causes irritation and difference of opinions between the recruited person and existing staff members. It is then further expensive to replace him.

### **8.8 Selection**

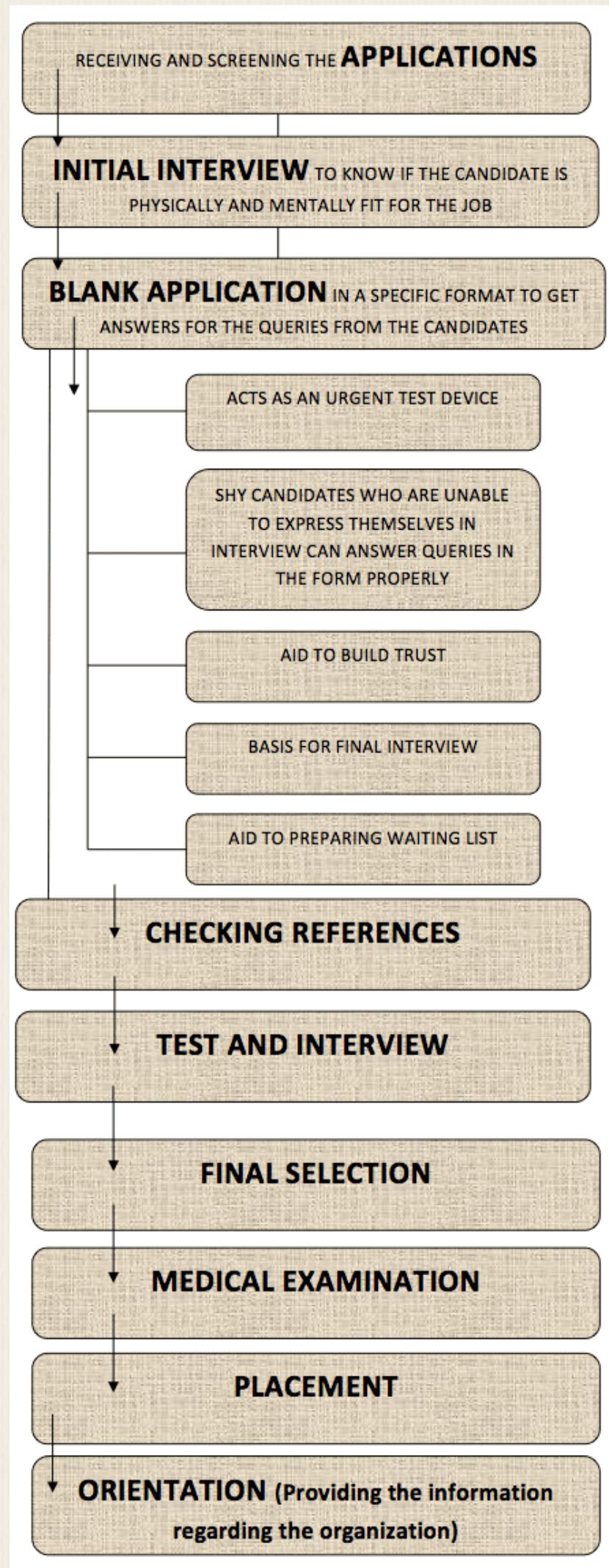
---

Selection is the process adopted by the organization to select adequate number of persons who have required educational qualifications, skills, abilities, personality and experience. A screening test may be conducted through which unsuitable candidates are rejected.

Selection is a tough task because available candidates are more qualified and experienced than what is required. So, more care is required in the selection of proper personnel.

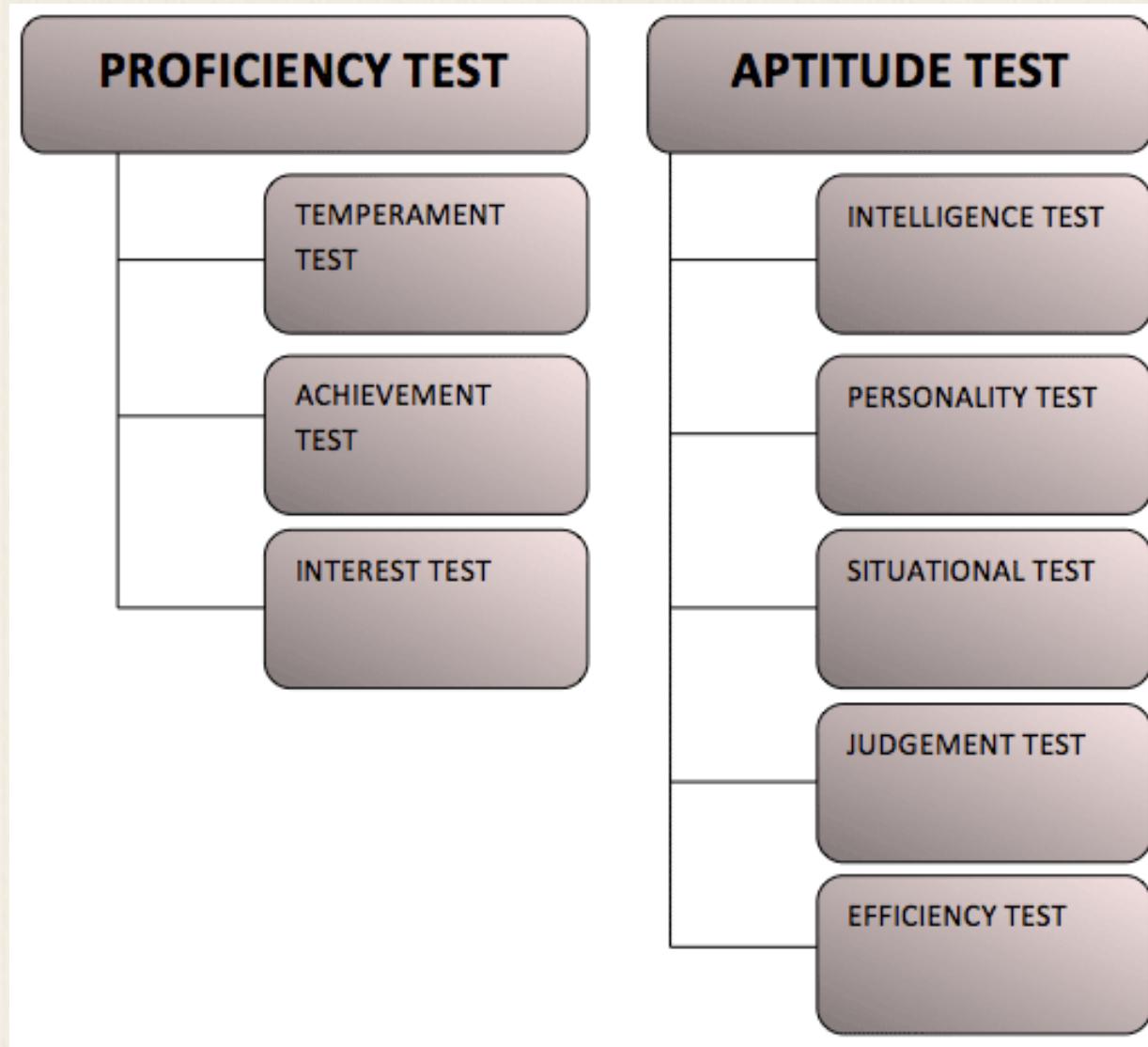
## Chapter 8 - Staffing

### Selection Process:



## 8.9 Tests

---



### 1. Temperament test:

To measure the likes, dislikes and habits of an individual. It is helpful to find out if the individual can put himself in a society or not.

### 2. Achievement test (Performance test or trade test):

To measure the knowledge for performing the work assigned to an individual. Sometimes the achievement test is conducted theoretically, i.e. the answers are received by putting the questions to the individual. E.g. an accounting test may measure the accounting performance of an accountant in terms of accuracy and neatness.

### 3. Interest test (Vocational test):

To discover the individual's interest in having the work assigned to him. Interest of an individual may be relating to outdoor activities, accounting, clerical, social service etc.

### 4. Intelligence test:

To measure the mental ability, capacity and general awareness of the individual. The most common intelligence tests used for management purposes are group tests, individual tests, self evaluation tests, self administered tests, performance tests, verbal comprehension, word fluency, memory, inductive reasoning, test of reasoning, number facility, speed of perception etc. It is conducted age-wise. If the management selects highly intelligent people, its training process is easy and training expenses are low.

### 5. Personality test:

It is conducted to measure courage, initiative, emotion, confidence, reaction, ability to mix with others, ability to motivate, general behavior of the individual, cheerfulness, leadership, patience, and domination of character.

### 6. Situational test:

It is conducted to measure the reactions of the applicants to a particular situation. Besides, the applicant's ability to succeed in his job in this situation is also measured.

### 7. Judgment test:

It is conducted to measure the ability of an individual in applying the knowledge, intelligence and experience to solve the problems presented before him.

### 8. Efficiency test (dexterity test):

It is used to know how quickly and efficiently an individual uses his hands to accomplish the work assigned to him.

### **Advantages:**

1. Tests help the employer to find whether a candidate is fit for the job.
2. Tests help in checking candidate's claims in respect of his qualification, experience etc.
3. Tests avoid the scope for personal preference of a particular candidate.
4. Standards of job performance can be established with the help of the test.
5. Labor turnover can be reduced.
6. Tests reduce cost of selection and placement.
7. Tests highlight the hidden talents.

8. Tests may be conducted for transfer and promotion.
9. Training expenses can be reduced.
10. Possibility of failure in performing the job is reduced.

### **Disadvantages:**

1. Test is only a supplementary method of selection.
2. Test is not able to measure the combination of characteristics required for various jobs.
3. If number of applicants is small, it is desirable to conduct an interview rather than test.

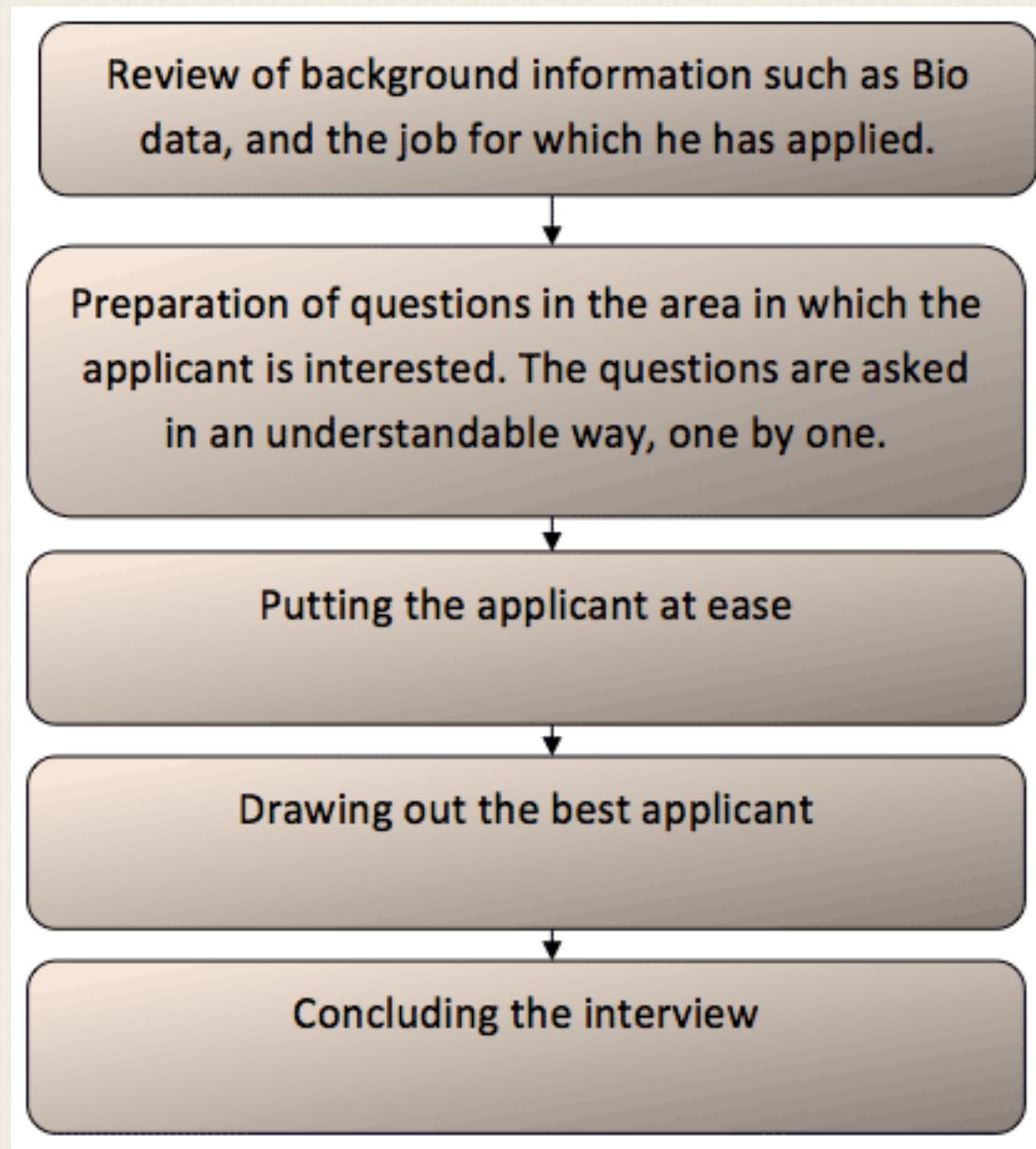
## **8.10 Interview**

---

### Principles of interview:

1. The management should define the specific objectives of an interview.
2. The management has to prepare the procedure for the interview to achieve the objectives.
3. The interviewers should ask only the questions related to the job to be filled.
4. The interviewer should create a rapport with interviewee before starting the interview.
5. The interviewees are to express their opinions or views freely without any hesitation.
6. The tension or nervousness of the interviewees is to be removed by the interviewer.
7. The interviewer should listen to the answers given by the applicants carefully.
8. The evaluation of performance of the applicant is to be done immediately after the interview is over.
9. The interviewer should thank the applicants while closing the interview. This carries much better impression about the interview and the interviewer.

### Process of interview:



### Kinds of interview:



### 1. Direct interview:

Straight questions are put before the applicant to get answers from them. Face to face conversation.

### 2. Indirect interview:

Questions are not raised but the applicant is asked to express his views freely on any topic as he likes. By this the personality is easily assessed.

### 3. Patterned interview:

A number of standard questions are framed well in advance which are to be put before the applicant. The answers are written near the questions. These are used for verification purpose when answers are given by the applicant during the interview.

### 4. Stress interview:

Irritating questions are put before the applicant by the interviewer. If any applicant gets angry then he is considered as unfit for the job.

e.g."How many legs an eight legged insect have?" or "Mr. Laxman, what is your name?"

### 5. Systematic in-depth interview:

Under this type of interview, the interviewer asks any one question initially. Then he proceeds step by step to get an integrated view of the skill and personality of the candidate.

### 6. Board or panel interview:

A group of persons ask the applicant questions in the area of interest of the applicant. Immediately after the interview, they evaluate the performance of the applicant based on his answers.

### 7. Group Interview:

It may be otherwise called group discussion (GD) or house party technique. A number of applicants are interviewed simultaneously. A common topic is presented before the group. One group consists of six to eight members. Each applicant is allotted a number. They may call other members of the group by calling the concerned member's number. They are not allowed to use their names. The applicants are selected or rejected on the basis of performance in group discussion.

## 8.11 Promotion, transfer and job rotation

---

Promotion may be defined as the placement of an employee to a better job which results in extending prestige, salary, powers, duties, responsibilities. It requires more knowledge and skills to perform the job.

Higher posts and key posts are filled up by the management through promotion policy. This promotion policy persuades the employees to be loyal to the management.

The basis for promotion may be competence or seniority. Seniority refers to the service of more number of years in the same organization. Competence refers to the accomplishment of a particular job more effectively than the other employees.

Whenever the management fixes competence as the basis for promotion, all the employees including seniors are ready to increase their knowledge and skills to get promotion. If the promotion is denied to senior people, they do not devote full attention to their jobs. Unfit persons may be eligible for promotion if only seniority is the basis for promotion.

Hence, seniority should be the basis for promotion for a job which does not require much competence. Competence should be the basis for the job which requires professional skills.

Whenever a vacancy is to be filled up internally, it is filled up by transfer of the same cadre person in the organization. In many cases, transfers motivate the people because they may not be enjoying the work in earlier positions.

It can also be filled up by job rotation. E.g. a production manager working there for ten years can be transferred to planning department. Due to the change in job, the employee gets refreshed and motivated because he is able to increase his competence and to contribute better because of his experience so his ideas are fresh and innovative. Job rotation also improves multi-skills in the organization.

### Promotion Policy:

1. The policy should be widely published and strictly adhered to.
2. Each and every employee should work in all jobs in the organization to get thorough knowledge and experience.
3. A detailed and accurate job description and job specification should be prepared for each job. The employees should know the qualifications and experience required for each job through job description and job specification.

4. Promotion is given to any employee through widest publicity.
5. Employees are permitted to acquire qualifications and experience through job training, vocational courses etc.
6. Performance, behavior, skills, suitability for the job should be the basis for promotion.
7. Promotion should be recommended by line officers and approved by top management.
8. If promotion is denied to somebody, he has the right to represent his views and opinions.
9. The promotion should have employee's consent.

### 8.12 Case example

---



The executives of McDonald's find that recruiting is a tough sell. The industry is taking a beating from an increasingly health conscious society. Equally troublesome is a further decline in the image of employment in a fast food restaurant. A job in this company is a low paying, low prestige, dead end, mindless service job in which the employee's work is highly regulated.

McDonald's has tried to improve its employment image by improving wages and adding some employee benefits. A few years ago, it created the "I'm loving it" campaign, which aimed at a positive image of the golden arches for employees as well as consumers. The campaign had some effect, but the McDonald's executives realized that a focused effort was needed to battle the company's image.

Now the company is fighting back with a "My First" campaign to show the public and prospective job applicants that working at McDonald's is a way to start their careers and develop valuable life skills. It is a TV commercial showing successful people from around the world whose first job was at fast food restaurant.

McDonald's also hopes that the new campaign will raise employee pride and loyalty and the word of mouth campaign of the employees would recruit more of their friends and acquaintances in the company.

So far, the campaign has got the desired result. The company's measure of employee pride has increased by 14%, loyalty scores are up by 6% and 90-day employee turnover for hourly staff has dropped by 5%.

For many years, it has been an innovator in recruiting retirees and people with disabilities. The most recent innovation at McDonald's called the family contract, allows wives, husbands, grandparents and children over the age of 16 to swap shifts without notifying management. It is potentially a recruiting tool because family members can now share the same job and take responsibility for scheduling.

Even with these campaigns and human resource changes, some senior executives feel that entry-level positions are not a lifestyle job. Most of the workers are students who are doing a complementary job.

### 8.13 Activities for the students

#### Activity A

In order to reduce the attrition rate in IT industry, what kind of promotion, transfer and job rotation policy you will recommend?

---

---

---

---

---

#### Activity B

Rate all the interview processes on the scale of 1 to 10. Which interview process gets highest rating and why?

---

---

---

---

---

### 8.14 Summary

---

The staffing function includes recruitment, selection, training and development, transfer, promotion and compensation of personnel. Effective recruitment and selection, proper placement, satisfactory transfer and promotion are some of the elements of staffing. Staffing involves human resources management and although it is very important, it is often the most neglected function. If staffing is not taken care, the organization faces many problems. The belief system or value system of the person entering the organizations should match the value system of the organization. The human beings are not a cost to the company; on the other hand, they are the investment for the future.

### 8.15 Self-assessment questions

---

1. Which source of recruitment is most popular in the present scenario?
2. Mention the stages in selection procedure.
3. Discuss the importance of promotion.

### 8.16 Multiple Choice Questions

---

1. The period of service is fixed by the company and it is conveyed to the staff members.
  - a. Field trips
  - b. Leasing
  - c. Waiting list
  - d. Advertisements
2. A specific format is followed by the organization for selection process.
  - a. Aptitude test
  - b. Efficiency test
  - c. Standards
  - d. Blank application

3. Interviewer may say-----to the applicants while closing the interview.

- a. Bye
- b. See you
- c. Thanks
- d. Good evening

4. Placement of the employee for a better job which results in extending prestige, Salary and powers.

- a. Transfer
- b. Promotion
- c. Increment
- d. Recruitment

5. Group interview may be otherwise called as:

- a. Stress interview
- b. Patterned interview
- c. Indirect interview
- d. Group discussion

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

At the end of the chapter, you will be able to have knowledge about departmentation, related various aspects, need for departmentation, factors, departmentation by various parameters.

## **Structure**

- 9.1 Introduction
- 9.2 Process of departmentation
- 9.3 Need and importance of departmentation
- 9.4 Factors in departmentation
- 9.5 Basis of grouping diverse activities
- 9.6 Patterns of departmentation
- 9.7 Activities for the students
- 9.8 Summary
- 9.9 Self assessment questions
- 9.10 Multiple choice questions

### 9.1 Introduction

---

Departmentation is a process to understand how an organization is made manageable. We have seen various functions of management viz. Planning, Organizing, staffing, directing, coordinating and controlling. Departmentation is a part of organizing process. Organizing means putting resources together to achieve organizational goals. **Organizing has to be done for all the four M's viz. Man, machine, material and money.** When the organization grows, it becomes complex. Departmentation is needed when we want to handle complexity.

Departmentation involves grouping of common activities and resources under a single person's control required for pre-determined activity. The activities are grouped on the basis of functions of the organization. This work is done by the Chief Executive of the Organization.

We shall discuss an example of photocopying machines in various sections. The photocopying machine in marketing section is overloaded and the utilization is 125%. The photocopying machine in finance section has the utilization of 100%. The photocopying machine in HR section has the utilization of 60% and the photocopying machine in production section is utilized to only 10%. We see that there is machine idle time in three sections and in one section; there are queues of people waiting for photocopying. Can the marketing people go to other sections? It depends on the management policy. Marketing people can also go out to make photocopies.

Actually it is prudent to have a photocopying department with may be two machines only with one person who will cater to all the organization for their photocopying requirements. This is departmentation which turns complexity into simplicity.

However, **it is a must to utilize the resources optimally.** If the departmentation is done, it must facilitate resource optimization. If this is not possible, then departmentation will not serve its purpose.

Departmentation means the process by which similar activities of the business are grouped into manageable units for the purpose of facilitating smooth administration at all levels. It means chunking down from macro into micro activities. For example, a sandwich seller is able to manage his small business without departmentation. However, when his business grows and he starts selling many other varieties of fast food, his business will become complex and then he must go for departmentation. However, he must make it sure that the resources are

## Chapter 9 - Departmentation

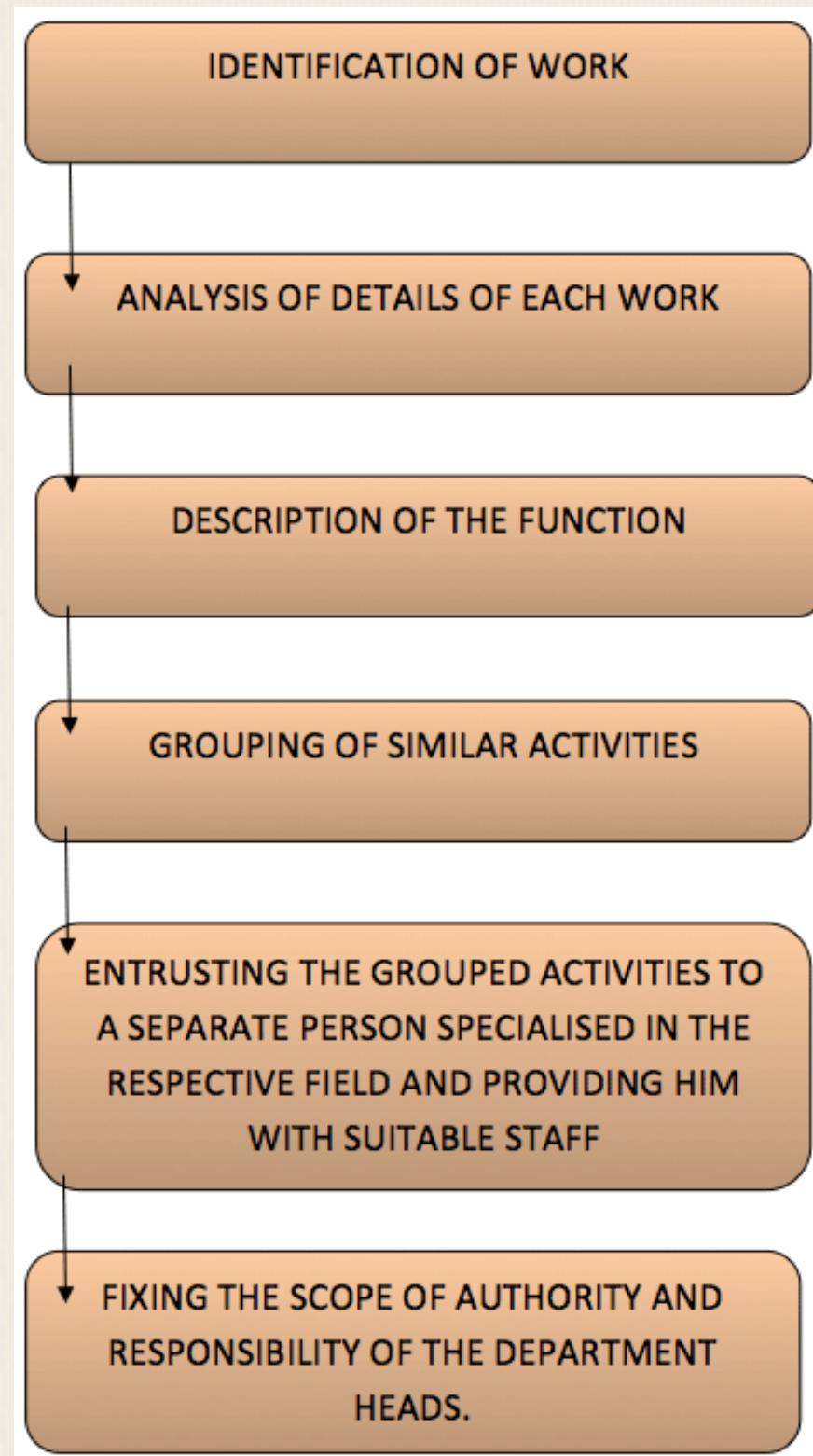
utilized fully. It should not happen that in one department, people are idling and there is no sale and the resources are underutilized.

Another example is of a big finance company. It expands and creates many branches in the same city. However, it is found that half of the branches do not have any footfall. The resources viz. men, materials and machines are idling. Then the business will be in a loss. It can be like that proverb: "Operation successful, patient dead."

