

UNIT-III

UNIT-III: Leading, Motivation and Controlling:

Leadership, Power and Authority, Leadership Styles; Behavioral Leadership, Situational Leadership, Leadership Skills.

Motivation – Types; Motivational Theories – Needs Hierarchy Theory, Two Factor Theory, Theory X and Theory Y.

Controlling – basic control process – control techniques.

What is Leadership?

Leadership is a process by which an executive can direct, guide and influence the behavior and work of others towards accomplishment of specific goals in a given situation. Leadership is the ability of a manager to induce the subordinates to work with confidence and zeal.

Leadership is the potential to influence behaviour of others. It is also defined as the capacity to influence a group towards the realization of a goal. Leaders are required to develop future visions, and to motivate the organizational members to want to achieve the visions.

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.”

According to Chester I Barnard, "It (leadership) refers to the quality of the behaviour of the individual whereby they guide people on their activities in organized efforts".

According to Terry, "a leader shows the way by his own example. He is not a pusher; he pulls rather than pushes".

According to Koontz and O'Donnell - Managerial leadership is "the ability to exert inter-personal influence by means of communication, towards the achievement of a goal. Since managers get things done through people, their success depends, to a considerable extent upon their ability to provide leadership".

NATURE OR CHARACTERISTIC FEATURES OF LEADERSHIP

- 1. Leadership implies the existence of followers:** We appraise the qualities of leadership by studying his followers. In an organization leaders are also followers for e.g.:- Supervisor works under a branch head. Thus, in a formal organization a leader has to be able to be both a leader as well as a follower and be able to relate himself both upward and downward.
- 2. Leadership involves a community of interest between the leader and his followers:** In other words, the objectives of both the leader and his men are one and the same. If the leader strives for one purpose and his team of workers work for some other purpose, it is no leadership.
- 3 Leadership involves an unequal distribution of authority among leaders and group members:** Leaders can direct some of the activities of group members, i.e., the group members are compelled or 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.
- 4. Leadership is a process of Influence:** Leadership implies that leaders can influence their followers or subordinates in addition to being able to give their followers or subordinates legitimate directions.
- 5. Leadership is the function of stimulation:** Leadership is the function of motivating people to strive willingly to attain organizational objectives. A successful leader allows his subordinates (followers) to have their individual goals set up by themselves in such a way that they do not conflict with the organizational objectives.

6. A Leader ensures absolute justice: A leader must be objective and impartial. He should not follow unfair practices like favouritism and nepotism. He must show fair play and absolute justice in all his decisions and actions.

When the question is about influencing or manipulating others, two things go side by side in the field of management are Power and Authority.

Authority may be defined as the right to guide and direct the actions of others and to secure from them responses which are appropriate to the attainment of the goals of the organization.

According to Barnard, “Authority is the character of communication(order) in a formal organization by virtue of which it is accepted by a contributor to, or member of the organization as generating 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.”

Power refers to the ability or capacity to influence the behavior or attitudes of other individuals. A manager’s power may be considered as his ability to cause subordinates to do what the manager wishes them to do. **Power is an important means to enforce obedience to the rules, regulations and decisions of the organization.** Power may be derived on personal or institutional bases. The use of power may affect the behavior of people in the desired manner. But it does not necessarily imply that the people are in agreement with the exercise of power.

	Basis for Comparison	Power	Authority
	Meaning	Power means the ability or potential of an individual to influence others and control their actions.	The legal and formal right to give orders and commands, and take decisions is known as an Authority.
	What is it?	It is a personal trait.	It is a formal right, given to the high officials.
	Source	Knowledge and expertise.	Position & office
	Hierarchy	Power does not follow any hierarchy.	Authority follows the hierarchy.
	Resides with	Person	Designation
	Legitimate	No	Yes

Though the concepts of **Authority and Power** are related to each other, there are some differences between them which are outlined as follows:

- Ability vs Right:** Power is a generalized ability endowed in an individual to influence the actions of others. Authority is vested in formal managerial or administrative positions. It gives the position holder the right to influence behavior and to demand compliance. Legitimate formal position is only one of the bases of power. Thus authority is a form of power. Power is a broader concept than authority.
- Formal-non-formal:** Authority is generally associated with formal organizations. But the other bases of power operate and become effective in non-formal situations also. Authority has rational legal implications while power may or may not have such implications.
- Personal-Impersonal:** Authority is impersonally vested in job positions. But the other bases of power, as for example, charisma, knowledge, and reference have personalized bases and need not flow from the position held by the individual power holder concerned. This means that authority can be delegated. But power based on other sources-for example, experience cannot be delegated.
- Degree of structure:** Authority is more structured in organizations and governed by several due forces, procedures and constraints. It flows downwards and can be exercised in a well defined, functional manner only. On the other hand, some forms of power are less structured. They are more flexible and open. They flow not only downwards, but also upwards and sideways as for example, the power of subordinates to withhold co-operation to their superior. In power relationships based on sources other than authority, there are no fixed superiors and subordinates.
- Association with responsibility:** Authority and responsibility go together while in the case of other forms of power, a sense of responsibility may or may not co-exist with them. For example, an individual may make use of his expertise in making bombs and explosives, to terrorize people. It amounts to exercise of expert power without responsibility.
- Nature of compliance:** Compliance to “authority attempts” or to the exercise of authority by a manager in organizational situations and on task related matters, is mandatory on the part of subordinates and is not left to their free will. Defiance of authority by subordinates is normally regarded as insubordination and is liable to be viewed

Key Differences Between Power and Authority

The difference between power and authority can be drawn clearly on the following grounds:

.Power is defined as the ability or potential of an individual to influence others and control their actions.

Authority is the legal and formal right to give orders and commands, and take decisions.

.Power is a personal trait, i.e. an acquired ability, whereas authority is a formal right, that vest in the hands of high officials or management personnel.

.The major source of power is knowledge and expertise. On the other hand, position and office determine the authority of a person.

.Power flows in any direction, i.e. it can be upward, downward, crosswise or diagonal, lateral. As opposed to authority, that flows only in one direction, i.e. downward (from superior to subordinate).

.The power lies in person, in essence, a person acquires it, but authority lies in the designation, i.e. whoever get the designation, get the authority attached to it.

.Authority is legitimate whereas the power is not.

LEADERSHIP STYLES AND PATTERNS

Each type of action is related to the degree of authority used by the boss and to the degree of freedom available to his subordinates in reaching decisions.

Throughout history, great leaders have emerged with leadership styles in providing direction, implementing plans and motivating people. These can be broadly grouped into 5 different categories:

Authoritarian Leadership

Participative Leadership

Delegative Leadership

Transactional Leadership

Transformational Leadership

1. Authoritarian Leadership: Authoritarian leadership styles allow a leader to impose expectations and define outcomes. It is a leadership style characterized by individual control over all decisions and little input from group members. One person show can turn out to be successful in situations when a leader is the most knowledgeable in the team. Although this is an efficient strategy in time-constrained periods, creativity will be sacrificed since input from the team is limited. The **authoritarian leadership style** is also used when team members need clear guidelines.

Advantages:

- ✓ Time spent on making crucial decisions can be reduced.
- ✓ Chain of command can be clearly emphasized.
- ✓ Mistakes in the implementation of plans can be reduced.
- ✓ Using **authoritarian leadership style** creates consistent results.

Disadvantages:

- A very strict leadership style can sometimes lead to employee rebellion.
- It kills employee creativity and innovation.
- It reduces group synergy & collaboration.
- Group input is reduced dramatically.
- Authoritarian leadership increases employee turnover rate.

2. Participative Leadership

Participative leadership styles are rooted in democratic theory. The essence is to involve team members in the decision-making process. Team members thus feel included, engaged and motivated to contribute.

The leader will normally have the last word in the decision-making processes. However, if there are disagreements within a group, it can be a time-consuming process to reach a consensus.

Advantages:

- ✓ It increases employee motivation and job satisfaction.
- ✓ It encourages use of employee creativity.
- ✓ A participative leadership style helps in the creation of a strong team.
- ✓ High level of productivity can be achieved.

Disadvantages:

- Decision-making processes become time-consuming.
- Leaders have a high probability of being apologetic to employees.
- Communication failures can sometimes happen.
- Security issues can arise because of transparency in information sharing.
- Poor decisions can be made if the employees are unskilled.

3. Delegative leadership / laissez-faire leadership

Also known as