As per Koontz and O'Donnell, departmentation is a process of dividing the large monolithic functional organization into small and flexible administrative units. Departmentation refers to classification of activities on operations of an undertaking into functionalized categories.

Departmentation is very essential in the modern business world. All the business activities cannot be looked after by a single individual. The classified activities bring in specialization and managerial convenience. It ensures suitable span of control. It ensures proper directions to personnel and control on them.

## 9.2 Process of departmentation



### 9.3 Need and importance of departmentation

---

Departmentation increases the operating efficiency of the employees because it facilitates the grouping of activities which are of similar nature.

There is a fixation of responsibilities to various executives of the organization. It makes the executive to be alert and efficient in his duties.

The departmental heads are given certain powers and are allowed to take their own decisions. It increases the prestige and skill of the departmental heads.

The work of various departments is evaluated by the top management and the department which is not managed properly is identified. This makes all the departmental heads efficient and alert.

There is a possibility of expansion of the organization because of fixing of the responsibilities to the executives and there is function-wise departmentation.

Departmentation gives other advantages such as facilitating budget preparation, effective control of expenditure, attaining specialization, better cooperation among the managerial personnel.

#### 9.4 Factors in departmentation

Departmentation should yield the advantages of specialization. Specialization may be functional such as sales, finance, production and personnel.

There should be a proper control under departmentation and simplification of control process. There should be scope for automatically checking the activity of one person by another person, a separate executive.

The whole business activities are grouped department-wise and it requires coordination. The purchase department should be located near the production department. This will facilitate easy **coordination**.

An **unusually important activity** of the business should be recognized. If **greater attention** is necessary, the activity may be entrusted to a separate division or a higher level of organization according to its importance.

The departmentation should take into consideration the local conditions of the place concerned.

**Economy:** It should be borne in mind that expenses are incurred in the creation of separate departments. It means avoiding unnecessary expenditure and allowing essential expenditure.

## 9.5 Basis of grouping diverse activities

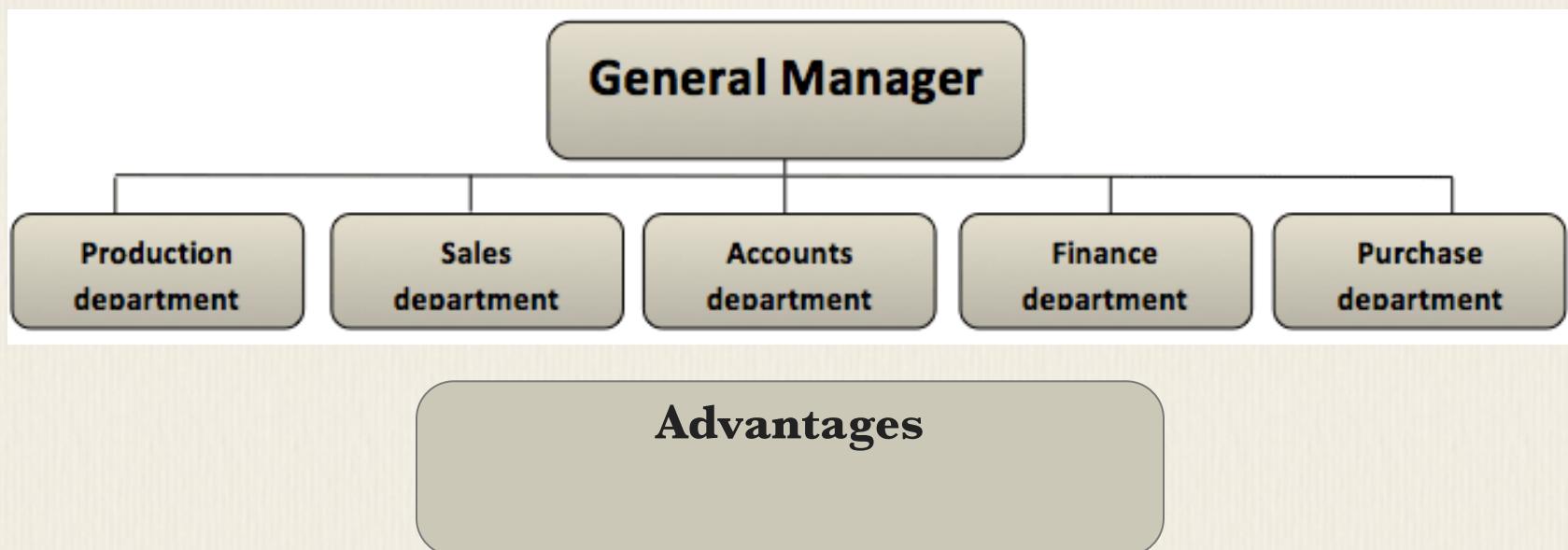
---

1. Maximum use: A given activity will be attached to the major department which makes most use of it. For example, the usage of warehouse and the entire traffic management might be placed with the production department.
2. Interest: A superior is told to look after a new activity if he is most willing and able to serve. For example, a person who is working in the sales department prefers to work in the accounts department. If such a chance is offered to any person, he can perform the activities with great interest.
3. Competition: The prevailing competition-the competition between two sales departments or two production departments-is desirable. Team spirit also may be developed whenever grouping of activities takes place. Competition destroys the enterprise as a whole if a single person is appointed to work for sales departments of both parent and sister concern.
4. Policy matter: A particular activity may be assigned to a department which evinces more interest in the unit. For example, sanctioning of credit to the customer and collection of debt from the debtors may be given to finance department instead of sales department as a matter of policy.
5. Separation: The maximum division of activities involves high cost of operation to the management. But it is essential when an activity is complicated due to several functions.
6. Proper attention: If an ordinary activity is assigned to higher officials who do not consider it as important, they will not derive satisfaction in the performance of that activity. Proper attention should be given for this aspect.
7. Coordination: If the organization's activities are grouped into several departments, there is a need for coordination of various activities. Such a coordination work is entrusted to the general manager.

## 9.6 Patterns of departmentation

### 1. Departmentation by functions

The most commonly followed basis of departmentation is by functions. The activities are grouped on the basis of functions which are to be performed. The following chart is for departmentation by functions:



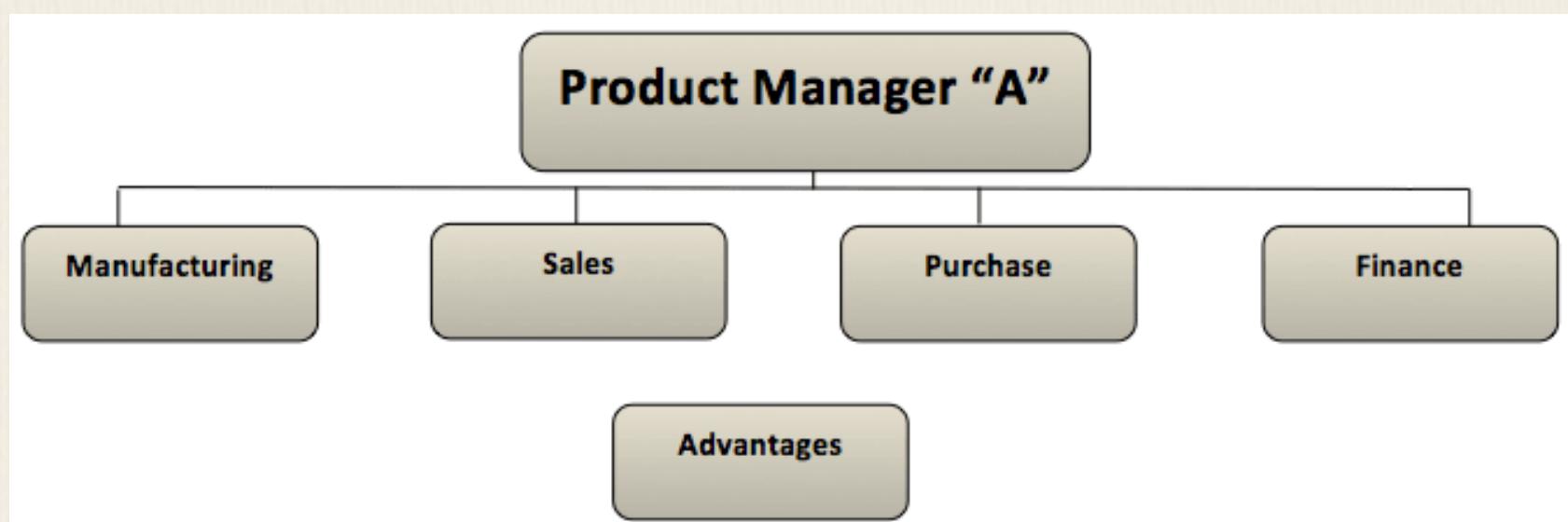
1. It is a scientific and time tested method.
2. It follows the principles of specialization and division of labor.
3. It ensures proper performance control.
4. It preserves the importance of each of the activities of the organization.
5. It avoids interruptions of subsidiary groups in the primary activities.
6. Due weightage and prestige are given to the departmental managers and they are respected by top management people.
7. It facilitates coordination activity within the department itself and the organization as a whole.
8. It is economical, simple and easy to understand.
9. It helps the utilization of manpower and other natural resources of the organization.

## Disadvantages

1. The departmental managers are expert in handling the problems in their departments alone. They may not be able to understand the problems of other departments.
2. The departmental heads consider themselves to be autonomous sections and will not look upon the undertaking as one unit.
3. It increases the workload and responsibility of department managers.
4. It does not offer any scope for overall development of managers.

## 2. Departmentation by product or service

This type of departmentation is done by large scale business units. A single business unit may manufacture and sell different types of products. Then each type of product or service is allocated to a separate department. Functionalized units for each product are created within the general structure of the organization. Manufacturing, sales, finance and personnel functions are arranged separately for each type of product. Each department is responsible for manufacturing a product and selling it to customers. Grouping all the activities are planned in advance within each product section. The coordination function is performed by the top management.



### Advantages

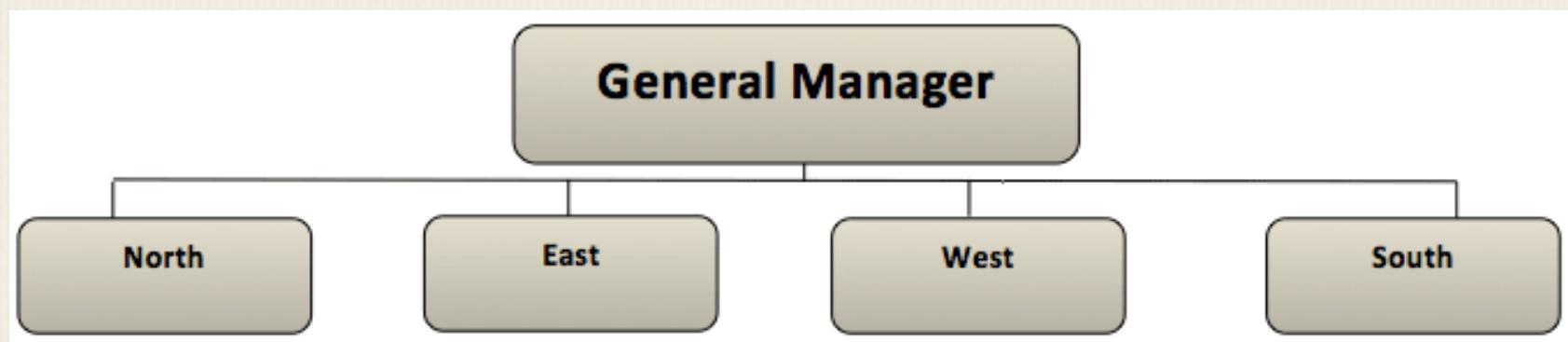
1. Maximum utilization of personal efficiency of workers in the area of manufacturing and marketing of product.
2. There is possibility of gaining economy in manufacturing and marketing of products on account of large scale operation.
3. Better services to the customer.
4. The profitability of each product is known to the management. So it is easy to fix responsibility on the department heads.
5. Proper attention can be devoted to the manufacture of the product.
6. All the functions pertaining to the manufacture of a particular product are performed by managers. Then there is possibility of effective coordination and control.
7. A new line of product can be introduced without any difficulty.

### Disadvantages

1. There is danger of duplication of work.
2. It increases the number of personnel which in turn increases the cost of operation.
3. It requires additional cost for maintaining a sales force for each type of product.
4. In proportion to increase in the number of employees, the control at the executive levels becomes difficult.
5. Machines and equipments in each product department may not be utilized fully.

### 3. Departmentation by region or area

This type of departmentation may be suitable for a business unit which is wholly dispersed. The business activities are grouped area-wise and a single person is made in-charge of the respective area. The local persons are appointed as salesmen in each area. It helps the business unit to increase the sales. The reason is that the local person is familiar with the local language, culture and preferences of the customers.



#### Advantages

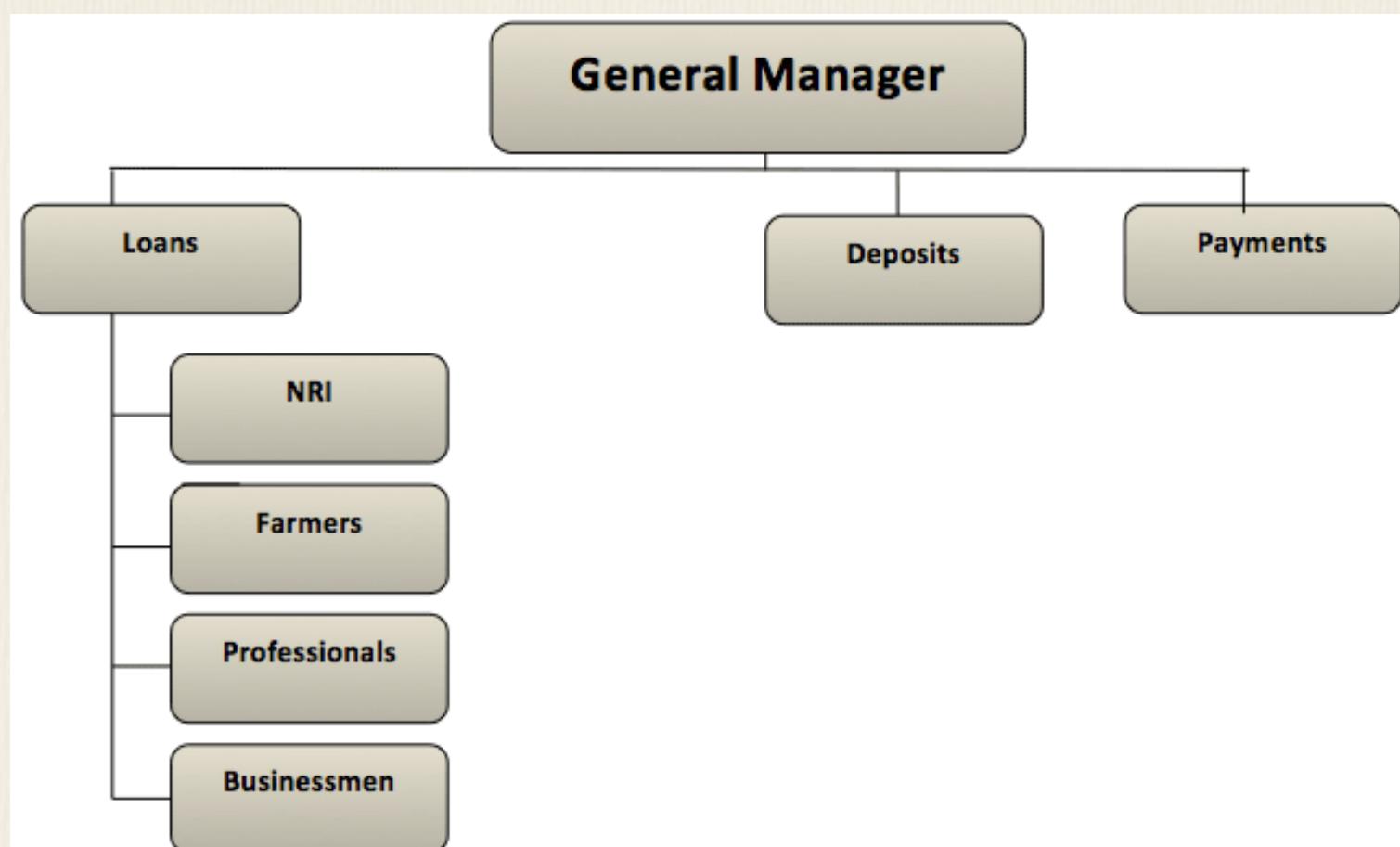
1. It makes possible an effective span of control.
2. It reduces cost of operation and gains saving in time.
3. The sales can be increased with the help of intimate knowledge about the tastes and preferences of the customers in local market.
4. Regional managers can win the confidence of customers and remove competitors from the market.
5. Accounts are prepared area-wise. So, profitability of each area is known to the management very clearly.
6. It provides opportunities to managers to improve their skills in various fields.
7. It is suitable for large scale business unit.
8. Control process is very easy to manage.

### Disadvantages

1. It increases number of personnel and involves high cost of operation.
2. The control of head office is less effective.
3. It may involve duplication of work.
4. A small business concern cannot manage the high cost of operation.

### 4. Departmentation by customers

This type of departmentation is preferred when the various needs of customers are different in nature. For example, a bank or a financial institution may divide its loan section into number of heads and assign them to various departments such as loans to NRIs, farmers, businessmen, professionals and so on. Similarly, the sales department could be divided into industrial goods and consumer goods. The consumer goods could again be sub-divided into perishable and non-perishable goods.



### Advantages

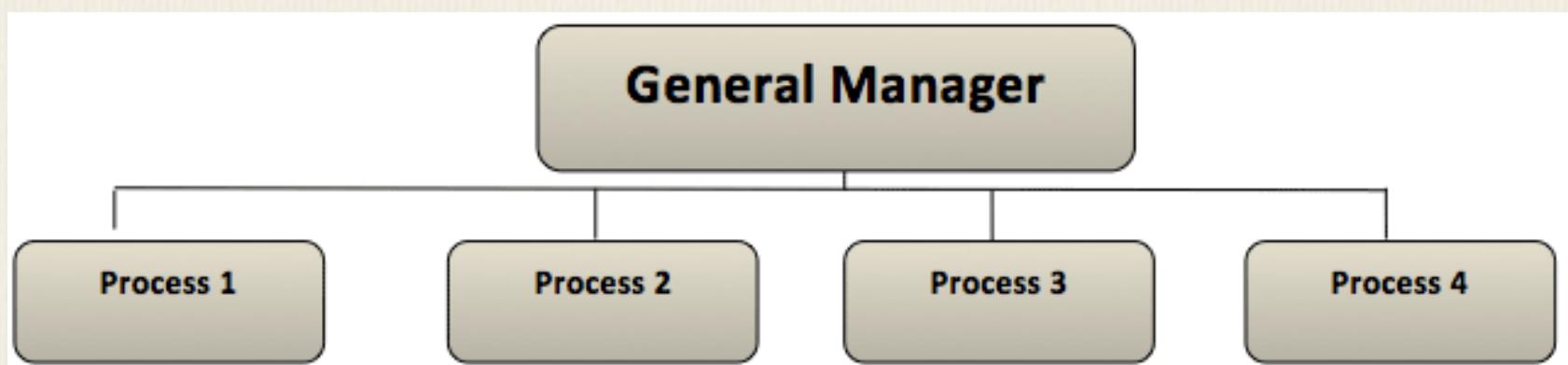
1. It fulfills expectations and needs of the customers.
2. It develops specialization among the organizational staff.
3. Each section of the customer is able to get better service from the company and helps the company to win the goodwill of its customers.

### Disadvantages

1. There may be duplication of activities.
2. Coordination is very difficult.
3. There is wastage of available resources and facilities.
4. The production activities cannot be organized under this method.
5. Cost of operation is high.

### 5. Departmentation by process

This type of departmentation is preferred when the production activities are carried on in many places. For example, a textile mill has many departments such as ginning, spinning, weaving, dyeing and printing, packing and sales. Each section will be looked after by a specialized person.



### Advantages

1. The expensive machines can be utilized effectively.
2. There is no interruption in the other departments or other production processes. The requirement and renewals of any process cannot affect the production of other processes.
3. There may be economy in operation.
4. There is no duplication of activities.
5. The principle of specialization and division of labor is followed.
6. It helps the top management to have effective performance control.
7. It is more suitable to any business unit which manufactures a product passing through a number of processes.

### Disadvantages

1. It involves heavy cost of operation since separate places have to be given for operation and other facilities.
2. More specialists are essential to each process.
3. It does not give good training to staff members and there is lack of overall development of the managerial talents.

### 6. Departmentation by time

The business activities are grouped together on the basis of time of the performance. If the work is not completed within the normal working hours, extra time is given to complete it after the normal working hours. Only interested persons are told to do the job and one person is responsible to supervise them. Whatever be the work performed after the normal working hours, a separate

department is in-charge of that. This departmentation is known as Departmentation by time.

### **7. Departmentation by numbers**

Small groups perform similar duties. Each group is supervised by a supervisor. E.g. in army, soldiers are grouped into squads, battalions, companies, brigades and regiments on the basis of allotment of men to each unit. The principles of span of management span of control or span of supervision is used under this type of departmentation.

### **8. Departmentation by marketing channels**

As business has become increasingly market oriented, this method of departmentation has grown in importance. It is adopted on the basis of channel of distribution chosen by the particular business unit on the basis of nature of goods and marketability of the product.

## 9.7 Activities for the students

---

### Activity A

Visit a nearby company to find out their pattern / basis of departmentation.

---

---

---

---

---

---

---

### Activity B

Prepare a write up on departmentation by marketing channels, because it has grown in importance as business has become increasingly market oriented. Visit a nearby company to find out how they are doing this.

---

---

---

---

---

---

---

### 9.8 Summary

---

Departmentation involves grouping of common activities and resources under a single person's control required for pre-determined activity. The activities are grouped on the basis of functions of the organization. This work is done by the Chief Executive of the Organization.

However, it is a must to utilize the resources optimally. If the departmentation is done, it must facilitate resource optimization. If this is not possible, then departmentation will not serve its purpose.

### 9.9 Self-assessment questions

---

1. Make short notes on:
  - Need and importance of departmentation.
  - Departmentation by customers and by time.

### 9.10 Multiple Choice Questions

---

1. Departmentation is a process to understand how an organization is made-----.
  - a. Easy
  - b. Manageable
  - c. Suitable
  - d. To achieve goals
2. The purchase department should be located near the production department. This will facilitate easy -----.
  - a. Management
  - b. Coordination
  - c. Activity
  - d. Purchase

## Chapter 9 - Departmentation

3. It should be borne in mind that expenses are incurred in the creation of separate departments. It means avoiding unnecessary expenditure and allowing essential expenditure.

- a. Economy
- b. Saving
- c. Budgetary control
- d. Careful planning and organization

4. This type of departmentation is preferred when the production activities are carried on in many places. Departmentation by:

- a. Process
- b. Function
- c. Customer
- d. Numbers

5. In army, soldiers are grouped into squads, battalions, companies, brigades and regiments. This is the departmentation by:

- a. Process
- b. Function
- c. Time
- d. Numbers

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video\*\*](#)



## Principles of Management



### Objectives

At the end of this chapter, you will be able to have knowledge about direction and its principles, characteristics of good order.

## **Structure**

- 10.1 Introduction
- 10.2 Principles of directing
- 10.3 Issuing orders or instructions
- 10.4 Characteristics of a good order
- 10.5 Techniques of directing
- 10.6 Importance of directing
- 10.7 Activities for the students
- 10.8 Summary
- 10.9 Self assessment questions
- 10.10 Multiple choice questions

### 10.1 Introduction

---

Directing is a process of top down approach. It is a vertical process in which orders come from top for the subordinates to follow. Directing is person-centric. That's why we often see that one boss is very effective because of his proper directions and the other one is not so effective because of his wrong way of handling things.

Direction is a management function performed by top level officials of management. Directing, though top down approach, is actually a two way approach, i.e. orders come top down, and the feedback goes bottom up.

Direction is necessary to achieve proper implementation of goals. Direction consists of processes and techniques utilized in issuing instructions and making certain that operations are carried out as originally planned.

### 10.2 Principles of directing

---

1. Harmony of objectives: Individuals have their own objectives. Organization also has its own objectives. The management should coordinate the individual objectives with Organization objectives. Direction should be such that individuals can integrate their objectives with Organization objectives.
2. Maximum individual contribution: Every member's contribution is necessary for the organization's development. Hence the management should adopt a technique of direction which enables maximum contribution by the members.
3. Unity of direction or command: An employee should receive orders and instructions only from one superior. If not so, there would be indiscipline and confusion among the subordinates and disorder will ensue.
4. Efficiency: The subordinates should participate in the decision making process so that they would have a sense of commitment. This will ensure implementation of decisions and will increase the efficiency of subordinates.
5. Direct supervision: Managers should have direct relationship with their subordinates. Face to face communication and personal touch with subordinates will ensure successful direction.
6. Feedback: Direction does not end with issuing orders and instructions to subordinates. Suggestions given by subordinates are necessary for the

development of management. So development of feedback system furnishes reliable ideas to the management.

7. Effective communication: The superior must ensure that plans, policies and responsibilities are fully understood by the subordinates in the right direction.
8. Appropriateness of direction technique: There are three direction techniques available to the management. They are: authoritarian, consultative and free rein. But the direction techniques should be selected according to the situation.
9. Effective control: The management should monitor the behavior and performance of subordinates to exercise effective control over them. Effective control ensures effective direction.
10. Comprehension: The extent of understanding by subordinates is more important than what and how orders are communicated to them. This is very useful in proper direction of subordinates.
11. Follow through: Direction is a continuous process. Mere issuing orders or an instruction is not an end itself. Direction is necessary. Hence the management should watch whether the subordinates follow the orders and whether they face difficulties in carrying out the orders or instructions.

### 10.3 Issuing orders or instructions

---

An order is used by the management as a tool for direction. An order can be issued only by a superior. The supervisor has the right to enforce this order over his subordinates. In the words of Koontz and O'Donnell, "As a directional technique, an instruction is understood to be a charge by a superior requiring a subordinate to act or refrain from acting in a given circumstance."

### 10.4 Characteristics of a good order

---

1. An order should be reasonable and enforceable over subordinates.
2. A clearly defined order should be easily understandable.
3. An order should be such that it facilitates the achievement of objectives of the organization.
4. An order should be complete in all respects.

5. An order should encourage the subordinates to willingly accept it.
6. A written order is preferable to an oral one.
7. Appropriate tone is used by the superior while issuing an order.
8. An order should specify time within which a job should be completed.
9. An order should be intelligible, which means it should be easily understood.

### **10.5 Techniques of directing**

---

There are three techniques of direction followed by the management. They are briefly explained as follows:

1. Consultative direction:

The superior has consultation with his subordinates before issuing a direction. The consultation is made to find out the feasibility, enforceability, and nature of problem. It does not mean that the superior is not capable of acting independently. Ultimately the superior has the right to take any decision and give the directions. The cooperation of employees is necessary for successful implementation of any direction. Under this direction technique, employees are motivated and have high morale.

2. Free rein direction:

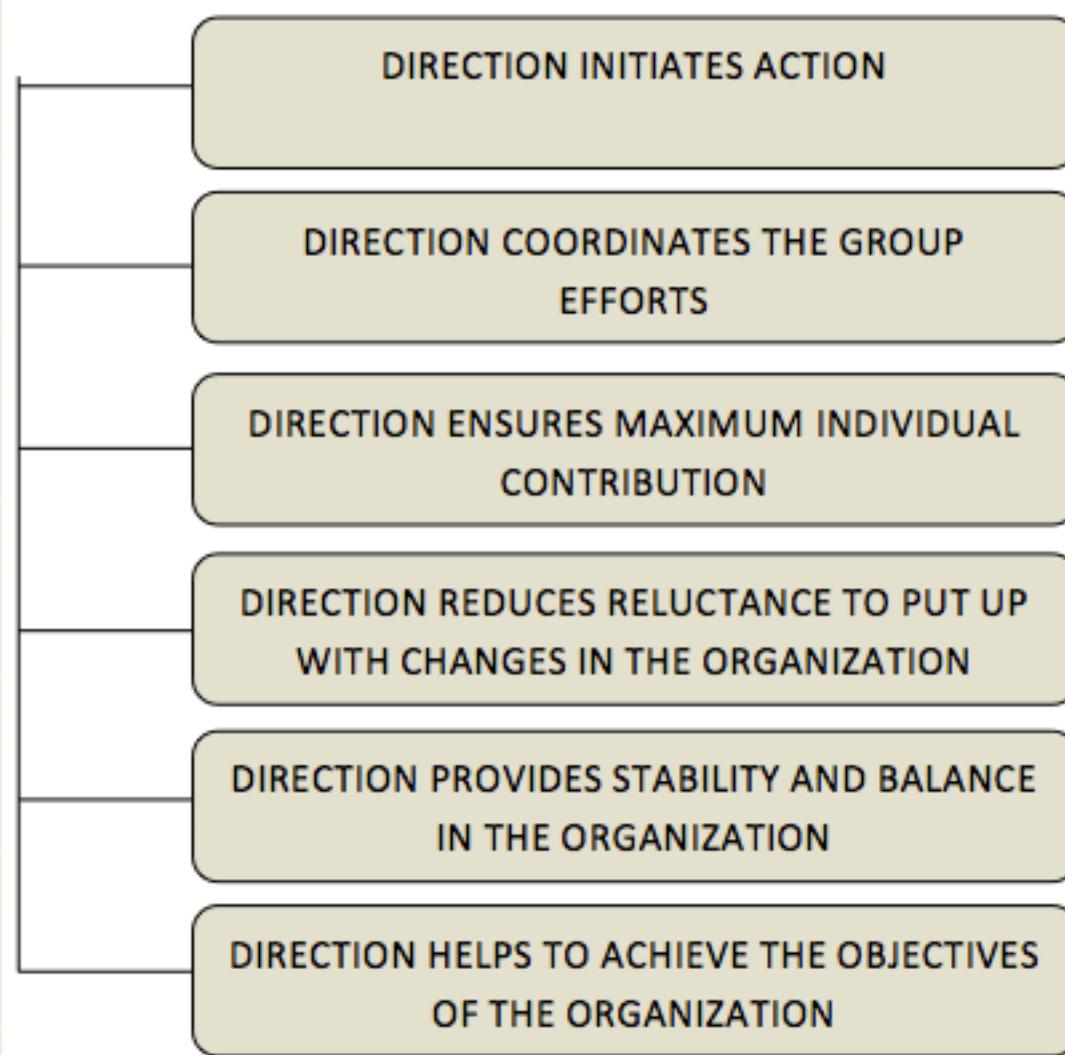
The subordinate is encouraged to solve the problem independently under this direction technique. The superior assigns the task in a general manner. The subordinates are expected to take initiative to solve the problem. Only highly educated, efficient and sincere subordinates are required apply this direction technique.

3. Autocratic direction:

The direction is just opposite to free rein direction technique. Here the superior commands his subordinates and has close supervision. The superior gives clear and precise orders to his subordinates and acts accordingly. There is no way left to the subordinates to show their initiatives.

## 10.6 Importance of directing

---



## 10.7 Activities for the students

---

### Activity A

Consider that you are a CEO of an IT company. Which technique of direction will you will adopt?

---

---

---

---

---

---

---

---

### Activity B

As a director of a multinational company, you have to arrange a meeting of customers on coming Monday. Make a list of orders which you will give to your subordinates.

---

---

---

---

---

---

---

---

## 10.8 Summary

---

Direction is a management function performed by top level officials of management. Directing, though top down approach, is actually a two way approach, i.e. orders come top down, and the feedback goes bottom up.

Direction is necessary to achieve proper implementation of goals. Direction consist of processes and techniques utilized in issuing instructions and making certain that operations are carried out as originally planned.

## 10.9 Self-assessment questions

---

1. Discuss the importance of direction.
2. Discuss the principle of direction.

## 10.10 Multiple Choice Questions

---

1. An employee should receive orders and instructions only from one superior.
  - a. Efficiency
  - b. Direct supervision
  - c. Unity of direction or command
  - d. Harmony
2. The extent of understanding by subordinates is more important than what and how orders are communicated to them.
  - a. Harmony
  - b. Team work
  - c. Comprehension
  - d. Communication
3. A clearly defined order should be easily -----.

## Chapter 10 - Directing: Vertical Process

- a. Followed
  - b. Obeyed
  - c. Done
  - d. Understandable
4. The subordinate is encouraged to solve the problem independently under this direction technique.
- a. Free rein direction
  - b. Autocratic direction
  - c. Consultative direction
  - d. Democratic direction
5. An order should be -----, which means it should be easily understood.
- a. intelligent
  - b. intelligible
  - c. intellectual
  - d. interesting

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video\*\*](#)



## Principles of Management



### Objectives

By studying this chapter, you will be clear about need, importance and principles of coordination.

## **Structure**

- 11.1 Introduction
- 11.2 Definition
- 11.3 Features or characteristics of coordination
- 11.4 Need and importance of coordination
- 11.5 Principles of coordination
- 11.6 Techniques of coordination
- 11.7 Types of coordination
- 11.8 Problems in coordination
- 11.9 Steps for effective coordination
- 11.10 Coordination and cooperation
- 11.11 Leadership
- 11.12 Case example
- 11.13 Activities for the students
- 11.14 Summary
- 11.15 Self assessment questions
- 11.16 Multiple choice questions

## 11.1 Introduction

---

Coordination is a team effort. Coordination means people coming together, particularly people from dissimilar sections coming together. We have already discussed about the directing function. Directing and coordinating are complementary functions. Directing is a vertical function. Directions, instructions, commands flow top down manner. E.g. HOD of Finance gives directions and instructions to his subordinates in finance department down the line. It is a top down process. It is a vertical managerial function.

On the other hand, coordinating is a horizontal function. It creates linkages between different verticals. Coordination is a choice whereas directing is compulsion of job. Not many people like to coordinate the activities between various sections. It involves talking to persons across the line to get certain things done. It creates linkages between dissimilar functions. It unifies the work of one section with some other section.

By virtue of our respective function, although we learn coordinating and directing to some extent, it requires skill to understand each other. This skill is not there with many managers, and so they do not become good leaders. To become a good leader, we need to be very good in coordination.

## 11.2 Definition

---

Coordination is defined as balancing and keeping the teams together by ensuring a suitable allocation of working activities to the various members and seeing that these are performed with due harmony among the members themselves.

It is particularly applicable when two or more teams with dissimilar functions need to achieve the results jointly.

## 11.3 Features or characteristics of coordination

---

### 1. Managerial responsibility:

Every departmental head is responsible to coordinate the efforts of his subordinates. It is inherent in the managerial job and responsibility.

### 2. Provides unity of action:

Unity of action is necessary to achieve common objectives. So, it is the heart of coordination process.

### 3. Necessary to all levels:

Coordination is not brought by force or left to chance. Hence, the top executives should take deliberate efforts to bring coordination at all levels of organization.

### 4. Relevant of group efforts:

Group efforts rather than individual efforts are necessary to bring coordination. An individual cannot work without affecting the functions of others. It emphasizes group efforts.

### 5. Continuous and dynamic process:

Coordination starts with planning process and ends with controlling process. In every organization, a certain kind of coordination exists. Special efforts should be taken by the management to achieve high degree of coordination.

### 6. System concept:

An organization is a system of cooperative efforts. Functions of each department are different in nature and have inter-dependence in the organization system. The organization runs smoothly with the help of coordination. The coordination is a system concept.

## **11.4 Need and importance of coordination**

---

### 1. Unity in diversity:

There are large numbers of employees and each employee has different ideas, views, opinions, activities, and background. Thus, there is a diversified activity in a large organization which will be inefficient in the absence of coordination.

### 2. Team work or Unity of direction:

The efforts, energies and skills of various persons should be integrated as group efforts to achieve the objectives of organization. In the absence of coordination, the group efforts are diversified and fail to achieve the objectives.

### 3. Functional differentiation:

The organizational functions are divided department-wise or section-wise or division-wise. Each department performs different jobs. They are necessary to achieve the general objectives. Coordination ensures definite achievement of objectives. Each department tries to perform its function in isolation from others.

It creates a problem. Therefore coordination is necessary to integrate the functions of the related departments.

### 4. Specialization:

There is a high degree of specialization in the modern industrial world. Specialists know thoroughly about their respective fields. They are able to judge the scope, nature and kind of work they perform. But they do not know the job of others and the importance of their performances. This tends to cause a dispute among the specialists. Such disputes could be solved with the help of coordination.

### 5. Reconciliation of goals:

Each department has its own goals to achieve within the stipulated time. There are general goals in relation to an organization. The employees who are working in the organization also have their goals. Employees give more importance to their own goals than to their departmental or organizational goals. Similarly, the department members give more importance to their own departmental goals than to the organizational goals. Coordination reconciles the employees' goals with both departmental and organizational goals.

### 6. Large number of employees:

They have different habits, behavior and approaches in a particular situation. Sometimes they do not act rationally. Their behavior is sometimes unpredictable and is not well understood. There is every possibility of problems arising in a complex organization. All this makes coordination very essential.

### 7. Congruity of flows:

It means continuous flow of similar information from one direction to other directions. Information regarding utilization of resources, activities, using of authority, and output is made to flow in an organization. Coordination ensures smooth and continuous flow of information.

### 8. Empire building:

The officers of the top portion of line organization always expect cooperation from staff officers. However, the line officers are not ready to extend their cooperation to staff officers. It creates conflicts between them. Therefore, coordination is necessary to avoid conflicts between the line and staff officers.

### 9. Differentiation and integration:

The whole activity of every organization is classified into two units. They are specialized and homogeneous units. Authority is delegated to the various units of

organization. This is necessary to achieve group efforts. Coordination facilitates the process.

### 11.5 Principles of coordination

---

#### 1. Early start:

The coordination should be started right from the planning function of management. The management should prepare the plan after consulting the concerned officials. By this, preparation of plan and its implementation will be very easy for the management and there will not be any resistance from the concerned officials.

#### 2. Personal contact:

An agreement may be arrived at on methods, actions and achievement of objectives through personal contact. Ideas, views, opinions, recommendations, feelings etc. are conveyed to the receivers effectively through personal contact. Personal contact avoids controversy and misunderstanding. Thus coordination is achieved through cooperation and mutual understanding and not by force, order or coercion.

#### 3. Continuity:

Coordination is must so long as the organization continues to function. Coordination is a key stone of the organization structure. Coordination starts with planning and ends with controlling.

#### 4. Reciprocal relationship:

The principle states that all factors in a situation are reciprocally related. Each factor influences other factors which are influenced by other factors. Thus, the action of one employee influences the action of other employees and vice versa. So there is a need for integration of all efforts, actions and interests. Coordination is the answer.

#### 5. Dynamism:

The external environment of business influences the internal activities of the business. Besides, the internal activities and decisions are changed according to the circumstances prevailing. So, coordination is modified according to the external environment and internal actions and decisions. Thus, coordination should be dynamic.

### 6. Simplified organization:

It facilitates effective coordination. The management can arrange the departments in such a way that better coordination prevails among the department heads. If the functions of two departments are similar, these are put under one executive in-charge. This facilitates to get better coordination. Sometimes two departments having dissimilar functions are handled by one executive. This will also ensure better coordination.

### 7. Self coordination:

According to this principle, the function of one department is affected by other department and vice versa. So this department modifies its functions in such a way that it may affect other departments favorably. Coordination is achieved by this way. There is a need for effective communication to get self coordination.

Effective communication facilitates a department to appraise the functions of other departments.

### 8. Clear cut objectives:

The departmental heads should know the objectives of the organization clearly. So the management should take necessary steps to explain the objectives to the department heads. This is very useful in achieving the common objectives of the organization collectively.

### 9. Clear definition of authority and responsibility:

The management should clearly define the authority and responsibility of each individual and of each department. This will facilitate effective coordination in an organization.

### 10. Effective communication:

It is necessary for proper coordination. The individual and departmental problems are solved with the help of coordination.

### 11. Effective leadership:

Effective leadership also helps in proper coordination. Leadership creates confidence in the minds of the people and increases the morale.

### 12. Effective supervision:

Top executives should supervise the work of subordinates to ensure successful performance as planned. Top executives may entrust this work to the supervisors. When the top executives find any deviations, they may take immediate steps to

correct them with the help of supervisors. So, there is a need for coordination between the supervisors and top executives. Thus, supervisors play a vital role in coordination.

### **11.6 Techniques of coordination**

---

#### **1. Clearly defined objectives:**

Each and every organization should have its own clearly defined objectives so that the employees of the organization are able to understand them well. Unity of purpose is a must for achieving proper coordination.

#### **2. Effective chain of command:**

In every organization, the line of authority decides who is responsible and to whom he is responsible. If the line of authority and responsibility are clearly defined, the superior has proper control over his subordinates. Then the superior or manager can coordinate the efforts of his subordinates by means of his authority. If the line of authority is clearly defined the superior can decrease the conflicts and get coordination.

#### **3. Coordination through group meetings:**

The common group of problems of an organization is discussed by the officials in group meetings. Such group meetings help in achieving coordination. The group meetings are easily convened. The reason is that there is an obligation on the part of group members to extend their coordination.

#### **4. Harmonious policies and procedures:**

Rules and regulations, procedures and programs are used as guidelines for taking a decision in a consistent manner. It ensures uniformity in action at every level of management.

#### **5. Effective communication:**

It promotes mutual understanding and cooperation among the various officials. The communication should be direct and quick. It avoids misunderstanding and misinterpretation. It also facilitates the performance of activities in time.

#### **6. Sound organization structure:**

## Chapter 11 - Coordinating: Horizontal Process

It integrates the activities of different units and sub-units in an organization. Besides, horizontal coordination is achieved with the help of Sound organization structure.

### 7. Coordination through a liaison officer:

A person who acts as a link between two persons is called a liaison officer. The external coordination is obtained through him. Many large organizations depend on this officer to maintain cordial relations with government and outsiders.

### 8. Cooperation:

Cooperation is a result of better relations among the employees of the organization. The sound policies and procedures provide a basis for better relations. Informal contacts are also encouraged to ensure coordination through cooperation.

### 9. Self coordination:

According to this principle, the function of one department is affected by other department and vice versa. So this department modifies its functions in such a way that it may affect other departments favorably. Coordination is achieved by this way. There is a need for effective communication to get self coordination. Effective communication facilitates a department to appraise the functions of other departments.

### 10. Coordination by leadership:

A manager uses his leadership skills to induce the subordinates to coordinate willingly. A leader can motivate the subordinates and identify the interests of the individuals. These are used to get coordination. Many conflicts and unpleasant situations could be avoided with the help of good leadership.

### 11. Incentives:

These mean monetary benefits. They are increments in the scale of pay, bonus, profit sharing etc. These schemes promote better coordination through team spirit.

## 11.7 Types of coordination

---

### 1. Internal coordination:

It is the establishment of relationship with a view to coordinate the activities of all the managers, executives, divisions, sub-divisions, branches and other workers. It is sub-divided into the following two types:

- Vertical coordination: A superior authority coordinates his work with that of his subordinates and vice versa.
- Horizontal coordination: This refers to establishment of a relationship between the persons of the same status. E.g. coordination between department heads, supervisors, co-workers etc.

### 2. External coordination:

It is the establishment of a relationship between the employees of the organization and outsiders of the organization. This relationship is established for the benefit of the organization as a whole. The following are the outsiders with whom an organization has to establish better relationship:

- Market agencies
- General public
- Competitors
- Customers
- Union government, state government, local self government, and other government agencies
- Institutions offering auxiliary services
- Financial institutions
- Various industrial organizations
- Technological agencies
- Various commercial organizations

The work of the establishment of a relationship between the employees and the outsiders is entrusted to a person who is designated as public relations officer.

## 11.8 Problems of coordination

---

### 3. Natural hindrances:

Calamities such as flood, earthquakes, fire affect the behavior of individuals and the group as a whole. It results in ineffective coordination.

### 4. Lack of administrative talent:

It arises due to the selection of inefficient candidates.

### 5. Lack of techniques of coordination:

Management is not interested to find new techniques for effective coordination.

### 6. Ideas and objectives:

Each management has its own objectives and it finds ideas to achieve them. However, the managers confuse these objectives with ideas. It poses the problems of coordination.

### 7. Misunderstanding:

There are number of personnel employed in an organization. They should have mutual understanding with each other. But the problem of coordination creeps in due to misunderstanding among employees very often.

## 11.9 Steps for effective coordination

---

- There should be a proper delegation of authority and responsibility of all levels of management.
- Entire activities of the organization should be divided department-wise according to the size of the organization.
- Preparing and adherence to rigid rules and regulations, procedures, policies etc.
- Establishment of an effective communication system.
- Establishment of employees' grievances cell.
- There should be a proper system for reporting.
- Skilled workers are to be rewarded adequately.
- The management should induce the employees to take active part in meetings, committees, conferences, seminars etc.

- The management should encourage the employees to have friendly relationship with others.

## 11.10 Coordination and cooperation

---

	<b>Coordination</b>	<b>Cooperation</b>
1	It is one of the functions of management	It is not a function of management.
2	An orderly arrangement of group efforts	Willingness to work with others or help others.
3	High degree of it ensures early success of an organization	Cooperation is basis for coordination
4	It is obtained officially	Cooperation is a voluntary service.
5	There is a direct link between the achievement of objectives and coordination	There is no such direct connection between cooperation and achievement of objectives.

## 11.11 Leadership

---

The success of every industrial enterprise is dependent upon the quality of its leadership. In a business enterprise, several tasks such as determining the objectives of the enterprise, designing the methods to achieve them, directing and coordinating the activities of various departments, can be successfully performed only if there is able leadership. In the words of George R. Terry, “The will to do is triggered by leadership and lukewarm desires for achievement are transformed into burning passion for successful accomplishment by the skillful use of leadership.” According to Peter Drucker, “Leadership is the lifting of man’s visions to higher sights, raising of man’s performance to a higher standard, building of man’s personality beyond its normal limitations.” Alford and Beatty define leadership as the ability to secure desirable actions from a group of followers voluntarily without the use of coercion. According to Keith Davis, leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor, which binds a group together and motivates it towards goals.

### A leader and a Manager:

- A person emerges as leader. The question whether or not he will emerge as a leader always depends on a number of situational factors. A manager, on the other hand, is always put into his position by appointment.
- A leader always has some personal power, i.e. ability to influence. He may or may not have positional power, i.e. right to command. A manager, on the other hand, always has some positional power. He may or may not have personal power. If he also has personal power, then he will be much more effective as a manager.
- A leader generally seeks those very objectives, which are the objectives of the subordinates. Thus, there is mutuality of objectives between the leader and the followers. A manager, on the other hand, seeks those objectives, which his subordinates do not regard as their own. Thus, there is clash of objectives.
- A leader generally looks at the horizon and not just the bottom line. He is innovative and believes in *doing right things*. A manager, on the other hand, is generally bureaucratic and believes in *doing things right*, according to the rules, to cope with complexity.

### **Characteristics of Leadership:**

- We appraise the quality of a person's leadership in practice by studying his followers:
  - How many and what kind of followers does he have?
  - How strong is their commitment as a result of his leadership?
  - How long will their commitment last?

We must not forget that leaders within the organization are also followers. The supervisor works for a branch head, who works for a division manager, who works for the vice president of a department and so on. Thus, in a formal organization of several levels, a leader has to be able to wear both the hats -of a leader as well as a follower- gracefully, to be able to relate himself both upward and downward.

- Leadership involves a community of interest between the leader and his followers. The objectives of both the leader and his followers are one and the same.
- Leadership involves an unequal distribution of authority among leaders and group members. Leaders can direct some of the activities of the group members. The group members are willing to obey most of the leader's directions. The

group members cannot similarly direct the leader's activities, though they will obviously affect those activities in a number of ways.

- Leadership implies that leaders can influence their followers or subordinates in addition to being able to give their followers or subordinates legitimate directions. In other words, leaders not only tell their subordinates what to do by way of command but also influence by their behavior and conduct.

The use of command succeeds only in bringing a temporary behavioral change in the followers. Permanent attitudinal change in followers comes through the use of influence only.

### **Functions of a leader:**

- Setting and achieving organizational goals:

As a goal setter, the leader may either establish organizational goals and objectives himself, or he may participate with his superiors or subordinates in establishing them. As a planner, the leader makes decisions concerning the ways and means by which the organizational goals can be achieved. As executive, a leader is responsible for seeing that the appropriate activities of the organization are carried out.

- Planning operations of the organization:

○ The leader is an expert in principal activities of the organization. Frequently, supervisors are promoted from line positions primarily because of the proficiency they displayed on the lower job. The technical information and skills they possess are useful in aiding and instructing their subordinates in effective work procedures.

○ He can be a single representative of an organization to deal with outside individuals or groups.

○ The leader relieves other members of the group of certain responsibilities and they, in turn, place their trust in his decisions. In an informal group of workers, one individual may be given the responsibility of conveying complaints to the superior.

○ He is controller of internal relationships and coordination within the organization.

○ As leaders, supervisors encourage, upgrade and promote deserving workers and reprimand, punish, transfer and fine poor workers. Even leaders in informal groups concern themselves with discipline.

- The leader seeks to maintain harmony among the members of the organization. He arbitrates and mediates to keep the peace among the group.

### Symbolic figure for the group

- The leader serves as an exemplar, a model for others to emulate.
- The leader provides a kind of continuity and stability for the group, standing for it despite changes in circumstances and membership.
- The leader functions as an ideologist.
- The leader may function as a father figure, fulfilling an emotional role for the members of the group.

### **Approaches to Leadership:**

#### a. **Traits Approach:**

According to George R. Terry, traits generally found associated with leadership are:

- Mental and physical energy
- Emotional stability
- Knowledge of human relations
- Empathy
- Objectivity
- Personal motivation
- Communication skills
- Teaching ability
- Social skills
- Technical competence

According to Fayol, traits generally found associated with leadership are:

- Good health
- Physical fitness

According to Ordway Tead, traits generally found associated with leadership are:

- Physical and nervous energy
- Sense of purpose and direction

- Enthusiasm
- Friendliness and affection
- Integrity
- Technical mastery
- Decisiveness
- Intelligence
- Teaching skills
- Faith

One can group these qualities into three broad categories as follows:

### Physical qualities:

- Physical and nervous energy
- Vigor and endurance

### Moral qualities:

- Moral courage
- Sense of fair play and justice
- Integrity

### Qualities of head and heart:

- Emotional and social maturity
- Knowledge
- Decisiveness
- Empathy or social sensitivity
- Objectivity
- Initiative

### **b. Behavioral Approach:**

Under this approach, researchers have studied leadership behavior from three points of view:

- Motivation: In positive behavior, the leader's emphasis is on rewards to motivate the subordinates. In negative behavior, the leader's emphasis is on penalties and

punishments. The leader tries to frighten the subordinates into higher productivity.

- Authority: leadership style can be autocratic, democratic or free rein.

### c. **Contingency Approach:**

- To identify as to which of the situational factors are most important under a given set of circumstances.
- To predict which leadership style will be most effective under those circumstances.

## 11.12 Case Example

---

**George David**



- George David has been CEO of United Technologies Corporation (UTC) for more than a decade. During that time he has received numerous accolades and awards for his performance as a CEO. Under his leadership, UTC has seen earnings grow at 10% to 14% annually- impressive numbers for any company but particularly for a manufacturing enterprise.
- According to David, a key to UTC's success has been sustained improvements in productivity and product quality. Along with a Japanese Engineer Yuzuru Ito, he developed a program for improving productivity and product quality known as Achieving Competitive Excellence (ACE).
- David also radically reorganized UTC. He dramatically cut the size of the Head Office and decentralized decision making to business divisions. He also directed his accounting staff to develop a new financial reporting system that would give

him good information about how well each division was doing and make it easier to hold divisional general managers accountable for the performance of the units under them. He then gave them demanding goals for earnings and sales growth and pushed them to improve processes within their units by implementing the ACE program.

- David always stressed that management is about more than goal setting and holding people accountable. Values are also important. David insisted that UTC employees adhere to the highest ethical standards that the company produce goods that have minimal environmental impact and that employee safety remain the top consideration in the workplace.
- UTC's worldwide employee scholarship program:
- Implemented in 1996, and considered the hallmark of UTC's commitment to employee development, the program pays the entire cost of an employee's college or graduation school education, allows employees to pursue any subject at an accredited school, provides paid study time, and allows \$10000 worth for completing degrees.
- One of David's central task has been to build a management team that functions smoothly over the long term.
- David was a right mix of toughness and sensitivity. When somebody cannot do the job he would try to help. But if that person is not going to make it work, that person would not be on job forever.
- David did a lot of things that employees respected him for. He was an excellent manager. Even though he was demanding, he also listened. He had a receive mode as well as a send mode.

### A.G.Lafley



COURTESY: PROCTER & GAMBLE

- On the day that A.G.Lafley took over as CEO of Procter and Gamble in 2000, the stock dropped by \$4 because the financial markets were unimpressed with Lafley's rise to the CEO spot. Quiet, understated, unassuming, with a shock of white hair, wire rimmed glasses; he looked more like a thoughtful college professor than a visionary and dynamic CEO. He was a listener and not a storyteller. He was likeable but not awe-inspiring. He looked a little dull.
- His predecessor had failed to improve the company's performance. No new products had been introduced and existing brands had been losing markets.
- Lafley realized that he had to move fast. One of Lafley's first acts was to issue a manifesto of "Ten things I believe in." At the top of the list was "Lead change", followed by "the consumer is boss". Lafley also signaled that it was time for P&G to look inside its own organization for new product ideas-something the company had long resisted.
- As Lafley saw it, P&G did not need a radical makeover; it just needed to focus on selling more of its basic brands. He chose P&G's ten bestselling brands, each of which generated more than \$1 billion in sales. He told his managers to focus on selling more. These brands would get the bulk of P&G's resources. It was a message everyone could understand. Selling more of the existing brand TIDE was easier than inventing the next great brand.
- Lafley further told the managers to add value to existing brands by listening closely to what consumers wanted. This approach worked. P&G learnt that it was taking too much time for mothers to toilet train the children. So P&G

developed a new line of bestselling Pampers brand, which stayed wet for two minutes to alert toddlers to try tinkling in the toilet. He also told managers to tell customers what the brand could do for them rather than attributes of the product. Therefore, the mission changed from making the “driest diapers” to “helping moms with babies’ development.” Result: Pampers gained market share against the competitor.

- Then Lafley moved to cut costs. Within months, he eliminated 9600 jobs closing down several new product development projects that were consuming resources and pulling new products from the market that had not generated significant sales. He sold off some products, which he did not see as strategic fits.
- Another goal was to break down the barriers within P&G, getting employees from different division to exchange ideas also with R&D. He also articulated the need to reach outside for ideas.
- The results of Lafley’s leadership have been impressive. P&G’s core brands have been getting impetus. The stock price also doubled.

### 11.13 Activities for the students

---

#### Activity A

On assuming charge of a company, which method of coordination will you adopt to ensure better functioning of the organization?

---

---

---

---

---

---

#### Activity B

Prepare a check list for better coordination in your company.

---

---

---

---

---

---

### 11.14 Summary

---

Directing and coordinating are complementary functions. Directing is a vertical function. Directions, instructions, commands flow top down manner. E.g. HOD of Finance gives directions and instructions to his subordinates in finance department down the line. It is a top down process. It is a vertical managerial function.

On the other hand, coordinating is a horizontal function. It creates linkages between different verticals. Coordination is a choice whereas directing is compulsion of job. Not many people like to coordinate the activities between various sections. It involves talking to persons across the line to get certain things done. It creates linkages between dissimilar functions.

### **11.15 Self-assessment questions**

---

1. Discuss the importance of direction.
2. Discuss the principle of direction.

### **11.16 Multiple Choice Questions**

---

1. It is the establishment of relationship with a view to coordinate the activities of all the managers, executives, divisions, sub-divisions, branches and other workers.
  - a. Internal coordination
  - b. External coordination
  - c. Self coordination
  - d. Liaison
2. It is the establishment of a relationship between the employees of the organization and outsiders of the organization.
  - a. Internal coordination
  - b. External coordination
  - c. Internal cooperation
  - d. External cooperation
3. Incentives mean:
  - a. Efficiency
  - b. Effectiveness
  - c. Monetary benefits
  - d. Increments
4. Calamities such as flood, earthquakes, fire are:
  - a. Problems
  - b. Natural hindrances

- c. Job of Insurance department
  - d. Result of bad luck
5. According to this principle, the function of one department is affected by other department and vice versa. So this department modifies its functions in such a way that it may affect other departments favorably.
- a. Mutual cooperation
  - b. Horizontal coordination
  - c. Horizontal administration
  - d. Self coordination

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

After studying this chapter, you will get to know about:

- Control, its scope, steps and techniques
- Requirements of effective control
- Know about PERT/CPM
- Advantages and disadvantages of control

## **Structure**

12.1 Introduction

12.2 Definitions

12.3 Areas or scope of controlling

12.4 Steps in controlling process

12.5 Requirements of effective control system:

12.6 Techniques of control

12.7 PERT/CPM

12.8 Characteristics of control

12.9 Budgetary control system

12.10 Activities for the students

12.11 Summary

12.12 Self-assessment questions

12.13 Multiple choice questions

### 12.1 Introduction

---

The process begins with setting S-M-A-R-T goals, then planning and then other functions. Controlling is the last function of this series. Controlling means constraints. It means influencing the activities, which people do not like. It requires maturity. When the activities start based on a smart goal, they tend to go haywire. It needs discipline to realize if things are not going as per plan. Success depends on how well the organization is able to control and bring the things on track. Planning and controlling are two sides of the same coin. Planning is forward looking. Controlling is concurrent and backward looking. It needs sensitivity or awareness to know if the process is on the track or not. For example, we buy a car, fix the route and start driving. But to be always on track, we have to steer the vehicle continuously. External influences may drive your plan out of track. We have to bring it back on track.

Controlling sounds very oppressive but that's what makes the management process scientific and fool proof. When things are not as per plan, we have to make course correction. We plan, organize, interlink resources, staff, direct, coordinate etc. and if there is no control, things go haywire.

However, we always find that people resist any control. Suppose there is flow of action and someone says it is not good and stops it, there is resistance from everywhere. Sometimes, the action is near completion and finished goods are about to be ready, someone says that it is not good, people get disturbed. Controlling is a challenging function. It is important at home, in social life, at workplace, everywhere.

Ideally controlling may not be required if all the other functions of management are performed properly. However, in reality, internal/external conditions being too volatile, controlling is necessary.

Planning identifies the activities and controlling regulates them. Effectiveness of planning depends upon effectiveness of controlling.

Control is applicable almost in all **goal oriented activities** that aim for success. Policies of the organization, manpower needs, capital expenditure, production, wages and salaries are the examples where control is required.

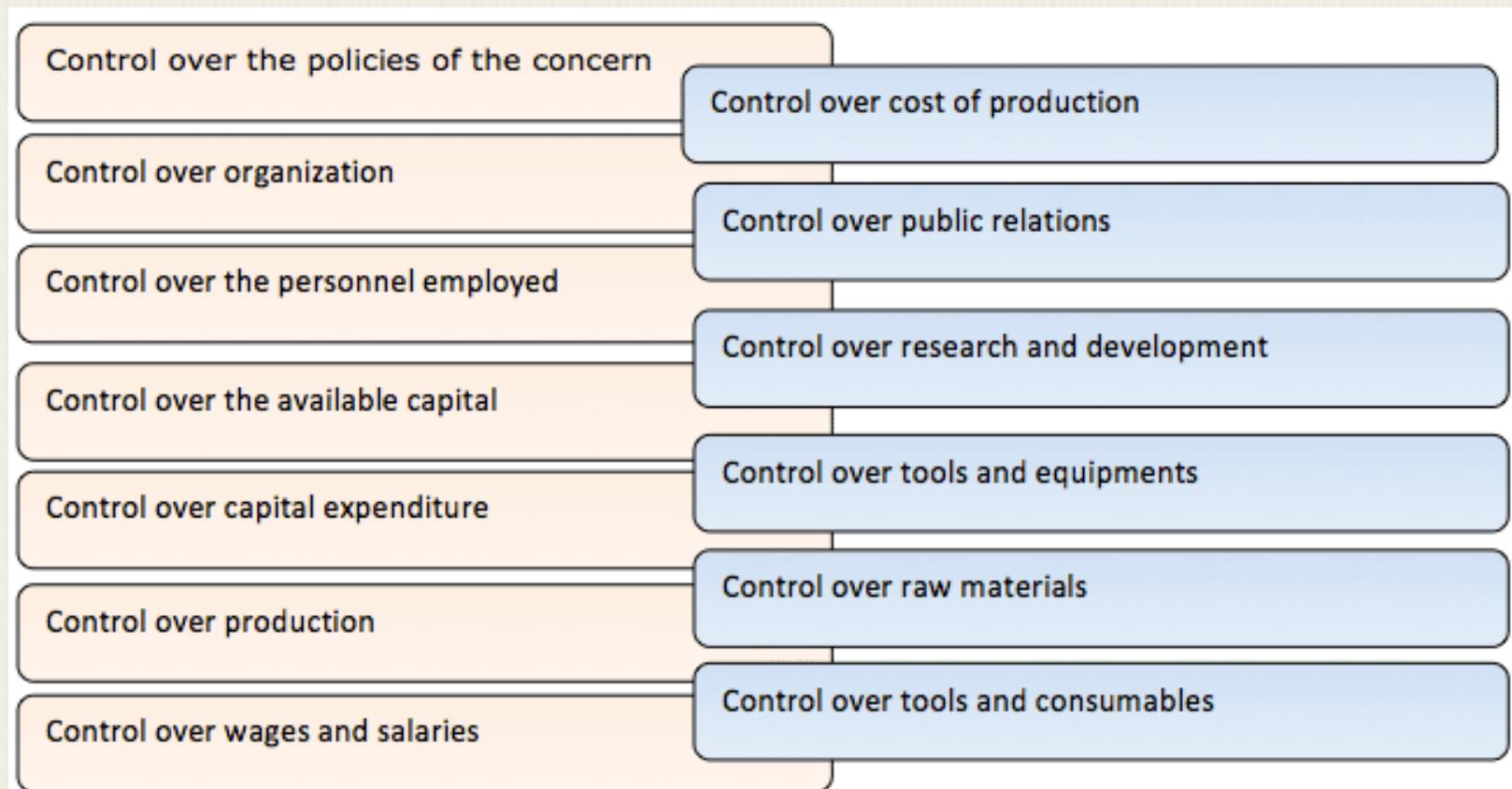
In short, any activity that is goal-centric, control is required.

## 12.2 Definitions

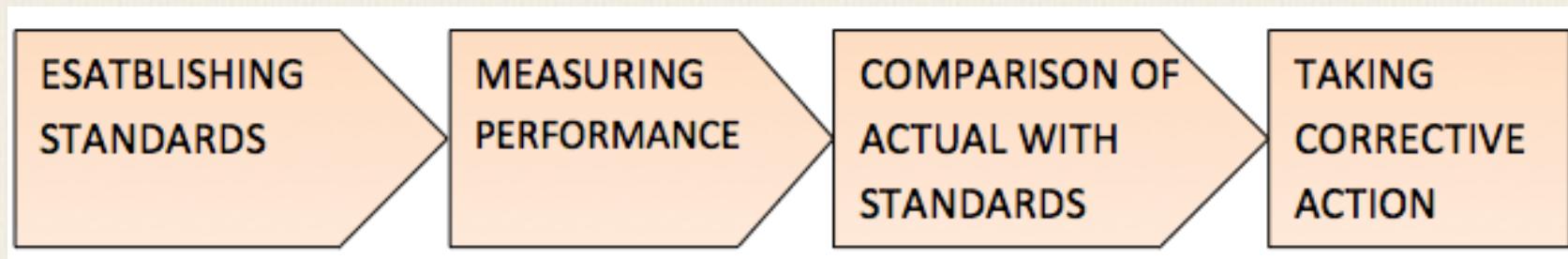
1. Control is any process that guides activity towards some predetermined goal. The essence of the concept is in determining whether the activity is achieving the desired results.
2. Controlling is that function of the system which provides direction in performance to the plans.
3. The presence in a business of that force which guides it to a predetermined objective by means of predetermined policies and decisions.

## 12.3 Areas or Scope of controlling

The term control covers all the activities of a business concern. The main areas of control are:



## 12.4 Steps in controlling process



### 1. Establishing standards:

It is necessary to set the standards. Otherwise, useful control will not be possible. Standards may be qualitative or quantitative. Most of the standards are expressed in terms of quantity. Number of units produced, number of men, hours employed, total cost incurred, revenue earned, amount of investments are the examples of quantitative standards. Some standards are expressed in qualitative terms such as metal finish of the car body, morale of employees, motivation, goodwill etc.

The standards should have some characteristics such as: time, cost, efforts, result oriented, accurate etc.

### 2. Measuring the performance:

The performance should be compared with the established standards. Necessary information should be collected about the performance. The effective management information service provides the necessary information about performance particulars. If standards are expressed in quantitative terms, then quantitative information must be collected. If standards are expressed in qualitative terms, then qualitative information must be collected. Several measures are used by the management to measure the performance.

### 3. Comparison of actual performance with the standards:

This will help the management to know the deviations vis-à-vis standards. The management then would find the extent of deviations and identify the causes for deviations. Comparison is very easy when the standards are expressed in quantity. If the results are intangible or qualitative, personal observation is used to find out the extent of deviation.

When the actual performance is not as per standards, the management has to decide the type of corrective action.

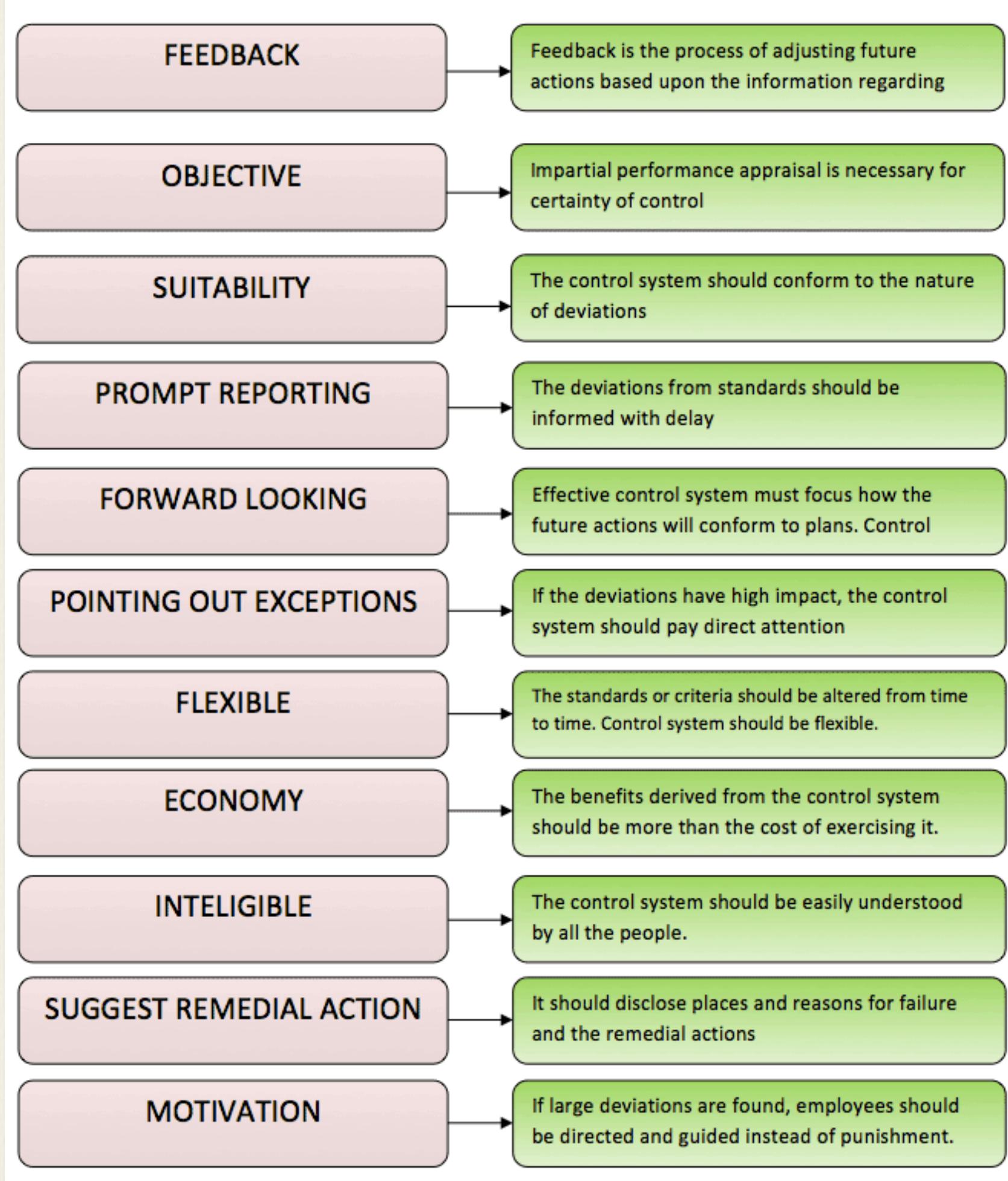
All the deviations need not be reported to the management. Deviations which are beyond the reasonable limits should be reported to the top management. This is

termed as control by exception or management by exception. The causes for the deviations are analyzed. The management has to take necessary corrective action if the causes are non-controllable.

### 4. Taking corrective action:

Management has to find causes of deviations before taking corrective action. The causes may be due to ineffective and inadequate communication, defective system of wage payment, defective system of selection of personnel, lack of proper training, lack of motivation, ineffective supervision etc. The management has to take corrective actions on the basis of nature of causes of deviations.

## 12.5 Requirements of effective control system



### 12.6 Techniques of control

#### 1. Statistical control reports:

These types of reports are prepared in quantitative terms and used in large organizations. Then the variations from standards can be easily measured. In this way, control is exercised by the management. A periodical report of sales volume is an example of statistical control reports.

#### 2. Personal observation:

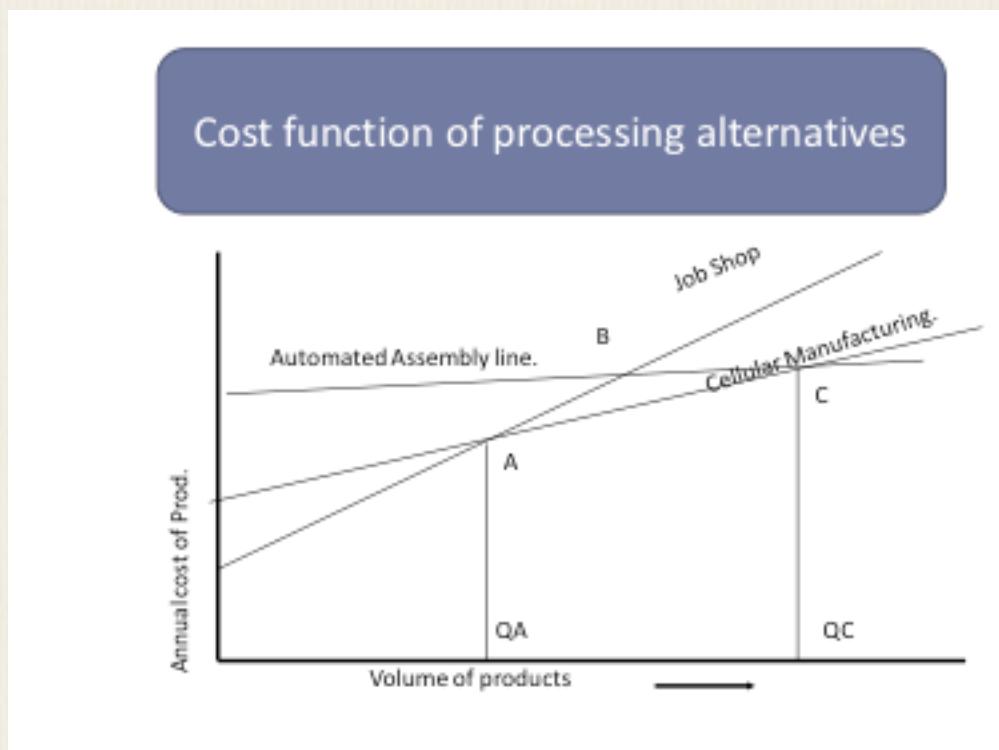
The manager personally observes the operations in the workplace. The manager corrects the deviations in operations whenever the need arises. This is the oldest method of control. Because of this, the employees work cautiously to get better performance. This technique is disliked by honest and efficient employees.

#### 3. Cost accounting and cost control:

Profit of any business depends upon the cost incurred to run the business. Profit is maximized by reducing the cost of operation or production. So the business concern gives much importance to the cost accounting and cost control.

Management uses a number of systems to determine the cost of products and services. The procedures differ from one industry to another.

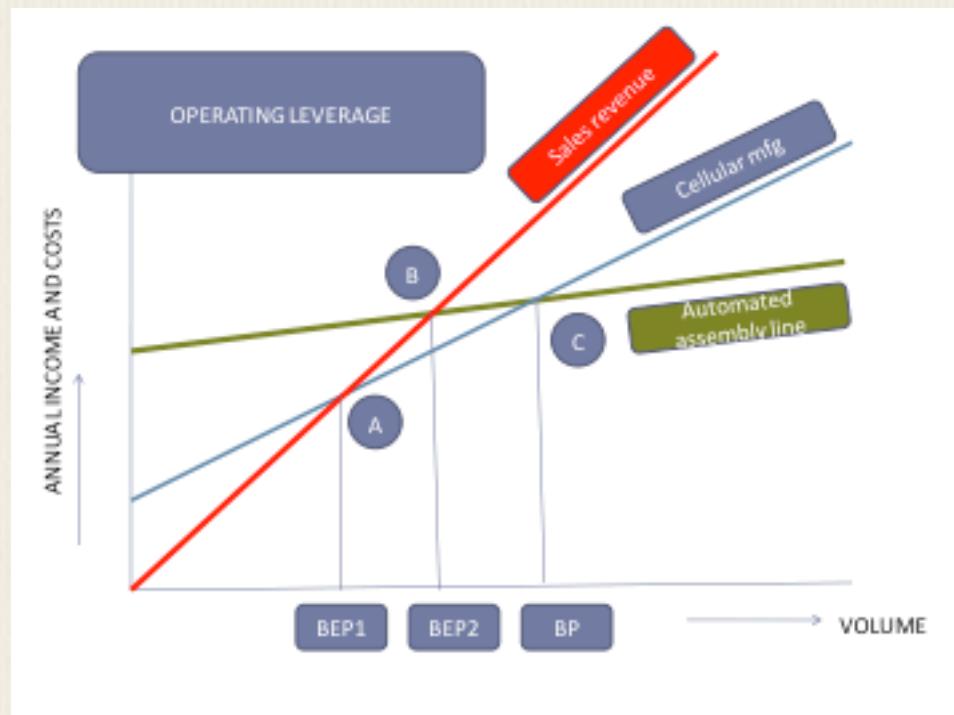
#### 4. Breakeven analysis:



It is otherwise called as cost volume profit analysis. It analyses relationship among cost of production, volume of production, volume of sales and profits.

## Chapter 12 - Controlling

Total costs are divided into fixed costs and variable costs. Fixed cost never changes according to the changes in volume of production. Variable cost varies according to the volume of production. This analysis helps in determining the volume of production or sales which is equal to the revenue. The excess of revenue over total cost is termed as profit. The point at which sales revenue is equal to the total cost is known as the breakeven point BEP. In other words, breakeven point is the point at which there is no profit or no loss.



The breakeven point is calculated with the help of following formulae:

$$BEP = \text{fixed cost} / (\text{selling price per unit} - \text{variable cost per unit})$$

The difference between is termed as contribution.

### 5. Special control reports:

Using this technique, a particular operation is investigated at a specified time for a particular purpose. This is done according to the requirements of the management but not on regular basis. The deviations from standards are paid additional attention and corrective action is taken. Handling complaints of damage is an example of this control technique.

### 6. Management audit:

It is an independent process. It aims at pointing out inefficiency in the performance of management functions such as planning, organizing, staffing, directing, controlling and suggesting possible improvements. It helps the management to handle the operations in an effective manner. Management audit is not a compulsory audit and not enforced by law.

### 7. Standard costing:

- Determination of cost standards for various components such as material, labor and overheads.
- Measurement of actual performance.
- Comparison of actual cost with standard cost to find variations.
- Finding the causes of variations
- Taking measures to avoid variations in future.

### 8. Return on investments:

Using this technique, the rate of profitability is identified by the management. Return on investments is calculated by dividing the net profit by the total investment or capital employed in the business organization.

### 9. Internal audit:

Internal audit report is prepared at regular intervals, normally every month. It covers all areas of operations. This report is sent to the top management. The management takes steps to control the performance on the basis of the report. Internal audit report emphasizes the degree of deviations from the expectations. It is very useful to attain the objectives on timely basis.

### 10. Responsibility accounting:

The performance of various people is judged by assessing how far they have achieved pre-determined objectives. The objectives are framed section-wise, department-wise, division-wise and assessed similarly. Costs are allocated department-wise rather than product-wise. Each department, section or division is fixed as responsible centers. An individual is responsible for his area of operation in a particular section, department or division.

### 11. Managerial statistics:

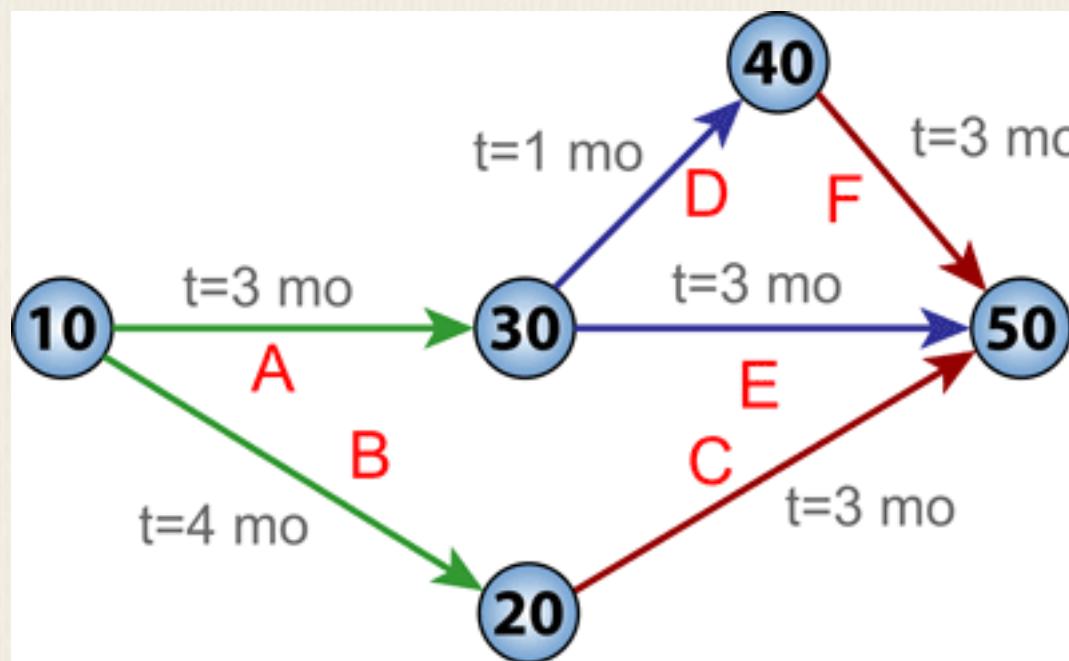
Using this technique, the manager compares the past results with current results in order to know the causes for deviations.

### 12. Performance evaluation and review technique- PERT:

The Program (or Project) Evaluation and Review Technique, commonly abbreviated PERT, is a statistical tool, used in project management, that is designed to analyze and represent the tasks involved in completing a given project.

First developed by the United States Navy in the 1950s, it is commonly used in conjunction with the critical path method (CPM).

This technique is used to solve the problem which crops up once a while and not for problems which come up continuously. It is very useful in construction projects, publication of books etc.

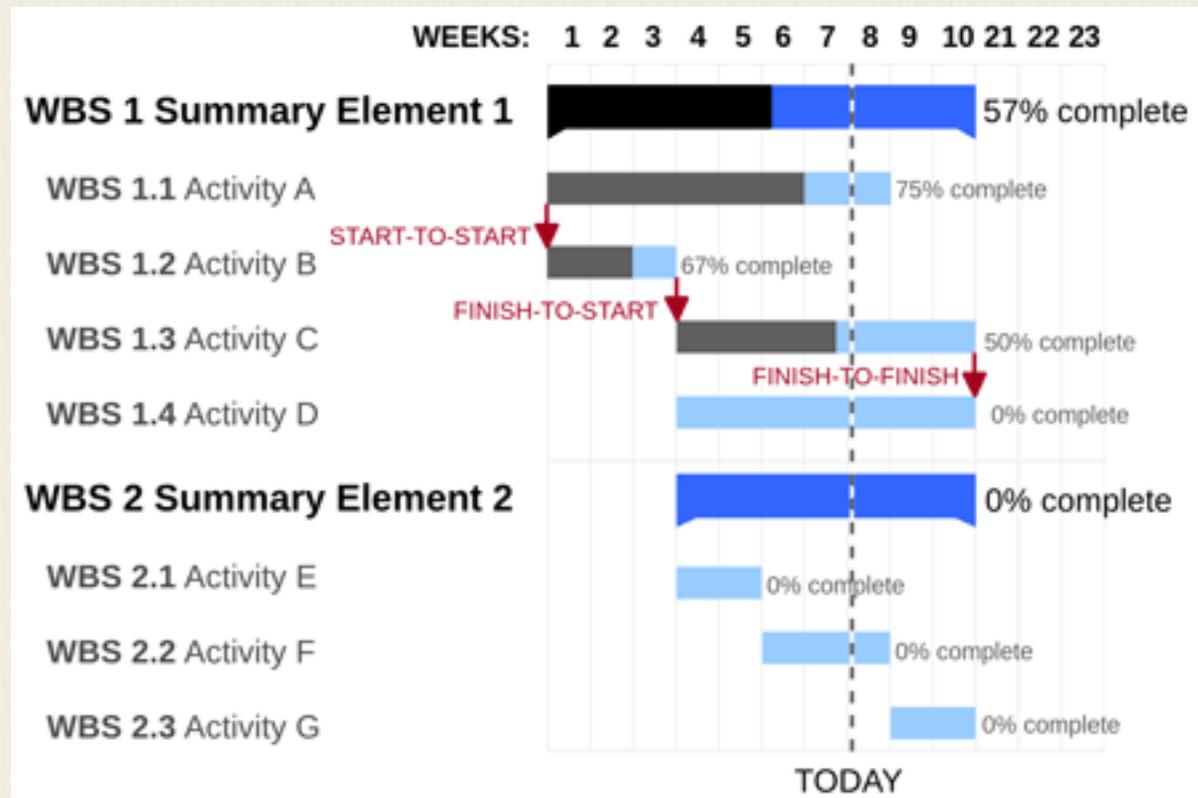


PERT network chart for a seven-month project with five milestones (10 through 50) and six activities (A through F).

### 13. Critical path method:

The critical path method (CPM) is an algorithm for scheduling a set of project activities. It is an important tool for effective project management. CPM is commonly used with all forms of projects, including construction, aerospace and defense, software development, research projects, product development, engineering, and plant maintenance, among others. Any project with interdependent activities can apply this method of mathematical analysis. Although the original CPM program and approach is no longer used, the term is generally applied to any approach used to analyze a project network logic diagram.

### 14. Gantt milestone chart:



### 15. Production control:

It involves planning of production, determination of stock levels of raw materials, finished goods, selection of processes, selection of tools in production etc.

Production control is the process of planning in advance of operations, establishing the exact route of each individual item, part of assembly, setting, starting and finishing dates for each component, assembly and finished product and releasing the necessary orders as well as initiating the required follow up to ensure smooth functioning of the enterprise.

### 16. Management information system:

Relevant information is collected and transferred to all the persons who are responsible to take decisions. A communication system is developed through which all levels of persons are informed about the growth of the organization. Whenever the deviation is found, the corrective and control action is taken by the responsible person. The management information system emphasizes the need for adequate information in time for taking the best decisions.

### 17. External audit control (statutory audit control):

External audit is a must for all the joint stock companies under the purview of statutory control. The external auditor certifies that all the books of accounts are kept as per the requirements of law and supplies all the necessary information for the purpose of audit and the balance sheet presents the true and fair view. The external audit is conducted by the qualified auditor. The qualifications of such type of auditor are fixed by the central government.

### 18. Zero-base budgeting:

This is a new technique and has become popular within a short period. It is prepared without considering the previous year's figures. This technique requires the recalculation of all organizational activities to ascertain which should be eliminated, reduced or increased. In other words, the funds are estimated at current requirements. It means finding out how much amount is necessary to complete an ongoing project.

### 19. Standing orders:

These cover rules and regulations, discipline, procedures etc. e.g. no employee should leave the office before office time without getting prior permission in writing.

### 20. Budgetary control:

The preparation of budget is also one of the control techniques followed by management.

## 12.7 PERT/CPM

---

**Program evaluation and review technique –PERT-** is the name given to a networking approach to planning, monitoring, controlling and evaluation of complex projects. It consists of a network diagram which is a two dimensional schematic of the relationships between tasks in a project. PERT is used for non-repetitive projects that have been done before and will not be done again in precisely the same manner. PERT technique has been used for projects such as

developing missiles, nuclear powered submarines and for the program that landed the first man on moon. It is a planning tool which enables the project manager to estimate the time required to complete a proposed project. It also provides a time schedule for various project activities and for checking of the scheduled time against the actual time taken for an activity. PERT helps to design a management control system for activities that are subject to a considerable degree of uncertainty in performance time. It is based on a statistical treatment of activity performance time.

PERT also minimizes delays in various parts of the overall job and helps in expediting the completion of the projects. It is a method of budgeting the resources to predetermine the job on schedule. Above all, PERT is an outstanding approach for the timely completion of projects.

With PERT, the projects can be better planned and controlled for cost when they are broken down into their components. PERT tells how to set up network, how to calculate completion time and how to monitor and control work.

**Critical Path Method-CPM**-refers to a quantitative technique which when applied to network planning is helpful in calculating the minimum time and the sequence of tasks needed to complete a project. This technique is mostly used for construction projects such as bridges, building, dam, canals etc. where engineers and contractors try to complete the job at the earliest to avoid rising costs. In CPM technique, the precedence, the relationships between activities and their mutual dependence are suggested leading to the final objective of reducing the cost and completion time of the project.

### **CPM structure analysis:**

List of activities Table 1

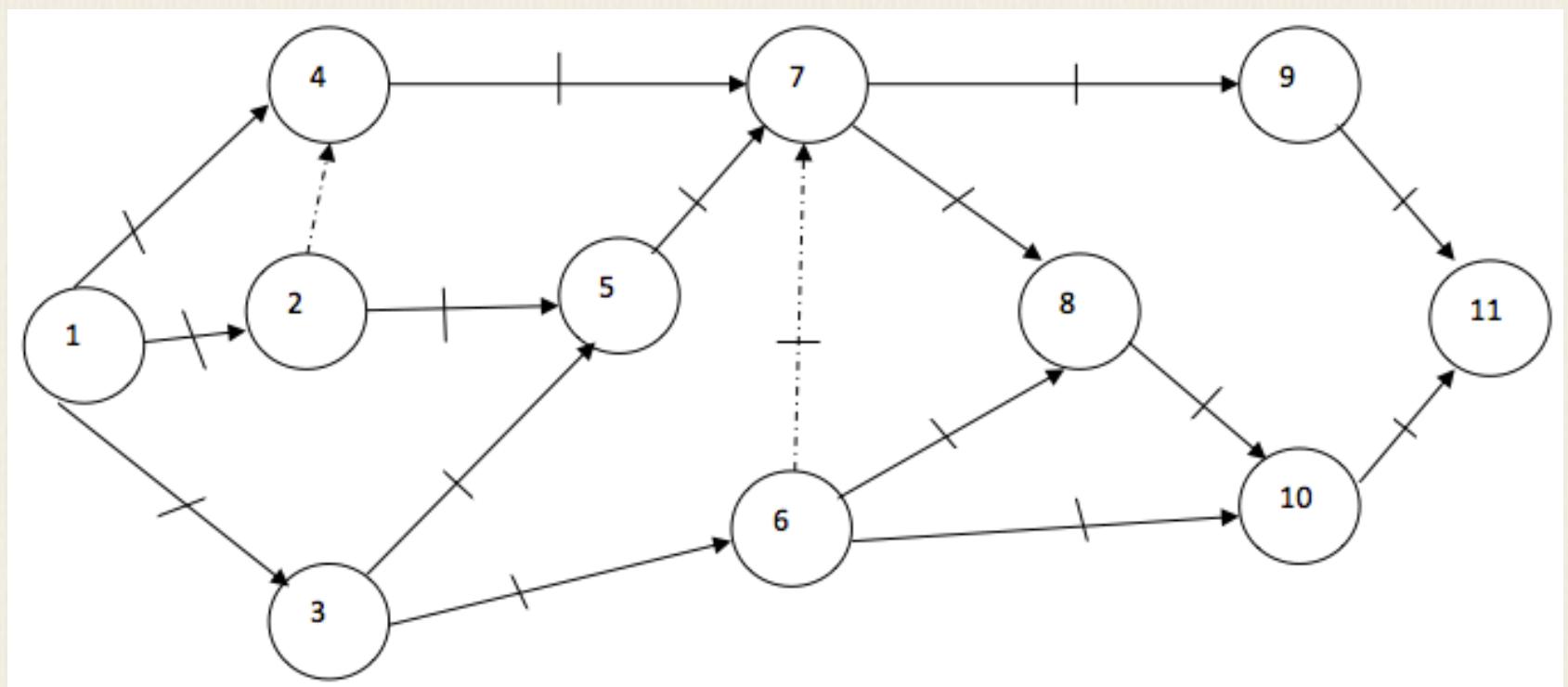
i	j	Task Areas	Description of Activity	Duration in Days
1	2	Design Department	Design parts for sub assembly A & B	25
2	3	Purchase Department	Procure materials for sub assembly A	30
2	4	Purchase Department	Procure materials for sub assembly B	10
3	5	Fabrication Shop	Fabricate parts for sub assembly A	20
4	6	Fabrication Shop	Fabricate parts for sub assembly B	40
5	7	Assembly Line	Sub assembly A	40
6	7	Assembly Line	Sub assembly B	5
7	8	Assembly Line	Final assembly	6

### **Drafting of the network**

1. Which activities must be ended directly before the new one begins?
2. Which activities can only begin directly afterwards?
3. Which activities can take place autonomously and simultaneously?
4. Can this activity be sub-divided into others?

In the structure analysis, no time factors are considered but only sequence and interrelation of activities.

**Figure 1**



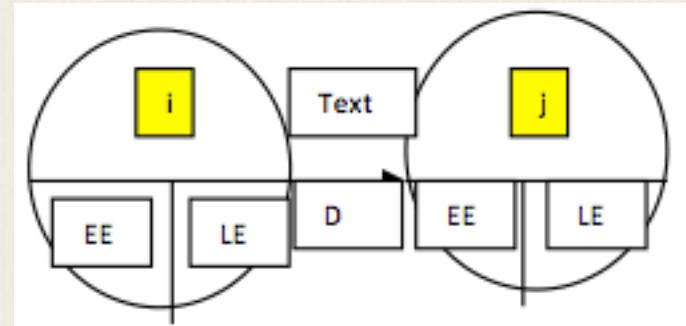
The procedure is as follows:

The initial start event is numbered 1 and all the arrows beginning with this event are crossed. Put the next higher numbers for particular events where only crossed arrows end. All arrows beginning at the newly numbered events are then crossed. This procedure is repeated in the same way until all the events are numbered.

### **CPM Time analysis:**

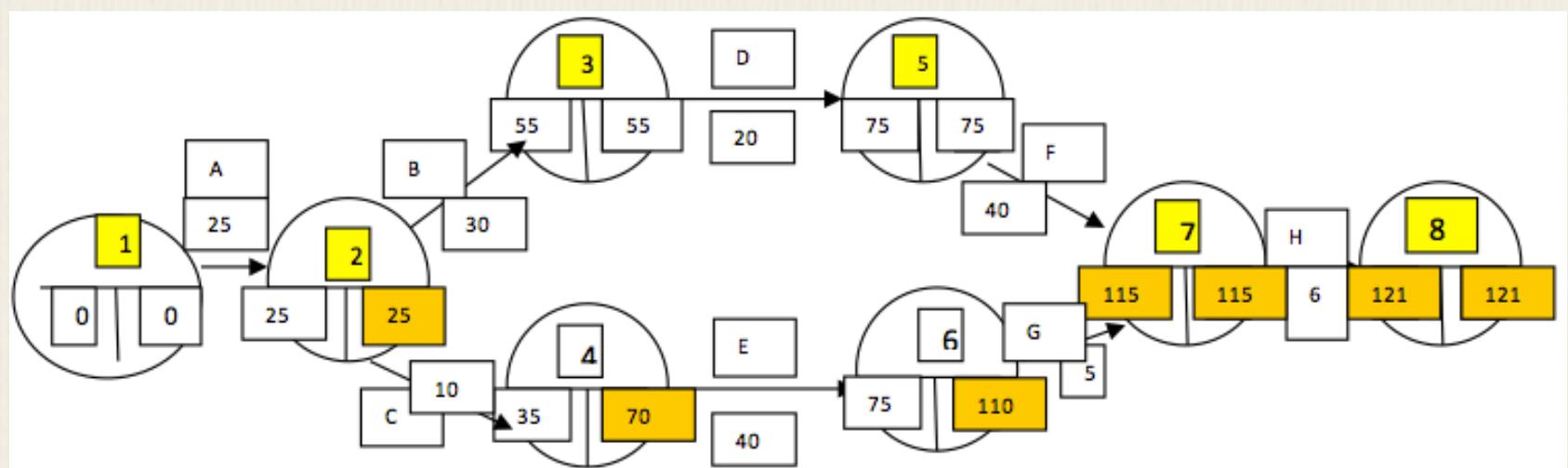
- D=duration of activity
- ESA=earliest possible starting time of the activity
- LSA=latest permitted starting time of the activity
- EEA=earliest possible ending time of the activity
- LEA=latest permitted ending time of the activity
- EE=earliest possible time of the event
- LE=Latest possible time of the event
- TF=total float of the activity
- FF=free float of the activity
- IF=independent float of the activity

**Figure 2**



With reference to table 1, the CPM network is worked out as follows:

**Figure 3**



If in respect of any activity, the earliest and latest times of occurrence are identical both at start and the finish of the activity, then the activity lies on the critical path.

**So, 1-2-3-5-7-8 is the critical path.**

### **Advantages of PERT / CPM**

#### **1. Ensures planning:**

A manager is compelled to prepare a plan under PERT. He is supposed to find out all the key events and activities. Besides, the manager is supposed to identify the sequencing of events and activities and their interrelationships. Managers have to compute the most likely time by considering all possibilities, uncertainties and pitfalls.

#### **2. Identification of favorable factors:**

Computation of most likely time eliminates surprises and wastages. This helps the management to find the favorable factors which are responsible for successful completion of the project in advance.

#### **3. Saving of cost and time:**

CPM focuses on events which require maximum attention. It leads to saving of cost as well as time.

#### **4. Taking preventive or corrective action:**

PERT/CPM disclose the bottlenecks and potential trouble spots well in advance. So it is possible to take preventive or corrective actions.

#### **5. Attention on critical activities:**

It is possible to speed up critical activities.

#### **6. Everything at right:**

It emphasizes right action at right time.

#### **7. Making awareness of responsibilities:**

It makes every manager fully aware of his responsibilities.

#### **8. Securing cooperation:**

It helps to get cooperation of all department when PERT/CPM is constantly reviewed.

### 9. Facilitates decision making:

Management can analyze the effects of various alternate decisions instead of conducting expensive operations.

### 10. Improved communication:

Each critical path and sub-critical paths are graphically represented. Each employee can understand his role in the proposed project from the graphic representation. It results in Improved communication.

### 11. Simultaneous performance of work:

It ensures simultaneous performance different parts of the work. The whole project is divided into various different parts of work. Each work is performed by different persons separately.

### 12. Advance control action:

PERT/CPM discloses how a delay in one activity affects all the succeeding activities. It helps the management to take a control action well in advance.

### 13. Timely completion of a project:

The management can get an opportunity to shift its attention to any critical task so that the entire project is completed in time.

## 12.8 Characteristics of control

---

### 1. Controlling process:

It is a continuous process just like other functions of management. The superior has continuous watch over the entire operations. Besides, he ensures that all the efforts are made to achieve the desired objectives and if not, necessary control action will be taken to correct them.

### 2. Universal:

Control is applied at all levels of management and irrespective of the organization. The manager of the business and non business concern uses control to regulate the ongoing activities to obtain desired goals.

### 3. Forward looking:

Past cannot be controlled but future activities can be controlled on the basis of past experience. The presence of control reduces wastages, losses and deviation from standards.

### 4. Dynamic process:

The control technique is changed according to the nature of deviations. Same technique is not followed throughout the year. The control results in changes in the performances of other functions of management.

### 5. Control involves management:

Control recommends the future course of action on the basis of evaluation and measurement.

### 6. Influencing factor:

The behavior of the responsible person is influenced by the control process for the effective performance of the activities. Control avoids the undesirable happenings and shapes the future plan. Control influences the people to conform to the norms and standards in performance.

### 7. An essence of action:

The corrective action should be taken by the management on the basis of information available. If it does not do so, the purpose of control will not be achieved. The corrective action will be taken if there is any deviation from the standards.

## 12.9 Budgetary control system

### Introduction: Budgets

- A plan expressed in monetary terms, prepared and approved prior to the budget period and which shows income expenditure and the capital employed. It may be drawn showing incremental effects on former budgeted figures or complied by zero budgeting.

- Budgets are therefore not prepared in isolation and then filed away but are concrete components of what is known as a budgetary control system. Such a system essentially ensures communication, coordination and control within an organization. The basic functions of management are allocation of resources, planning and control.

### **Budgetary control:**

- This is the establishment of a budget relating the responsibilities of executive management to the requirement of a policy and continuous comparison of actual and budgeted results.
- Control should ensure that actions are accordance with the objective of the policy in question. Also provides a basis for its revision.

### **Elements of budgetary control:**

- Setting up budgets i.e. planned targets on revenue, expenses, assets and liabilities relating to the activities concerned.
- Measuring actual results against the budgets on a continuous basis
- Identifying and analyzing deviations from budgets and modifying both actual operations and subsequent budgets.

### **Main aims of budgetary control:**

- To establish the degree of progress to the achievement of short term plans
- To allow delegation to occur without losing overall control
- To provide a measure for allowing flexibility in operations
- To establish short term plans and aid the organization's planning process

### **Purpose of a budget:**

- **Co-ordination-** Important for the achievement of organization goals.
- Coordinate inputs and outputs in order to ensure balance of efforts and effects.
- Coordinate budget lines within the organization to ensure effective implementation of plans and monitoring of results.
- Coordinate responses to economic trends and challenges posed by the environment within which programs and activities are undertaken.
- **Communication:** The budget is used to communicate plans and to control information. Once formulated the aspects of the plan having a bearing on a particular division of the organization are communicated to that division.

- **Motivation:** The budget seeks to motivate managers to achieve objectives and thereby establish control within the organization.
- **Performance Evaluation:** a budget is used to evaluate the capability of managers to achieve targets.
- Good performance is associated with achieving better performance targets set on costs of operations and benefits to the organization.
- **Authorization:** The budget is used to authorize expenditure or to pursue certain initiatives once a budget is approved:
  - It becomes a permission to spend.
  - Acceptance that either a project or activities should commence.

### **Preparation of a budget:**

- Identify objectives
- Gather data about alternatives
- Select alternative courses of action
- Discuss the plans/activities and allocate the budget.
- Establish monitoring mechanisms.
- Respond to problems encountered in the previous budget.

### **Data for budget process:**

#### **Internal information**

- Production and operational information
- Financial information
- Research and development information
- Personnel information
- Sources of internal information-expected outputs - performance targets, control and monitoring and evaluation mechanisms

#### **External information**

- Market and competitors
- Economic conditions
- Industrial structure
- Political factors
- Technological change
- Demographic trends and social factors

- Government statistics, commercial data, banks.
- Media coverage, business trips, conferences.

### **BUDGET COMMITTEE - FUNCTIONS**

- Co-ordinate the preparation of budgets which includes the issue of the budget manual
- Issue timetables for the preparation of functional budgets
- Allocate responsibilities for the preparation of functional budgets
- Provide information to assist in the preparation of budgets
- Communicate final budgets to the appropriate managers
- Compare actual results with budget and the investigate variances
- Continuously assess the budgeting and planning processes, in order to improve the planning and control functions.

### **CONTENTS OF BUDGET MANUAL**

- Foreword
- The purpose of budgetary planning and control
- The objectives of various stages of the budgetary process
- The importance of budgets in the long term planning and administration of the enterprise
- Organizational structures and responsibilities including: an organizational chart and a list of individual holding budget responsibilities.
- Principal budgets and relationships between them: explanation of key budgets and outline of main budgets and their accounting relationship
- Administrative details of the budget preparation: membership and terms of reference of the budget committee, the sequence in which budgets are to be prepared and a time-table.
- Accounting procedures: name and terms of reference of the budget officer, sample/specimen forms and instruction for completing them, specimen reports and account codes.
- Timetable for accounting procedures: production of reports and closing dates.

### **Advantages of budgetary control:**

### 1. Tool for planning the activities:

Budgets are prepared department-wise or section-wise. Then the managers will know their activities and will have plans for future course of actions.

### 2. Thinking in advance:

A budget is prepared normally for a year in advance. The top management people can develop forward looking strategies and thinking with the help of budgets. They think in advance as to how to market the product, how to solve production problems, financial difficulties etc.

### 3. Coordination of efforts:

Policies and objectives provide a basis for the preparation of budget. Personnel of all the departments are well aware of link of the policy with the budget. Hence, the management can easily coordinate the efforts of various departments.

### 4. Control of expenditure:

Unnecessary expenditure is avoided because they are clearly fixed in the budget.

### 5. Solving financial difficulties:

The budget forecasts the probable cash receipts and expenses. Temporary financial accommodation is arranged with the financial institutions or with banks. In this way, financial difficulties are solved.

### 6. Delegation of authority and responsibility:

There is an automatic sanction of work whenever the budget is prepared. There is no need of getting permission from the top management again. Delegation of authority and responsibility becomes easier.

### 7. Better utilization of resources:

The term resources include money and materials. Adequate amount is allocated to buy the raw materials, make salary payment, purchase fixed assets etc. economic order quantity principle is followed in buying the raw materials. Proper control is exercised over the usage of raw materials in the production place.

### 8. Promotion of efficiency:

Production per hour, per day and per man is fixed with the budgetary control technique. It encourages the employees to increase their efficiency.

### 9. Achievement of goals:

## Chapter 12 - Controlling

Under budgetary control system, each person can know what he is expected to do. This offers an opportunity for the management to achieve the goals.

### 10. Criteria of self examination:

Budgetary control system points out the deviations and causes of such deviations. These are very well known to the employees. In this way, budgetary control acts as criteria of self examination.

### 11. Promotes balanced activities:

A department activity is correlated with another department activity. Results of one department are the basis of functioning of other department. Balanced activities of different departments are possible under the budgetary control system. E.g. activities of the purchase department are based on those of production department.

### 12. Improvements:

It discovers the areas of operation where improvements can be suggested.

### 13. Ensures proper communication:

Management's policy and objectives of preparing the budget are communicated to all the managers. The managers are supposed to send the report of actual performance against the budget. The managers are informed of the type of action to be taken to correct deviations. Thus, budgetary control ensures proper communication.

### 14. Fixation of responsibility:

Responsibility of deviations can be fixed easily. E.g. Sales budget fixes the responsibility of sales department.

### 15. Encourages exchange of information:

Functional budgets are prepared by the enterprise. It requires free flow of information from one department to another department. E.g. Purchase budget cannot be prepared unless production figures are available.

## 12.10 Activities for the students

---

### Activity A

Make a budget of your own life for the coming year.

---

---

---

---

---

---

---

### Activity B

Consider that there is marriage of your elder brother and you have the responsibility for the event to make successful. Make a PERT/CPM of all the activities.

---

---

---

---

---

---

---

## 12.11 Summary

---

- Planning identifies the activities and controlling regulates them. Effectiveness of planning depends upon effectiveness of controlling.
- Control is applicable almost in all goal oriented activities that aim for success. Policies of the organization, manpower needs, capital expenditure, production, wages and salaries are the examples where control is required.
- In short, any activity that is goal-centric, control is required.

## 12.12 Self-assessment questions

---

1. Discuss the requirements of effective control.
2. What is budget and why is budgetary control necessary?
3. Explain PERT/CPM.

## 12.13 Multiple Choice Questions

---

1. Control is applicable almost in all -----oriented activities that aim for success.
  - a. Profit
  - b. Goal
  - c. People
  - d. Distribution
2. Management has to find causes of deviations before taking -----.
  - a. Payment
  - b. Corrective action
  - c. Preventive action
  - d. Decision
3. The performance of various people is judged by assessing how far they have achieved pre-determined objectives.
  - a. Cost accounting
  - b. Responsibility accounting
  - c. Stock taking
  - d. Financial accounting
4. It is otherwise called as cost volume profit analysis.
  - a. Value analysis

## Chapter 12 - Controlling

- b. Break even analysis
  - c. Cost analysis
  - d. Forecasting
5. A name given to a networking approach to planning, monitoring, controlling and evaluation of complex projects.
- a. PERT
  - b. CPM
  - c. JIT
  - d. FMEA

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### HOW TO DELEGATE EFFECTIVELY

#### Objectives

At the end of the chapter, you will be able to:

1. Have knowledge about authority, delegation, decentralization, responsibility.
2. Span of management and related aspects

## **Structure**

- 13.1 Authority
- 13.2 Delegation
- 13.3 Decentralization
- 13.4 Responsibility
- 13.5 Span of management
- 13.6 Case example
- 13.7 Activities for the students
- 13.8 Summary
- 13.9 Self-assessment Questions
- 13.10 Multiple choice questions

### 13.1 Authority

---

Authority is the power to make decisions, which guide the action of others.

Delegation of authority contributes to the creation of an organization. No single person is in a position to discharge all the duties in an organization. In order to finish the work in time, there is a need to delegate authority and follow the principles of division of labor. Delegation permits a person to extend his influence beyond the limits of his own personal time, energy and knowledge.

It is the “right of decision and command.”

#### **Definitions:**

Henry Fayol, “Authority is the right to give orders and the power to exact obedience.”

Kootnz and O’Donnell, “Authority is the power to command others to act or not to act, in a manner deemed by the possessor of the authority to further enterprises or departmental purposes.”

Terry, “Authority is the power to exact others to take actions considered appropriate for the achievement of a predetermined objective.”

According to Barnard, “Authority is the character of a communication (order) in a formal organization by virtue of which it is accepted by a contributor to or member of the organization as governing the action he contributes; that is, as governing or determining what he does or is not to do so far as the organization is concerned.”

Daris defines authority as the “right of decision and command.”

Louis Allen, “The sum of the powers and rights entrusted to make possible the performance of the work delegated.”

Simon, “The power to make decisions which guide the actions of another. It is a relationship between the individuals – one superior, the other subordinate. The superior frames and transmits decisions with expectation that they will be accepted by the subordinates. The subordinate expects such decisions and his conduct is determined by them.”

Dr. Paterson defines, “The right to command and expect and enforce obedience.”

Strong says, “Authority is the right to command.”

Massie defines, “The formal right to exercise control.”

Tannenbaum defines, “The concept authority describes an interpersonal relationship in which one individual, the subordinate, accepts a decision made by another individual, the superior, permitting that decision directly to affect his behavior.”

### **Characteristics of Authority**

The characteristics of authority are briefly explained below.

#### **1. Basis of getting things done-the right to take actions towards completion**

Authority gives a right to do things in an organization and affect the behavior of other workers of the organization. It leads to the performance of certain activities for the accomplishment of the defined objectives automatically.

#### **2. Legitimacy-positional authority**

Authority implies a legal right (within the organization itself) available to superiors. This type of right arises due to the tradition followed in an organization, custom or accepted standards of authenticity.

The right of a manager to affect the behavior of his subordinates is given to him on the basis of an organizational hierarchy.

#### **3. Decision – making-the freedom and right to make choices of action**

Decision-making is a pre-requisite of an authority. The manager can command his subordinates to act or not to act. This type of decision is taken by the manager regarding the functioning of an office.

#### **4. Implementation-as a consequence of the position held**

Implementation influences the personality factors of the manager, who is empowered to use authority. The subordinates or group of subordinates should follow the instructions of the manager regarding the implementation of decisions. The personality factor of one manager may differ from another manager.

### **Power → Authority → Responsibility → Accountability**

#### **Sources of Authority**

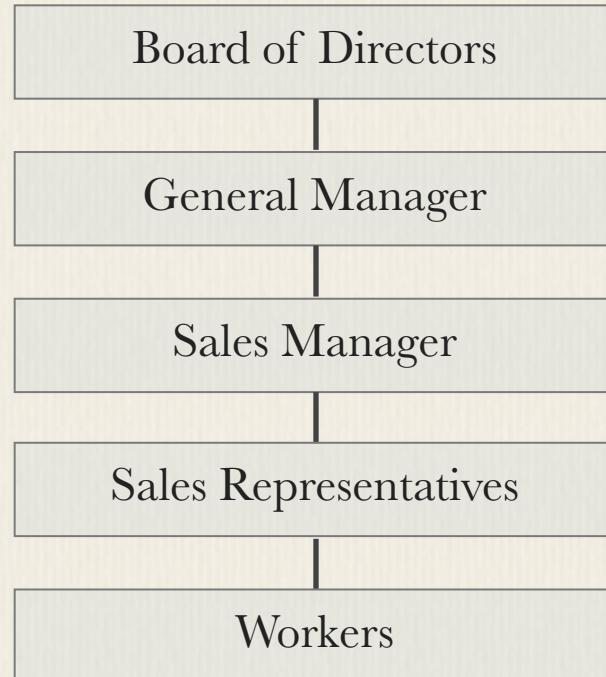
There are broadly three theories regarding the sources from which authority originates. They are :

1. The formal authority theory.
2. The acceptance of authority theory.
3. The competence theory.

Brief explanations of the above three theories are given below :

##### **1. The formal authority theory**

According to his theory, the authority flows top to bottom through the structure of an organization. In other words, the authority flows from the General Manager to his departmental manager and in turn, from the departmental manager to his superintendent and the like. This is explained in the following diagram.



The Formal Authority Theory is otherwise called Traditional Authority Theory and Top Down Authority Theory.

In the case of a public limited company, the authority is in the hands of shareholders and they delegate their authority to top management, and in turn, a part of this authority is delegated to the middle management.

### 2. The acceptance of authority theory

Chester Bannard gave this theory. According to his theory, the authority flows from the superior to the subordinates whenever there is an acceptance on the part of the subordinates. The subordinates should accept the authority but there is no compulsion made by the superior. If the sub-ordinates do not accept the command of their superior, then the superior cannot be said to have any authority over them.

According to Bannard,

“An individual will accept the exercise of authority, if the advantages accruing to him from accepting plus the disadvantages accruing to him from not accepting exceed the advantages accruing to him from not accepting plus the disadvantages accruing to him for accepting and conversely, he will not accept the exercise of authority if the latter factors exceed the former”.

The authority of a superior will be effective only when there is willingness on the part of the subordinate to accept authority and ineffective when there is lack of readiness to accept the authority on the part of the subordinate. The subordinate will not analyze every order of the superior to accept it or not. In fact, the subordinate without a second thought accepts certain orders of the superior. If the subordinate without any hesitation accepts the order of the superior, it is known as zone of acceptance.

A number of factors will determine zone of acceptance.

1. The subordinate believes that rewards will be given to him in appreciation of his efforts and skills.
2. Sincere services of subordinate to the organization will be rewarded.
3. A subordinate thinks that he has to accept the authority in a particular situation.
4. The non-acceptance of authority will result in dismissal of the subordinate from organization.
5. It is also accepted on account of special knowledge that a man may possess.
6. There is no other way available than to accept authority.
7. It is the duty of the subordinate or it may be the policy of the organization to impose the authority.

8. It is the duty of the subordinate or it may be the policy of the organization to impose the authority.
9. People have confidence in the person giving orders.

### 3. Competence theory

This type of authority is invested with the persons by virtue of the office held by them. The personal power of this type of persons is based on the leadership qualities of the person concerned. In an organization, only one person gets a higher position than others in course of time based on leadership qualities possessed by him.

## 13.2 Delegation

---

It is impossible for any person to execute all the work in an organization to achieve the objectives of the organization. Similarly, in a growing concern also, a single person cannot be vested with the entire decision making authority. So, the superior assigns duties or responsibilities to his subordinates and also delegates necessary authority to them.

### Meaning

Delegation is a process, which enables a person to assign a work to others and delegate them with adequate authority to do it.

### Definitions

Louis A. Allen, “Delegation is the dynamic process of management, which a manager follows, to divide the work assigned to him, so that he performs that part of work which only he can perform effectively, because of his unique organizational placement, and that he can get others to help him with what remains.”

Mc Farland, “Delegation is the primary formal mechanism by which the network of authority relationship is established.”

E. F.L. Brech, “Delegation means, in brief, the passing to others to share in the four elements of the management process that is to say, in the command of the activities of other people and in the responsibility for the decision that will determine the planning, co-ordination and control of the activities of such other people.”

Terry, “Delegation means conferring the authority from the executive or organizational unit to another in order to accomplish particular assignments.”

Hodge and Johnson, “A process whereby a superior decides his total work assignment between himself and subordinate managers or operative personal in order to achieve other operative and management specialization.”

Douglas C. Nasal, “Delegation consists of granting authority or the right to decision-making in certain defined areas and charging the subordinate with responsibility for carrying through an assigned task.”

### **Importance of delegation**

Delegation is considered as one of the most important methods of training subordinates and building morals. The delegation of authority helps the manager to concentrate on the important work of planning, organizing and controlling.

Delegation is a universal process, wherever human beings work in groups, one or the other form of delegation is practiced by them. In our democratic country, the people delegate their authority to the members of the legislatures. The members of legislators delegate their authority to any of the elected leaders who in turn delegates some of his authority to the cabinet ministers chosen by him.

An individual can accomplish several simple and complex works. Delegation enables a person not only to discharge his responsibility but also to discharge it effectively and economically. To a business unit, which has different branches situated at different places, there is no alternative except delegation. It is acknowledged that delegation of authority is one of the surest and the best methods of getting better results. A very good superior can use the delegation of authority as a tool for motivating and eliminating cumbersome information systems.

### **Elements of delegation**

The following are the three elements of delegation:

#### **1. Assignment of duties or responsibilities**

This work is being done only at the time, when a superior has no time to accomplish all the work. The superior automatically assigns the work of responsibility to his immediate subordinate.

#### **2. Delegation of Authority**

If the work is assigned to any subordinate, there will be a need for authority to accomplish it.

## Chapter 13 - Delegation, Span of Management

After the delegation of authority, the subordinate can get powers to accomplish the tasks in a specified time and in order.

### 3. Accountability

Accountability means that the subordinate is answerable to his immediate senior. If there is any mistake or fault committed by the subordinate, the subordinate should accept responsibility for it. In certain cases, the assignment may be made to the subordinate, and if the work is not accomplished as per the instructions issued by the superior, the superior (one who delegates authority) is answerable to the management but not the subordinate (to whom authority is delegated)

### **Principles of delegation**

#### 1. Delegation to go by results expected

It should be noted that the objectives of the organization are to be accomplished in time. The superior should clearly know what he expects from the subordinate before the delegation of authority.

#### 2. Non – delegation of Responsibility

A superior can delegate authority but not responsibility. Assigning duties does not mean delegation of responsibility. The superior should be in touch with the subordinates to know whether duties are performed and the authority is exercised properly. The ultimate responsibility for the performance of duties remains with the superior.

#### 3. Authority and responsibility should commensurate with each other

A subordinate can discharge his duties effectively and efficiently if there is proper delegation of authority, otherwise a subordinate cannot succeed in accomplishing the assigned tasks.

Authority without responsibility will make the subordinate a careless person. Likewise, responsibility without authority will make the subordinate an inefficient person. Therefore, there should be a proper balance between authority and responsibility.

#### 4. Unity of command

The principle of unity of command insists that a subordinate should get instruction from only one superior. In other words, a subordinate should be assigned duties and responsibilities by only one superior and he is accountable only to the concerned superior.

If a subordinate gets orders, instructions and directions from more than one superior, it will create uncertainty and confusion in the organization. In such a situation, the subordinate will find it very difficult to determine whose instructions, orders or directions he should carry out first.

### 5. Definition of limitations of authority

A person knows well that an authority alone can delegate the authority properly. There should be written manuals which help a person to understand the authority in right direction. This will avoid confusion regarding the delegation of authority and enable effective functioning of the concerned person.

### **Types of delegation**

A brief explanation of the different types of delegation is given below:

1. General
2. Specific
3. Written
4. Unwritten
5. Formal
6. Informal
7. Downward
8. Accrued
9. Sideward

#### 1. General Delegation

General delegation means granting authority to the subordinate to perform various managerial functions and exercise control over his subordinates. At the same time, the same persons are regulated and supervised by the top management.

#### 2. Specific Delegation

Under specific delegation, the orders, instructions or directions are delegated to a particular person specifically. For example, the Personnel manager may be delegated authority for selection of personnel, training of personnel, placement of personnel and the like.

#### 3. Written Delegation

## Chapter 13 - Delegation, Span of Management

This type of delegation is made by written orders, instructions etc. The proper usage of words is essential to this type of delegation.

### 4. Unwritten Delegation

Unwritten delegation means the authority is delegated based on custom, conversation or usage. Here, there is no evidence available for future reference.

### 5. Formal delegation

The duties and authority are shown in the organizational structure of the enterprise. For example, the production manager is assigned the responsibility and accompanying authority to maintain and increase production.

### 6. Informal delegation

In certain cases, a person has to use the authority without getting it from the top management. The reason is that he can perform his assigned duties effectively in time.

### 7. Downward delegation

Downward delegation states when a superior could delegate duties and authority to his immediate subordinate. This type of delegation is followed in most of the organizations.

### 8. Accrued delegation

Under this type of delegation, a subordinate can delegate his authority to his immediate superiors. It occurs seldom in an organization.

### 9. Sideward delegation

A person delegates authority to another person who is also in the same rank as he is in the organization.

## **Advantages of delegation**

The delegation of authority gives several advantages to the organization. The important advantages of delegation of authority are given below:

### 1. Basis of effective functioning

Delegation lays the basis for effective functioning of an organization. It creates the relationship with others and achieves various objectives of the organization. It creates the relationship with others and achieves various objectives of the organization.

### 2. Saving of time

## Chapter 13 - Delegation, Span of Management

Delegation of authority enables the superior to allot more time to important matters like planning, organizing, staffing, directing, co-coordinating, controlling and decision-making.

### 3. Reduction of work

Delegation relieves the superior from attending to the routine matters. Normally, the routine matters are allocated to subordinates. It helps the superior to carry out work that is more responsible alone.

### 4. Opportunity for development

Delegation of authority gives a very good opportunity to the subordinate to grow. It helps in identifying the best person among the various subordinates for development.

### 5. Benefit of specialized service

Delegation helps the superior to get the benefit of specialized knowledge of various persons at lower levels. For example, production is delegated to the production manager, sales to the sales manager, legal matters to the lawyer and the like.

### 6. Delegation of authority enables effective managerial supervision

### 7. Efficient running of branches

If the business has any branch, the branch affairs or activities are looked after by a separate person. He is supposed to be in charge of this branch. When he can get adequate authority with responsibility he could work for the smooth and effective functioning of the particular branch.

### 8. Interest and initiative

Whenever the delegation of authority takes place, the subordinate may do the work with interest. In certain cases, the subordinate by himself takes initiative do the work properly.

### 9. Satisfaction to subordinates

Delegation of authority will satisfy the self-actualization needs of the individuals.

### 10. Expansion and diversification of business activity

The subordinates are fully trained in decision making in various fields of the business by using the delegation of authority. This type of talents of subordinates

can be used by the top management in the expansion and diversification of the business activities.

### **Problems of delegation**

Every superior is expected to delegate part of his duties and responsibility to his subordinates. A single person cannot perform all the work. Therefore, delegation is a very important characteristic of the organization.

The proper delegation of authority is made only at the time of a proper balance between feelings of the superior and subordinates.

### **Hesitation on the part of superior**

The following are the reasons for the lack of willingness on the part of the superior to delegate authority:

#### **1. Perfectionism**

Many superiors think that he is better than others. This is true to some extent. The reason is that the superior may have had experience in doing and developed a degree of skill. If such a practice is followed by a superior, he is not a loyal employee of the organization. He should open the door to the subordinate to develop his abilities by delegating authority.

#### **2. Autocratic attitude**

Some superiors prefer to retain powers in their hands. These persons do not have belief in the delegation of authority and they interfere with the limited authority of their subordinates.

#### **3. Directions**

Many superiors lack the ability to direct the subordinates. Subordinates may misinterpret the instructions, which the superior gives. Then, the superiors cannot get the expected efficiency from the subordinate.

#### **4. Confidence**

Superiors also tend to show lack of confidence in subordinates. In the society, one cannot live without reposing in the ability of others. Therefore, each superior is expected to delegate his powers to his subordinates. If the delegation is not made, the superior has no chance to gain experience from delegation of authority. Confidence is developed gradually on the basis of success of the delegation of authority.

### 5. Control

The superior has control over his subordinates. He wants to retain the control over his subordinates and keep up the importance of his role. Hence, he hesitates to delegate his authority. Besides, the superior feels that he might be dominated if he delegates his authority.

### 6. Avoidance of risk

Risk may arise through the delegation of authority to a subordinate. Whatever may be the risk, the superior will have to take the responsibility for it. Only few managers are ready to run the risk.

### 7. Competition

Subordinates learn much more than the superior by taking advantage of delegation of authority. This results in the emergence of more talented persons than the superior. This is not liked by the superior and he avoids competition in future.

### 8. Inability of the subordinate

The subordinate does not have ability to accept any new work. The superior, who knows this fact, hesitates to delegate powers.

### 9. Inability of the superior

If the superior is an inefficient person, the work method and procedures designed by him are likely to be faulty. Therefore, the superior wants to keep all the authority with himself.

## **Hesitation on the part of subordinates**

Sometimes, the subordinates are not willing to accept delegation even though the superiors are very much interested in delegation. The reasons for not accepting the authority by the subordinates are given below:

### 1. Love of spoon-feeding

Though a subordinate is given a chance to take a decision, he may not like to decide things by himself.

### 2. Easier to ask

Subordinates often find it easy to ask their superiors for an answer than to find it out for themselves. Some superiors will accept only one solution to a problem and allow the subordinates to find out other solutions by themselves. In such a

situation, a subordinate does the work effectively and approaches his superior for an answer.

### 3. Fear of criticism

Sometimes, a subordinate may fear that even for a silly mistake in a decision, his superior may criticize him. This suppresses the initiatives of the subordinate and proves detrimental to his self-confidence.

### 4. Lack of information (or) resource

A subordinate may hesitate to accept new work due to lack of information or resources to do the work effectively.

### 5. Lack of self-confidence

Lack of self-confidence in a subordinate is also one of the reasons for not accepting any authority,

### 6. Other work

Subordinates may feel that they will not be able to finish any additional work along with the existing work. Subordinates think that if they accept authority, they may be forced to accept more work in the future.

### 7. Inadequate incentives

A subordinate may not come forward to accept any authority if there is no personal gain in doing so.

### 8. Fear of failure

Some subordinates feel that they may fail and so they do not want to accept additional responsibilities.

## **Effective delegation**

The superior has the aim to practice and encourage delegation for the efficient accomplishment of the organizational objectives. Hence, it is necessary that the nature and content of each job should be scientifically analyzed to pinpoint the job that can be entrusted to subordinates.

Normally, minor and routine types of jobs are entrusted to the subordinates. The superior is not ready to perform even the ordinary routine jobs but at the same time, there are certain jobs which cannot be entrusted; for example, the preparation of budget, formulation of policies and framing rules and regulations.

### **Steps involved in successful delegation**

The following steps will aid more successful delegation of authority:

#### **1. Establishment of definite goals**

The purpose of delegation is to enable efficient accomplishment of organizational objectives. However, delegation will be meaningless if the objectives are not properly defined. Subordinates may hesitate to accept the authority, if they do not know exactly what is expected of them.

#### **2. Developing personal discipline for supervision**

Superior should have faith in the ability of his subordinates and tolerate the mistakes committed by them. Then, every subordinate will be ready to accept the authority for efficient performance.

#### **3. Establishment of definite responsibility**

The authority and responsibility of each subordinate should be in clear terms. This will avoid the duplication of delegation.

#### **4. Motivation**

Subordinates are ready to accept the responsibility if proper motivation is available to them. Motivation may be by means of increased wages and the like.

#### **5. Determining what to delegate**

This will necessitate the appraisal of the capacity of the people and needs of the jobs. Only authority appropriate to be delegated will be considered.

#### **6. Training**

Subordinates should be properly trained in handling delegated work. Technical and non-technical training should be given to the subordinates. The non-technical training includes the development of the morale, self-confidence and leadership qualities of the subordinates.

#### **7. Report**

After delegation of any authority, the subordinate is expected to submit a report on them. Only in this way, the superior will be freed from authority jobs to concentrate on other important functions.

#### **8. Control**

The superior is held responsible to the top management even after the delegation of authority. Therefore, it is necessary to establish a suitable control system to keep

a careful watch over the performance of subordinates. If the superior finds a deviation from the predetermined procedures, he should take corrective action in time.

### **Pre-requisites for effective delegation of Authority**

A supervisor can delegate his authority after acquiring knowledge of the following pre-requisites of effective delegation:

1. The supervisor must understand the authority and responsibility of their own.
2. The supervisors must decide the portion of his authority that he wants to delegate to subordinates.
3. The supervisor should have thorough knowledge of the abilities and inabilities of subordinates.
4. The supervisor must ensure that the subordinates have understood the delegated work in the right direction.
5. The supervisor should delegate only the routine functions to subordinates.
6. The supervisor must understand the need, importance and value of delegation.
7. The supervisor should delegate the work, which can be performed independently.
8. The supervisor must dissuade the subordinate from being tempted to take decision by them.
9. The supervisor must release the decision making powers to his subordinates.
10. There should be adequate communication network within the organization.
11. There should be a clear definition of standard of accountability.
12. Delegation must be done in accordance with the overall plan for the completion of the work.
13. The delegation of authority should be confined to the organizational structure.

### **Common faults in delegation**

#### **1. Close supervision**

The supervisor has to supervise his subordinates even after delegation of authority. The advantages of delegation of authority will not be available to the organization if there is no close supervision and if the subordinates are not made to act independently.

### 2. Lack of direction

The supervisor fails to provide adequate direction to his subordinates. It places the subordinates in a position in which they do not know what is expected of them.

### 3. Lack of accountability

A supervisor cannot check the efficient use of delegated work. This is a great handicap to the superior. As a result of this, a sense of irresponsibility infuses the subordinates.

## **13.3 Decentralization**

---

Decentralization means that each section has its own workers to perform activities within the department. There will be no general office to provide these services. Under decentralization, separate staff are allocated to each department for performing those activities which cannot be centralized.

### **Advantages of decentralization**

A brief explanation of the advantages of decentralization is presented below:

#### 1. Savings of time

All paper work relating to the basic operations of the business originates from the departmental officers. Decentralization enables the department staff members to complete the work early.

#### 2. Greater efficiency and output

The workers of a particular department are well versed in the technology followed in that department. Hence, there is a possibility of increasing their efficiency. The greater efficiency leads to increase in output and minimizing the costs.

#### 3. Maintenance of secrecy

If the secrecy of the business is disclosed, it may make the organization realize a loss. Next, if a separate department is put in charge of the maintenance of secrecy under decentralization, the loss may be avoided and secrecy maintained.

#### 4. Departmental loyalty

The staff attached to a particular department for a number of years develops a sense of loyalty to the department. It results in the increase of output and improvement of the performance of the individual.

### **Disadvantages of decentralization**

The disadvantages of decentralization are explained below:

#### **1. No proper division of work**

The workload of the organization cannot be evenly divided to be given to each department.

#### **2. Duplication of work**

If the same type of work is performed in more than one department i.e., duplication of work, separate machines and equipment are used to perform the duplication of work.

#### **3. No standardization**

There is no possibility of adopting a standard procedure to perform the same type of work in all departments. Besides, it brings about difficulties in selection and training in each department.

#### **4. Heavy expenditure**

A large number of staff members and supervisors are required under this department. It leads to increase in the cost of operation.

## **13.4 Responsibility**

---

Responsibility always arises from the superior-subordinate relationship. The essence of responsibilities is obligation. If a person is entrusted with any work, he should be held responsible for the work that he completes.

### **Meaning:**

Responsibility is the obligation to do something. In other words, responsibility is the obligation to perform the tasks, functions or assignments of the organization.

### **Elements of responsibility:**

- It arises from superior-subordinate relationship.
- It results from contractual agreement.

- It cannot be transferred to anybody.
- It is created by acceptance of authority.
- There is an essence of obligation.
- It may be general or specific.
- It is a continuous process.

### 13.5 Span of Management

---

#### **Meaning**

Span of management means the number of people managed efficiently by a single officer in an organization.

It implies that a single executive should not be expected to give guidance to more people. Only limited number of persons are allocated to the executive for dividing the work or duties among the workers. In order to avoid overburden to the officers, it is essential to determine the span of control of the executive officers. In an average firm, an executive can efficiently control up to five or six subordinates. The limit of the number of members for span of control may be increased or decreased according to the levels of management. Normally, the members exercising span of control are decreased at the top level management and increased at the bottom level management.

Many management experts suggested a different number of executives for effective control. According to L. Urwic, the ideal number of subordinates is four in case of higher level management and eight to twelve in case of bottom level management.

#### **Factors affecting span of management**

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

##### **1. Character of the supervision work**

The span of control may be increased whenever the work performed is standardized. The reason is that, the supervisor has the opportunity to lay down permanent policies followed in an organization. It results in the control of more number of subordinates. If the nature of work is a complicated one, the span of control has to be restricted.

### 2. Leadership qualities

The personnel abilities and capacity of a supervisor can influence the span of management. If the supervisor has more skill to control the subordinates, the span of management may be increased and vice-versa.

### 3. Qualities of the subordinate

If the subordinates have enough talent to perform the work assigned to them, the manager or the supervisor can control more number of subordinates.

### 4. Time available to supervisor

Most of the executives or supervisors will spend a lot of time for the operating work and administrative duties like planning and organizing activities. They may supervise the subordinates into him remaining available time.

So, they can control lesser number of subordinates than the person who spends full time for their supervision.

### 5. Nature of work

Some of the works are repetitive in nature and does not require any extraordinary talent to perform. In such cases, the supervisors or the executive can control a large number of subordinates.

### 6. Level of supervision

Whenever the subordinates perform the work manually, the span of control may be increased. It means that the degree of span of control can be increased at bottom level management and decreased at the top level management.

### 7. Delegation of authority

If the authority delegates the powers of decision making, planning and execution to the subordinates, the span of control may be increased. Whenever an executive performs the planning and executive work in addition to supervision work, the particular executive can supervise relatively more number of subordinates.

### 8. Fixation of responsibility

In case the responsibility of the sub-ordinate is clearly defined, he need not contact the superior for getting guidance and instruction. Then the superior can supervise large number of sub-ordinates.

### 9. Using of standards

Standards are used in an organization to detect the errors or faults in the performance of work. So, there is no need for an executive to spend more time in watching the performance of the sub-ordinates. Then the executive can control more number of sub-ordinates.

### 10. Methods of communication

Method of communication is also one of the factors which determine the span of control. The method of communication may be divided into two i.e., Oral and Written. Oral communication requires more time and energy and these can be avoided in the written communication.

### **Graicunas' theory of Span of Management**

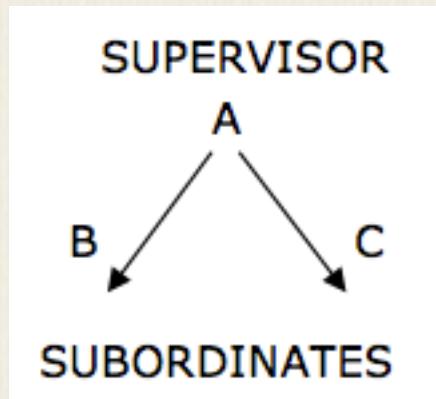
A management expert named V.A. Graicunas contributed much to the Span of Management Theory. His theory identified the relationship prevailing between the superior and the subordinate. The relationships are classified into three categories. They are given below:

1. Direct single relationships.
2. Direct group relationships.
3. Cross relationships.

The explanations of the above-mentioned three relationships are given below:

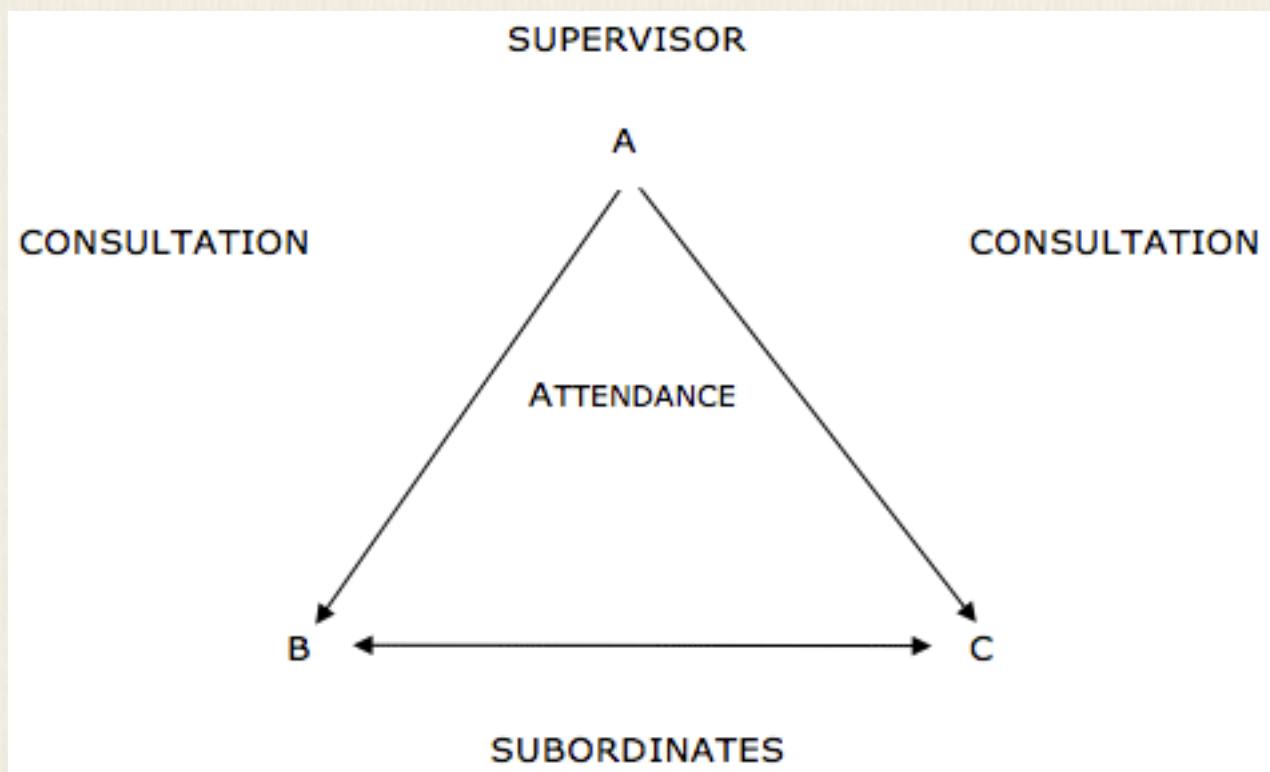
### 1. Direct single relationship

Direct Single Relationship is one in which a supervisor has direct relationship with his subordinates individually. If A supervises B and C who are subordinates, there are two direct single relationships. It is explained with the help of the following chart.



### 2. Direct group relationships

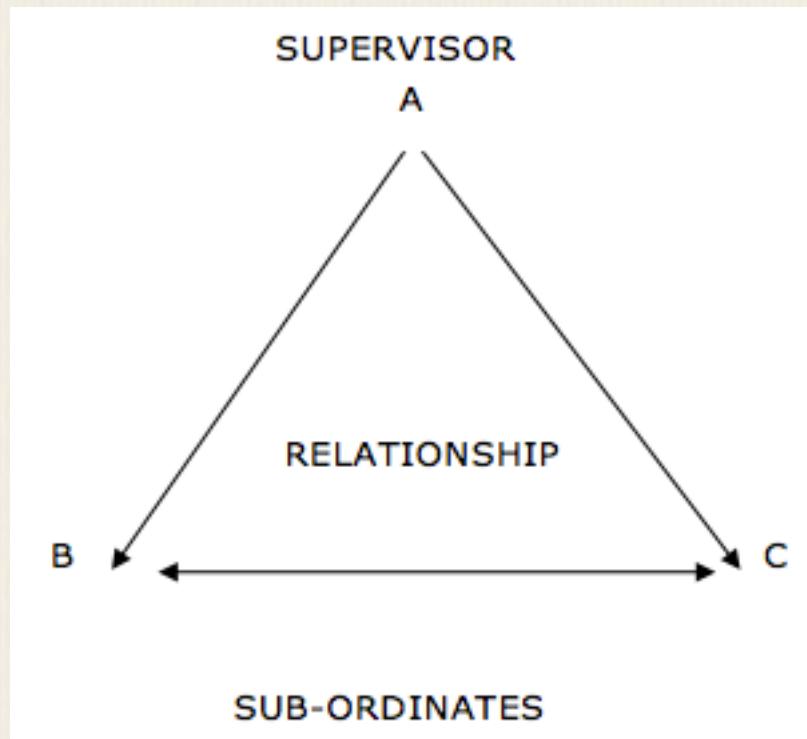
In Direct Group Relationship, a supervisor has direct relationship with his subordinates jointly. It is explained with the help of the following chart.



Here, A can consult B while C is present in a situation. In another situation, A can consult C while B is present.

### 3. Cross relationship

In Cross Relationship, a subordinate has relationship with another subordinates mutually. It is explained with the help of the following chart.



Here, the relationship prevailing between B and C is Cross Relationship.

The number of direct and cross relationships increase geometrically as the number of subordinates under the supervisor increased.

## Formula

V.A. Graicunas prescribed the following formula to ascertain the number of superiors' and subordinates' relationship.

$$\text{Number of relationships} = \mathbf{n} \left( \frac{2n}{2} \right) + (n-1)$$

Where, "n" refers to the number of subordinates.

For example, the number of subordinates, say 5, the number of superiors' and subordinates' relationships are identified as under:

**n=5**

$$\begin{aligned}\text{Formula} &= n \times 2^n/2 + (n-1) \\ &= 5 * \frac{2^5/2}{2} + (5-1) \\ &= 5 * \frac{32}{2} + 4 \\ &= 5 * 16 + 4 \\ &= 5 * 20 \\ &= 100\end{aligned}$$

The number of relationships increases in geometrical progression as shown in the following table.

Number of Subordinates	Number of Relationships
1	1
2	6
3	18
4	44
5	100
6	222
7	490
8	1080
9	2376
10	5210

The effective supervision depends upon the efficiency of the supervisor and the number of subordinates to be supervised. It is clear from the above table that the number of relationships is increased correspondingly with the increasing number of subordinates. The effectiveness of supervision decreases if the number of

relationships or subordinates increases. Therefore, the management should fix the number of subordinates to each supervisor according to nature of work. If the management does so, it can result into effective supervision.

### 13.6 Case Example

---

#### **Godha Engineering works**

This company specializes in installation of heating and air-conditioning equipment. It has earned a reputation for quality work over last forty years.

Prabhu Lal has been with the company as sales representative for two years. During this period, he believes that the company has missed a number of opportunities to obtain lucrative contracts because of certain conditions under which he is forced to operate. In case of commercial installations, he does not have the authority to make any decision or commitments during preliminary contract negotiations. For discussion of price, completion time and credit terms, he has to depend upon the technical experts who study the job and make formal commitments. Lot of time is wasted in this. During this period, some competing firm already completes negotiations and gets the contract. Prabhu Lal considers this a continuing problem and feels hampered.

What can be done on a companywide basis to improve the situation?

Do you think Prabhu Lal is justified in his complaint?

### 13.7 Activities for the students

Give an example of a case study of the process of decentralization followed in a particular industry. How would you find out whether it has been successful?

---

---

---

---

---

---

### 13.8 Summary

Authority is the power to make decisions, which guide the action of others. Delegation of authority contributes to the creation of an organization. No single person is in a position to discharge all the duties in an organization.

Delegation is a process, which enables a person to assign a work to others and delegate them with adequate authority to do it.

Decentralization means that each section has its own workers to perform activities within the department. There will be no general office to provide these services. Under decentralization, separate staff are allocated to each department for performing those activities which cannot be centralized.

Responsibility always arises from the superior-subordinate relationship. The essence of responsibilities is obligation. If a person is entrusted with any work, he should be held responsible for the work that he completes.

Span of management means the number of people managed efficiently by a single officer in an organization.

It implies that a single executive should not be expected to give guidance to more people. Only limited number of persons are allocated to the executive for dividing the work or duties among the workers.

### 13.9 Self-assessment questions

---

1. Write about delegation and its principles.
2. What is decentralization and what are its advantages and disadvantages?

### 13.10 Multiple Choice Questions

---

1. The formal authority theory is otherwise called as:
  - a. Acceptance of authority theory
  - b. Competence theory
  - c. Top down authority theory
  - d. Modern theory
2. Power to make decisions, which guide the actions of others.
  - a. Delegation
  - b. Authority
  - c. Decentralization
  - d. Responsibility
3. -----is the obligation of a subordinate to perform the duty as required by superior.
  - a. Delegation
  - b. Authority
  - c. Decentralization
  - d. Responsibility
4. A management expert named -----contributed much to the Span of Management Theory. His theory identified the relationship prevailing between the superior and the subordinate.
  - a. Deming
  - b. Fayol

## Chapter 13 - Delegation, Span of Management

- c. Theo Haimann
- d. V.A. Graicunas

5. According to L. Urwic, the ideal number of subordinates is ----- in case of higher-level management and eight to twelve in case of bottom level management.

- a. 4
- b. 8
- c. 12
- d. 5

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management

### Objectives

At the end of this chapter, you will come to know what are the latest happenings in the field of management.

## Structure

- 14.1 Introduction
- 14.2 Just in time
- 14.3 More about Lean Manufacturing
- 14.4 Total Quality Management
- 14.5 Outsourcing
- 14.6 Activities for the students
- 14.7 Summary
- 14.8 Self-assessment Questions
- 14.9 Multiple choice questions

### 14.1 Introduction

---

The globalization of product and service markets offers a unique challenge to companies today. Globalization relates to the ability to develop and produce products and services for the regions of the world different from the home country. When a firm intends to go global, its objective is to leverage its size and knowledge to produce additional sales in new markets. For many years, few companies regarded the manufacturing processes they employ, as a source of competitive advantage. The goals of the companies were cost reduction and improved utilization of labor and machinery.

As global competitors began to dominate major industries such as automobiles, domestic appliances, consumer electronics etc., managers started looking for the reasons for these companies to be successful. It was observed that these companies adopted highly efficient operations, which enabled them to produce high quality innovative products quickly. In addition to high quality, their speed to market was also high. These new world class companies established new bench-marks in the areas of quality and productivity. Processes emerged as the key competitive weapons required for success in global competition. Many Japanese companies excelled in production function.

Work in manufacturing and operations will become more exciting and challenging in the years ahead. How well processes are managed will decide whether economics of the entire nation will improve or decline. To meet these challenges, manufacturing firms are now adopting new methods and are applying new technology. In addition to this, companies are trying to gain or retain the market share by offering customers better value by improving product quality and achieving higher productivity.

### 14.2 Just in time approach

---

The JIT approach has its roots in the KANBAN system of material flow pioneered by Toyota Motor Company. The Japanese manufacturing firms especially in electronic and automobile industries became the leaders in world markets by setting standards for product quality and cost against which firms of other countries were compared. This success is often attributed to the development and application of Just in Time -JIT-production systems by the Japanese firms.

The first view of JIT is as a form of production scheduling and inventory management whereby the products are produced to meet actual demand and materials for each stage of production are received or produced “just in time” for use in the next stage of production or for delivery to the customer. This definition of JIT is called **Little JIT**.

The other view of JIT is as a revolutionary approach to manufacture by Japanese firms in which the entire way the products are designed, work is organized and responsibilities are assigned is changed drastically and a constant striving for improvement and elimination of waste is instilled. This approach to manufacture is referred to as **Big JIT**.

The Big JIT encompasses the full range of organizational and operational improvements practiced by many Japanese firms and is called as Japanese Production System or lean production system. The essence of Big JIT is: eliminate waste, speed up changeovers, work closely with suppliers, streamline the flow of work, use flexible resources, pay attention to quality, expose problems and use work teams to solve problems.

The term “Lean Production” was first used by Womach, Jones and Roos in their landmark study of the automobile industry and in their book titled “The machine that changed the world”. Now-a-days, firms speak of “going lean”, “lean manufacturing”, “lean retailing” and “lean supply chains”.

The basic ideas behind Big JIT or lean production are:

- Work in progress (WIP) inventory is reduced to the barest minimum.
- JIT is a pull system: Production at each stage is initiated only when requested.
- JIT extends beyond the plant boundaries—supplier partnerships ensure that deliveries are made on “as needed” basis.
- The benefits of JIT extend beyond savings of inventory related costs: quality problem can be identified earlier, rework and inspection of finished goods are minimized.
- The JIT approach requires a serious commitment from top management and workers alike.

<b>Comparison between conventional purchasing and JIT purchasing</b>	
<b>Conventional purchasing</b>	<b>JIT purchasing</b>
Large, infrequent deliveries	Small, frequent deliveries
multiple suppliers for each purchased item	Few suppliers, single sourcing
Short term purchasing agreements	Long term supplier partnership
Minimal exchange of information between buyer and supplier	Frequent exchange of information between buyer and supplier
Prices established by suppliers	Prices negotiated
Geographical proximity of suppliers is not important	Geographical proximity of suppliers is important

### 14.3 More about Lean Manufacturing

During the period from 1970s to 1990s, Japanese organizations spearheaded by Toyota, Mazda, Nissan, Honda and Mitsubishi developed a new kind of production technology referred to as Lean Production Systems. These systems consist of processes that have been designed to minimize their inherent wastes-of time, materials and money. Lean production systems use minimal amount of resources to

produce a high volume of high quality goods with some variety. The name “Lean Production Systems” has come to be used because these systems use much less of certain resources than the mass production systems use, i.e., less space, less inventory and fewer workers to produce a comparable quantity of output. These systems use a highly skilled workforce and flexible equipments.

In a manufacturing firm, the various kinds of wastes found are:

- Defect
- Transportation
- Inventory
- Over-production
- Waiting time
- Processing time

It is possible to identify these wastes by just walking around the manufacturing shop floor. The contributors or sources of these wastes can also be identified by

observing working conditions, shop practices and management directives. Some of these sources of waste are:

- Large lot production
- Inefficient set-up procedures
- Long production change-over times
- Poor operating performance: long processing times
- Break-down of equipment
- Poor layout of equipments for the required processes
- Insufficient work procedures and lack of performance standards
- Poor shop-floor coordination
- Poor shop-floor control

The sources of wastes are:

- ★ When production changeovers are costly and time consuming, large production lots are preferred to keep the change-over costs down. However, large lots contribute to over-production and excess inventories, which increase inventory carrying costs.
- ★ Process and equipment changeovers and set-ups take a long time because better and faster ways to do the same were not attempted.
- ★ Machines perform poorly and are unreliable because they are not maintained well and they are not attended until they breakdown completely all of a sudden.
- ★ Processes consist of wasteful steps and inefficient procedures because no one investigates them to identify these wastes, no one prescribes improved procedures and no one provides standards to which the operations should conform.
- ★ Materials on shop floor have to be moved long distances and are made to wait for long times between operations. This is because equipments are not located properly in the sequence of processing steps and nobody attempts to re-arrange the layout.
- ★ The system of production planning and control is not adequate to meet the requirements of production process and customer demand.

★ If we prefer small lot production to large lot production, then we have to reduce the size of production batches and reduce the time and effort of production changeovers. To process these many small batches through multiple operations economically, we may have to rearrange production facilities so that the subsequent operations are carried out on facilities located close to each other to reduce material handling costs and production cycle-time. Obviously small lot production reduces work in progress inventory but that would result in less stock to buffer against equipment breakdowns and machine induced defects. To overcome this problem, it is necessary to improve equipment reliability and performance through efficient maintenance programs.

The fundamental elements of lean production or wasteless production deal directly with sources of manufacturing waste, including waste from defects and quality problems. They all relate primarily to issues on the shop floor and many of them require significant changes to the roles and responsibilities of shop floor workers, supervisors and machine operators. The various elements of lean production are:

- ★ Small lot production
- ★ Set-up time reduction
- ★ Maintaining and improving equipments
- ★ Pull production systems
- ★ Focused factories
- ★ Group technology
- ★ Work cells or cellular manufacturing

Workers in lean production system are expected to be more competent than workers in traditional systems such as batch and mass production systems. They must be able to work in teams and play active roles in operating and improving the system. They have greater responsibilities than those in traditional systems.

### 14.4 Total Quality Management

---

TQM is the integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction.

## Chapter 14 - Modern Trends in Management

The TQM policy has two components:

- Defect free product /service supplied on time to customers
- Advancing the state-of-the-art which is a development process to meet the rising expectations of customers' requirements.

The foundation on which a successful TQM effort rests includes:

- Customer Focus
- Total employee Participation
- Continual Improvement
- **Total Quality Management** is a philosophy that involves everyone in an Organization in a continual effort to improve quality and achieve customer satisfaction.
- TQM is the integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction.
- Total Quality Management (TQM) are sweeping “**culture change**” efforts to position a company for greater customer satisfaction, profitability and competitiveness.
- TQM may be defined as managing the entire organization so that it excels on all dimensions of products and services that are important to the customer.
- **Total Quality Is...**
  - Meeting Our Customer's Requirements
  - Doing Things Right the First Time
  - Freedom from Failure (Defects)
  - Consistency (Reduction in Variation)
  - Continuous Improvement
  - Quality in Everything We Do

- **The salient features of TQM approach are:**

- Find out what the internal and external customers want.
- Design a product or service that will meet or exceed what the customers want.
- Design a production process that facilitates doing right, the first time, every time.
- Keep track of the result and use these results to improve the system continually.
- Extend these concepts to suppliers.

- **TQM stresses on three principles:**

- Customer satisfaction
- Employee involvement
- Continuous improvements in quality and processes

- **Eight essentials of the TQM focus**

- Customer satisfaction
- Leadership
- Quality policy
- Organizational structure
- Employee involvement
- Quality cost
- Supplier selection and development
- Recognition and reward

- **Seven important points about TQM:**

- Strive for quality in all the things
- The customer is the criterion of quality
- Improve the process or system by which products are produced
- Quality improvement is continuous, never ending activity
- Worker involvement is essential

- Ground decisions and actions in knowledge
- Encourage team work and cooperation

Total Quality Management is an approach to improving the effectiveness and flexibility of the business as a whole. It is essentially the way of organizing and involving the whole organization: every department, every activity, and every individual at every level.

When we analyze the time management in the working life, we find that a large part of the time is spent on useless activities such as:

- Speaking on phone/mobile : attending non-value-added calls
- Finding out files/documents
- Policing and investigating others' mistakes
- Reworking and rectifying
- Saying sorry to customers for delays and poor quality
- Meeting unnecessary people, mainly time wasters

TQM is a method for reducing wasted efforts by involving everyone in the process of improvement: i.e. improving the effectiveness of work so that the results are achieved in less time. The methods and techniques used in TQM can be applied throughout the organization. TQM needs to gain ground and become a way of life in the organizations.

### **Benefits of TQM:**

#### **3.3.1 To the Customer:**

- Greater satisfaction
- Cost effectiveness
- Timely delivery
- No major problems with the products/services
- Continually improved product/service from time to time
- Better customer care/treatment by the producer
- Customer's business becomes competitive

#### **3.3.2 To the Producer:**

- Better profitability

- Better productivity and quality
- Satisfied customers spread word of mouth resulting in flourishing of business
- Motivated and happy employees
- Problems are solved faster and better
- Good brand image

### **3.3.3 To the employees:**

- Empowerment
- Recognition
- Motivation
- Career enhancement

### **• Delight the customer**

- This focuses on external customers as well as internal customers and asks:"How to delight them?" This implies a real need to understand the product and service: agree requirements and fulfill them. Delight mean being best at what really matters most to the customer, which can change over time. Being in touch with these changes and always satisfying the customer are an integral part of TQM.

### **• Management by facts**

- Knowing the current quality standards of the product or service in your customer's hands is the first stage of improvement.
- Having the facts necessary to manage the business at all levels, and giving that information to everyone so that the decisions are based on facts are an essential aspect of TQM.

### **• People based Management**

- If people understand what to do, how to do it and get a feedback on their performance, and are rewarded for good performance; they will take responsibility for quality of their own work.
- The more people feel involved, the greater will be their commitment to quality and customer satisfaction.
- Role of people is extremely important; systems, standards and technology will work better if people play their roles effectively and efficiently.

- **Continuous improvement**

- TQM is not a program or a project for short time duration, which will finish when a target is achieved.
- It is a management process that understands that as we improve, our competitors also continue to improve.
- Customers will continue to expect more from us.
- Hence continual improvement should be the aim of all the team members, as a foundation of TQM.

**3.4.1 For accomplishing the above principles**, the following points must be understood:

- It is necessary to achieve successful internal working relations in order to satisfy external customers.
- A process is a combination of methods, materials, manpower and machines. All processes contain inherent variability. Our approach must be to progressively reduce variation thus improving process capability and become more consistent.
- We must measure everything how we are doing at present. What are METRICS?
  - **M**easure
  - **E**verything
  - **T**hat
  - **R**esults
  - **I**n
  - **C**ustomer
  - **S**atisfaction
- **Internal quality measurement might include:**
  - Breach of promise
  - Customer complaints
  - Accidents
  - Internal scrap/repair

- Time lost due to non-availability of raw material, absenteeism, machine breakdowns
- Cost of quality
- Delayed delivery
- **Teamwork** can provide a real opportunity for people to work together to achieve quality improvement. Bringing people together in teams with the common goal of quality improvement aids communication between departmental and functional activities. Teamwork slowly breaks down the communication barriers and acts as a platform for change. Communication is an important two-way process. It must be strengthened.
- **Teamwork** enables a group of people to work as a task force, solving cross functional problems.
- **Prevention of defects** is necessary to ensure that failures will not occur. Failure Mode and Effects Analysis is one of the very effective methods for prevention of defects in design as well as process/system.

### **3.4.2 When TQM is implemented in an Organization, it invariably starts with:**

- Setting up of TEAMS to solve particular problems.
- Culture change on a desire to satisfy the customer and eliminate existing problems permanently.
- Education and training for knowledge on how to solve the problems
- Understanding that in TQM, all work is a process.
- Problem solving process, a continuous cycle of opening our mind to a wide range of possible solutions and then deciding on the most feasible option.
- Problem solving, the basic role of which is quality improvement, to help meet customer requirements.

## **14.4 Total Quality Management**

---

The major developments in the field of supply management are:

1. Cross-functional teams
2. Supply chains and supply networks

3. Supplier partnerships and alliances
4. Strategic sourcing
5. E-procurement

### **Cross-functional teams:**

Cross functional teams are used to meet specific stated objectives such as new product development or negotiations of all terms and conditions of a purchase agreement. The responsibilities of the Cross functional teams include:

- ★ Material requirement review
- ★ Development of specifications
- ★ Make or buy analysis
- ★ Standardization of materials
- ★ Determination of inventory levels
- ★ Determination of quality requirements
- ★ Negotiation of price and terms and conditions of supply
- ★ Supplier selection
- ★ Joint problem solving with suppliers
- ★ Monitoring the suppliers and analyzing their performance
- ★ Communication in changes in specifications
- ★ Improvements of cost/productivity
- ★ Developing sourcing strategy
- ★ Market analysis
- ★ Price forecasting
- ★ Long range purchase planning
- ★ Determining purchase policies
- ★ Value analysis

### **Supply chains and supply networks:**

The supply chain is the upstream portion of the firm's value chain. It is responsible for ensuring that the right materials, services and technology are purchased from the right source, at the right time, in the right quality. The supply chain is a series of organizations extending all the way back to firms which extract materials from Mother Earth. All the members of this supply chain perform a series of value-adding activities and produce the finished goods and services purchased by the ultimate customer.

The development and management of supply chains and supply networks is one of the most challenging aspects of supply management. Once a critical service, commodity or commodity class is identified, a strategic plan must be developed.

The various considerations in developing a supply strategy are:

- Organizations technology road-map
- The supply base of the firm
- A list of world class suppliers of the items
- Plans for selecting and upgrading the suppliers
- Objectives for the relationship
- Plans for managing and nurturing the relationship

A Cross functional team led by a supply management professional will be involved in the selection of desired suppliers, negotiation of applicable terms and conditions and ongoing management of relationships with the suppliers. The supply management professional should be the one who is both technically and commercially competent.

### **Supplier partnerships and strategic alliances:**

Major categories of supply relationships are:

- Arm's length relationships
  - Vendors
  - Traditional suppliers
  - Certified suppliers
- Collaborative relationships
  - Partnership type relationship

### ⦿ Strategic alliance

Historically, the vast majority of the buyer-seller relationships have been in an arm's length mode. In many cases, the buyer and seller had adverse relationships because both believed in taking advantage of the other to get a good deal.

However, in modern approach, the buyer-seller relationships enlightened self-interest, and the realization that competition is between value chains, all combine to motivate buyers and sellers in a collaborative mode.

- Compatibility of interests
- Mutual need
- Willingness to be open for sharing information and benefits resulting from the relationship
- Trust

### **Strategic sourcing:**

It embraces several concepts of world class supply management and greatly facilitates the progression to the world class status. Strategic sourcing is defined as a systematic process that directs supply managers to plan, manage and develop the supply base in line with firm's strategic objectives. It is the application of current best practices to achieve full potential of integrating suppliers into the long-term business process. Strategic sourcing identifies new materials and technologies and the activities of the competitors. The four principles that differentiate strategic sourcing from traditional purchasing are:

- Defining the total value of the relationship between the buyer and the supplier
- Developing solutions based on a deep understanding of the economies of the supplier and the dynamics of the business.
- Using differentiated purchasing tactics in order to optimize the economic relationship for both buyer and supplier
- Imbedding the required changes in the organization so that the buyer achieves not only measurable performance improvement in the short term but also the ability to improve on a continuous basis.

A four-step improvement process is adopted by cross functional team during the development of a strategic sourcing project. These steps are:

- Research the industry economics and dynamics of the commodity assigned to the team

- Evaluate sourcing strategies and capabilities of the suppliers
- Structure the supply relationship jointly with suppliers and develop action plans to build the required infrastructure
- Implement the plan and organize for continuous improvement.

### **E procurement:**

The non-value adding activities and paperwork processing of buyers are eliminated by E procurement. The internal end user of an item or service need not depend on the purchasing personnel and is now empowered to place orders through the internet directly on the suppliers who are selected by the sourcing teams. The supply professionals are relieved of the responsibility of placing the orders and doing follow up of suppliers. They can now focus on:

- Early involvement in the development of requirements
- Strategic sourcing
- Pricing
- All actions required to ensure timely delivery of materials or timely completion of services in the specified quality level.

### **Outsourcing:**

Outsourcing can offer greater budget flexibility and control. Outsourcing lets organizations pay for only the services they need, when they need them. It also reduces the need to hire and train specialized staff, brings in fresh engineering expertise, and reduces capital and operating expenses.

One of the biggest changes in the early 21st century came from the growth of groups of people using online technologies to use outsourcing as a way to build a viable service delivery business that can be run from virtually anywhere in the world. The preferential contract rates that can be obtained by temporarily employing experts in specific areas to deliver elements of a project purely online means that there is a growing number of small businesses that operate entirely online using offshore contractors to deliver the work before repackaging it to deliver to the end user. One common area where this business model thrives is in providing website creation, analysis and marketing services. All elements can be done remotely and delivered digitally, and service providers can leverage the scale and economy of outsourcing to deliver high-value services at reduced end-customer prices.

### **Reasons for outsourcing**

## Chapter 14 - Modern Trends in Management

Companies outsource to avoid certain types of costs. They outsource the non-core activities.

Among the reasons companies elect to outsource include the avoidance of regulations, high taxes, high energy costs, and costs associated with defined benefits in labor-union contracts and taxes for government-mandated benefits. Perceived or actual gross margin in the short run incentivizes a company to outsource. With reduced short-run costs, executive management sees the opportunity for short-run profits, while the income growth of the consumer base is strained. This motivates companies to outsource for lower labor costs.

However, the company may or may not incur unexpected costs to train these overseas workers. Lower regulatory costs are an addition to companies saving money when outsourcing. Companies may seek internal savings to focus money and resources towards core business.

A company may outsource its landscaping functions irrelevant to the core business. Companies and public entities may outsource certain specialized functions, such as payroll. Companies may find the same level of consumer satisfaction.

Outsourcing may increase the risk of leakage and reduce confidentiality, as well as introduce additional privacy and security concerns.

### 14.6 Activities for the students

---

Visit an automobile company in your neighborhood, study the outsourcing process, and give your opinion about it.

---

---

---

---

### 14.7 Summary

---

Work in manufacturing and operations will become more exciting and challenging in the years ahead. How well processes are managed will decide whether economics of the entire nation will improve or decline. To meet these challenges, manufacturing firms are now adopting new methods and are applying new technology. In addition to this, companies are trying to gain or retain the market share by offering customers better value by improving product quality and achieving higher productivity.

### 14.8 Self-assessment questions

---

1. Explain E-procurement.
2. Explain benefits of TQM to the customer.

### 14.9 Multiple Choice Questions

---

1. The JIT approach has its roots in the -----system of material flow pioneered by Toyota Motor Company.
  - a. TQM
  - b. Kanban
  - c. SPC
  - d. TQC
2. The -----encompasses the full range of organizational and operational improvements practiced by many Japanese firms and is called as Japanese Production System or lean production system.
  - a. Big JIT
  - b. Kanban
  - c. Small JIT
  - d. Little JIT

## Chapter 14 - Modern Trends in Management

3. -----is the integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction.

- a. TQM
- b. SPC
- c. JIT
- d. Kanban

4. -----teams are used to meet specific stated objectives such as new product development or negotiations of all terms and conditions of a purchase agreement.

- a. Quality circles
- b. Engineering design
- c. Cross-functional
- d. Inter-departmental

5. Companies outsource to avoid certain types of costs. They outsource the -----activities.

- a. Core
- b. Non-core
- c. Simple
- d. Complicated and unsafe

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)



## Principles of Management



### Objectives

At the end of this chapter, you will be able to:

- Have knowledge about decision making, its characteristics, elements, principles
- Types of decisions and personal phase of decision making
- Administrative problems in decision making

## Structure

- 15.1 Introduction
- 15.2 Characteristics of decision making
- 15.3 Elements of decision making
- 15.4 Decision making process
- 15.5 Principles of decision making
- 15.6 Characteristics of a good decision
- 15.7 Administrative points for decision making
- 15.8 Types of decisions
- 15.9 Personal phase of decision making
- 15.10 Case examples
- 15.11 Activities for the students
- 15.12 Summary
- 15.13 Self assessment questions
- 15.14 Multiple choice questions

### 15.1 Introduction

---

Can there be anyone who has not taken any decision in his life? The answer is NO. Everyone must have taken some or the other decision sometime or the other. Be it taking admission in the school, be it making a friendship with someone, be it buying a bicycle when the person was in his school days. In college days, the decision could be about going for trekking, taking part in tournaments etc. Mistakes were possibly made while taking decisions and learning the lessons from the mistakes, improvements might have been made.

Every one of you takes decisions, but the question is “how?” Have you taken the decision consciously? What situation have you gone through while making a decision? Sometimes it is a stressful exercise, isn’t it?

It all starts with setting up of SMART goals. After the goals are set, the very act of setting goals makes you mature, because an inner climate of responsibility, taking charge of the situation is created and decision making becomes rather easy.

As a manager you collect facts and figures and act on it. But do you do it logically? Decision making is one of the most crucial functions in management process. Decision once taken can make or break the management process. If you take a wrong decision, you have to face the adverse consequences.

The success of management depends upon the quality of decision. If the manager fails to take a sound decision, he is likely to face all round ineffectiveness.

Although the decisions are seen rational, in reality they need to strike a balance between rationality, logic and emotions.

Take the example of acquisition of your apartment. You give your specifications of the apartment such as the north facing, size of the bedrooms, ventilation etc. and the broker gives you three choices which are exactly as per your specifications. Do we actually decide on the basis of these facts?

Decision making is a subjective process. In the business environment, it is necessary to reduce this subjectivity. A few managers who have the leadership qualities are able to take decisions objectively, considering facts and figures and other factors including emotional aspects.

Decision making is not only art but also science. The reason is that there are too many choices, too many constraints and dictates. People get into turmoil, get disturbed and freeze. Some people avoid taking decisions themselves and ask others to take decisions on their behalf.

## Chapter 15 - Decision Making

In crisis situations, when there are no options, decisions are taken on gunpoint.

However, there are some people take their own decisions logically, which on the face of it sound unacceptable to the society but in the long run, society accepts them.

As per Andrew Smilagyi, “Decision making is a process involving information, choice of alternative actions, implementations and evaluation that is directed to the achievement of certain stated goals.”

As per George R. Terry, “Decision making is the selection based on some criteria from two or more possible alternatives.”

### 15.2 Characteristics of decision making

---

1. Decision making is a **selection** process. The best alternative is selected out of many available ones. If there is only one alternative, there is no decision making.
2. Decision making is the **end process**. It is preceded by detailed discussion and selection of alternatives.
3. Decision making is the application of intellectual abilities to a great extent. An intelligent man alone can take a good decision.
4. Decision gives **happiness** to an endeavor who takes various steps to collect all the information which is likely to affect a decision. In many families, children are not allowed to take decisions. In fact, if they are allowed to take decisions, their **confidence level** improves, and they learn from their mistakes and are not afraid to decide on important matters. They get a sense of **responsibility** and it results into their growth.
5. Decision making is situational. An individual takes decision according to the prevailing situation. Different decisions may be taken to solve the same problem.
6. Decision making is a dynamic process. An individual takes a number of decisions every day.
7. Decision is taken to achieve the objectives of an organization.
8. Decision maker has the freedom to take a decision which involves using of resources in specified ways.

9. Decision making involves the evaluation of available alternatives through critical appraisal methods.
10. A decision may be both negative and positive. A decision may direct others what to do or what not to do.

### 15.3 Elements of decision making

---

1. A problem is fully analyzed and the available alternatives are evaluated before taking a decision, which requires intelligence, experience and insight into the problem.
2. A decision is taken according to the environment of the business.
3. If the authority is centralized, all the important decisions are taken by the chief executive. If the authority is decentralized, only key decisions are taken by top executive and the routine decisions are taken by the lower level management people.
4. The psychology of an individual is involved in decision making.
5. A decision discloses preferences, intellectual maturity, experience, educational standard, social and religious attitudes, optimism or pessimism, designation and status of the decision maker.
6. Decisions are taken when they are needed.
7. As soon as the decisions are taken, they must be communicated to the concerned persons. Decisions are communicated without ambiguity.
8. Employees are also involved in decision making process.
9. Political and social environment of business affect the decision making.
10. If the management takes a decision after consulting the employees, the following advantages may accrue:
  - Better relations with employees
  - Loyalty to the management
  - No hindrance in implementation
  - Efficiency is increased
  - Issuing directions to employees becomes easy.

### 15.4 Decision making process

#### 1. IDENTIFICATION OF A PROBLEM

Problem arises due to difference between what should be and what is. Main reason is changes in business environment. So the manager should clearly define what the problem is. Then he should separate the concern. For example, instead of saying that the quality is bad, he should say that 2% components are rusty. A well defined problem is equal to half solved. Then the manager should find out the causes of the problem. It is necessary to continuously watch the situation and find the cause of the problem. For this, he may have to look into management reports, find deviations from budget if any, compare the company's results with competitor's results, efficiency of employees, any changes in environment etc. He has to use his experience, imagination and judgment in order to find out the real nature of the problem.

#### 2. DIAGNOSING THE PROBLEM

The manager should act as a doctor and diagnose the problem with the help of available information.

#### 3. COLLECT AND ANALYZE THE RELEVANT INFORMATION

The manager should collect information at various levels and study the information with great care.

#### 4. DISCOVERY OF ALTERNATE COURSE OF ACTION

Creative thinking is necessary to develop or discover many alternate courses of action. If there are more and more alternatives, the manager will have more freedom to take a decision.

#### 5. ANALYZING THE ALTERNATIVES

The pros and cons of available alternatives are analyzed and compared with each other. Some alternatives offer maximum benefits than others. The decision maker can prepare a list of limits for each alternative.

### SCREENING OF ALTERNATIVES

The available alternatives are screened in the order of the benefits derived from them. Each alternative is evaluated in terms of risks involved in implementing them. Both tangible and intangible factors are considered while evaluating or screening each alternative.

Tangible factors include profit earned, time taken, money invested, rate of return on investment, rate of depreciation etc. Intangible factors include public relations, goodwill of the company, loyalty of employees etc.

Peter F. Drucker has suggested the following criteria to evaluate the available alternatives:

1. Degree of risks involved in each alternative
2. Economy of efforts, cost and time
3. Is the problem urgent?
4. Limitations of resources – physical, financial and human resources

### SELECTION OF THE BEST ALTERNATIVE BASED ON DECISION ANALYSIS, EXPERIENCE, EXPERIMENTATION, RESEARCH & ANALYSIS

#### **Decision analysis:**

The selected alternative should give maximum benefits to the organization and it should fit with the organizational objectives. There are two types of objectives :

- Must objectives
- Want objectives

The alternative must fulfill the must objectives. Otherwise the alternative is considered as NO GO.

The weightage is attached to each want objective, as to how much important it is for the organization. (weightage on the scale of 1-10). The alternative is then evaluated as to how far it is fulfilling the want objective. (This is called as score on the scale of 1-10).

## Chapter 15 - Decision Making

Then the weigh-score is calculated as follows:

Weight - score = weightage x score = maximum 100 and minimum 1.

The alternative which is “GO” in must objective test and which has maximum weight-score is selected.

It is also analyzed whether there would be any adverse consequences of the decision.

### **Experience:**

The manager can select the alternative on the basis of his past experience. But the situation changes from time to time. So the past decisions should be suitably amended to suit the present situation.

### **Experimentation:**

Each alternative is put into practice and the results are observed. The alternative which gives best results will be selected. For example, before the organization selects a production technique, it goes to trial production. The organization finally selects the production technique which results in quality production with minimum loss and expenses. This is an expensive and time consuming approach.

### **Research and analysis:**

In case of critical situation, a lot of calculations are completed with the help of computers, and the decision is taken.

CONVERSION OF DECISION INTO ACTION

IMPLEMENTATION

VERIFYING THE DECISION

It is the duty of every manager to see whether the decision is properly implemented or not. He also must verify that there are no adverse consequences of the decision. It ensures the achievement of objectives. If the manager feels that the selected alternative is not the best one, an amendment must be made to achieve desired goals.

### 15.5 Principles of decision making

---

#### 1. Marginal theory of decision making:

The very purpose of the organization is aimed at maximizing profits. Decision making should be based on marginal analysis. The manager adopts the principle of Law of diminishing returns. If the management appoints additional labor and uses additional capital, the production may be increased proportionally. But a time comes when there is no increase in production with appointment of additional labor and using additional capital. Then appointment of additional labor and capital will be stopped. This marginal principle is applied while taking decisions relating to sales, advertisement promotion, training etc.

#### 2. Mathematical theory:

Probability theory: Consider the case where student A attends a particular class about three quarters of the time. On any given day the professor could claim that the probability of student A attending the class is 75%. However, the student knows whether or not he is going to attend class so that he would state that the probability of his attending class on any particular day is either 0% or 100%. Clearly the probability of the event happening is dependent on the prior knowledge of the individual making the statement.

Consider the probability of selecting a diamond card from a deck of 52 playing cards. Since there are 13 diamonds in the deck, the probability is just  $13/52 = 1/4$ .

Queueing theory: Queueing theory is the mathematical study of waiting lines, or queues. In queueing theory a model is constructed so that queue lengths and waiting times can be predicted. Queueing theory is generally considered a branch of operations research because the results are often used when making business decisions about the resources needed to provide a service.

A manager takes a decision on the basis of such a mathematical theory.

#### 3. Psychological theory:

A manager takes a decision on the basis of his aspiration, technological skill, personality, social status, and organizational status.

#### 4. Principle of alternatives:

## Chapter 15 - Decision Making

As told above, decision making is a **selection** process. The best alternative is selected out of many available ones. If there is only one alternative, there is no decision making.

### 5. **Principle of limiting factors:**

The fundamentals of problem are studied. An inference or a conclusion is drawn on the basis of study. The manager takes a decision with the help of the inference or the conclusion. The decision may be based on a limiting factor such as time, cost or resources. The reason is that this decision can be implemented in a particular situation.

### 6. **Principle of participation:**

This principle is based on human behavior and human relationship. Each and every person wants to be treated as an important person. So the management may allow the employees to have a say in the process of decision making.

Subordinates should be consulted and the weightage should be given to the opinion expressed by the subordinates, even though they are not concerned with the matter. This honors their presence and results in winning their confidence. The management can ascertain the reaction of the employees to the proposed decision.

## 15.6    **Characteristics of a good decision**

---

### **Action orientation:**

Various steps are necessary in implementing the decision. For implementation, the decision should have utility. There is no use of taking a decision if the management does not find it necessary to implement the decision.

### **Goal direction:**

An organization is functioning to achieve certain goals. Every day the manager takes a number of decisions. Then the action is directed to achieve the goals. The value of decision depends upon the quantum of goals achieved.

### **Efficiency in implementation:**

An effective decision alone will have scope for implementation, because it is taken by considering all possible internal and external factors, and implemented with full cooperation of employees.

## 15.7 Administrative points for decision making

### ACCURACY

DECISION SHOULD BE TAKEN BY ANALYSING THE SITUATION AND SHOULD BE ACCURATE

### ENVIRONMENT

MUTUAL COOPERATION AND PROPER UNDERSTANDING AMONG EMPLOYEES ARE NECESSARY FOR CREATING A SATISFACTORY ENVIRONMENT, WHICH WILL LEAD TO EFFECTIVE DECISIONS

### TIMELY DECISION

TIME PLAYS AN IMPORTANT ROLE IN DECISION MAKING. OTHERWISE, THE DECISION WILL BE A WASTE.

### COMMUNICATION

THE DECISION MAKER SHOULD COMMUNICATE THE DECISIONS TO CONCERNED PERSONS IN THE LANGUAGE KNOWN TO THEM.

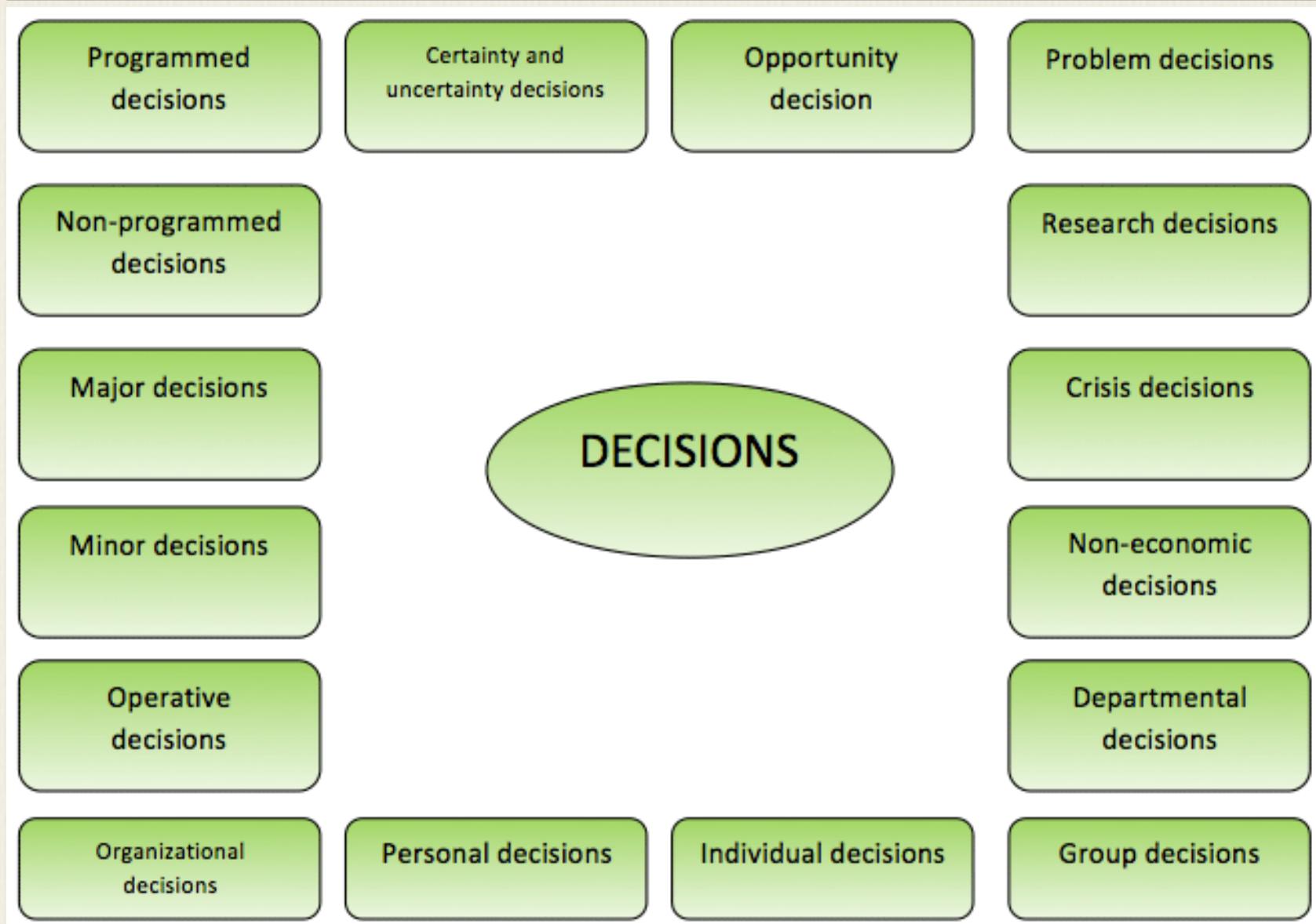
### PARTICIPATIVE DECISION MAKING

THE EXTENT OF PARTICIPATION OF WORKERS IN DECISION MAKING DEPENDS UPON THE WILLINGNESS OF THE MANAGEMENT. IT IS NECESSARY TO ALLOW WORKERS TO PLAY THEIR ROLE WHILE TAKING A DECISION

### IMPLEMENTATION

THE DECISION MAKER HAS THE RESPONSIBILITY TO IMPLEMENT THE DECISION. HE SHOULD GET THE COOPERATION OF HIS SUBORDINATES TO IMPLEMENT THE DECISION.

## 15.8 Types of decision



Some of the above points are explained as follows:

1. Programmed decisions:

These are routine and structured decisions which are repetitive in nature. The decision is taken within the purview of the policy of the organization.

e.g. granting overtime work.

2. Non-programmed decisions:

These are otherwise called as policy decisions, strategic decisions or basic decisions. E.g. whether to export or not.

3. Operative decision:

These are related to day to day operation.

E.g. time of payment of overtime wages.

### 4. Non economic decision:

It refers to the decision which does not incur any expenses.

E.g. setting right the moral behavior of employees.

### 5. Problem decision:

A decision is taken to solve an expected or unexpected problem. Besides, the decision does not create any more problems.

### 6. Certainty decision:

It refers to decision taken on the basis of accurate knowledge of the outcome from each choice. For example, ascertaining how much profit will be maximized by introducing a new product or increasing the selling price.

### 7. Uncertainty decision:

The outcome is not known accurately. Several outcomes are possible. For example, we suspended a union leader because of his misbehavior. We were not knowing as to what the consequences will be.

## **15.9 Personal phase of decision making**

---

Generally, the manager is a decision maker in any organization. Two managers do not take same decision even though the same data are supplied to them. The difference in decision making is due to personal characteristics and qualities of managers.

The decision maker may not make the best decision in all the cases. Further, there is no method to test his decision if it is the best or not. There is a need of definite policies and criteria in the organization to test a decision to find out if it is good or right. Various characteristics of managers are:

### 1. Intelligence:

This is ability of using common sense in decision making. It may not be concerned with formal education. Highly educated persons do not take best decisions in all cases. There is a need of perception of quality in managers to take the best decisions.

### 2. Education:

Education develops the broad outlook of the decision maker. Higher education does not always mean good education. Good education helps the decision maker to take the best decision even in complex situations. One can get a master's degree from a recognized educational institution, whereas good education means acquiring thorough knowledge in a particular area of subject matter. If a person has inner urge to learn more and more, he will become expert in taking decisions.

### 3. Experience:

The experience of an individual can improve the decision making ability. Decision maker can survive only when he has skill for original thinking. Decision maker should use his personal experience in taking a decision.

### 4. Courage:

The decision maker should have courage to take and implement a decision. The very success of decision depends upon the courage of the decision maker.

### 5. Motivation:

Everybody wants recognition for his action. Likewise, a person who takes a decision wants to have it recognized by his colleagues. If not, he will not take even a simple decision. Recognition of decision is a tonic for motivation. Further, the decision maker does not like criticism and suggestions.

### 6. Forecasting ability:

The quality of a decision depends upon the forecasting ability of the decision maker. The decision maker is able to use available opportunities and take better decisions.

### 7. Self confidence:

The self confident decision maker will not hesitate to take decisions. If the decision maker has no self confidence, he will make delay in the decision making process and the situation will go from bad to worse.

### 15.10 Case examples

---

#### **Birla Steel Ltd**

Harish Bhatt, MBA, is working in Birla Steel, Jaipur for seven years. It was decided to build a new branch plant in which Harish was selected to be the manager, with a promise that if the new plant were success, he would be promoted to a higher post. The location of the plant was to be decided by the committee of which Harish was the Chairman. In the committee's first meeting, Harish explained to the members the ideal requirements for the new plant and gave them one month to come up with three choice locations.

The committee met after one month and recommended Gurgaon, Chennai and Indore as the three choices. Harish thanked the members and told them that he would study the report in depth.

In the evening, he asked his wife about Gurgaon to which she said "NO". She said that she preferred Indore, and in case he insisted upon Gurgaon, he had to go there alone.

The next day, Harish called his committee together and said, "Gentlemen, I am convinced that Indore will meet the needs of our new plant than Gurgaon or Chennai."

What is your view on this decision?

#### **Group Decision making**

Hemant Jha, plant manager of a manufacturing company, attended a seminar, of four weeks duration, devoted to the topic of executive decision-making, conducted by a reputed university.

Impressed by Prof. Tripathi's lectures on group discussion and group decision making, Jha returned to the plant. He decided to practice some of the principles he had learned.

He called together the 25 employees of his department and told them that the production standards established several years ago were now too low in view of the recent installation of automated equipment. He wanted the employees to decide among themselves, as a group, what the new standards should be.

Jha believed that employees would doubtlessly establish much higher standards than the existing ones. However, he was amazed when he came to know that contrary to his belief, the group considered the existing standards as already too high, and therefore decided to reduce them by 10%. These standards, Jha knew

## Chapter 15 - Decision Making

were far too low to provide a fair profit on the owner's investment. Yet, it was clear that his refusal to accept the group decision would be disastrous.

What advice would you give to Jha?

How could Jha have avoided his difficulties?

### 15.11 Activities for the students

#### Activity A

Make a list of “must” objectives and “want” objectives of your life and make a decision analysis chart.

---

---

---

---

---

#### Activity B

Consider that after your graduation, you have got an admission in IIT, Mumbai with stipend and also in NID, Ahmedabad with no stipend, for a post graduate diploma. How will you decide which admission to be cancelled?

---

---

---

---

---

### 15.12 Summary

---

Decision making is one of the most crucial functions in management process. Decision once taken can make or break the management process. If you take a wrong decision, you have to face the adverse consequences.

The success of management depends upon the quality of decision. If the manager fails to take a sound decision, he is likely to face all round ineffectiveness.

Although the decisions are seen rational, in reality they need to strike a balance between rationality, logic and emotions.

### 15.13 Self-assessment questions

---

1. Explain the decision making process.
2. What are the problems in decision making?
3. What are the qualities of a decision maker?

### 15.14 Multiple Choice Questions

---

1. Decision gives -----to an endeavor who takes various steps to collect all the information which is likely to affect a decision.
  - a. Tension
  - b. Bad name
  - c. Happiness
  - d. Money
2. Decision making involves the evaluation of available -----alternatives through critical appraisal methods.
  - a. Finance
  - b. People
  - c. Material
  - d. Alternatives

## Chapter 15 - Decision Making

3. Marginal theory of decision making.

- a. Law of the land
- b. Laws of motion
- c. Law of diminishing returns
- d. Theory of relativity

4. A union leader was suspended for his misbehavior.

- a. Major decision
- b. Problem decision
- c. Individual decision
- d. Uncertainty decision

5. Various characteristics of managers are: (Find out the wrong one)

- a. Intelligence
- b. Courage
- c. Experience
- d. Personality

## Reference Material

---

Click on the links below to view additional reference material for this chapter.

[\*\*Summary\*\*](#)

[\*\*PPT\*\*](#)

[\*\*MCQ\*\*](#)

[\*\*Video1\*\*](#)

[\*\*Video2\*\*](#)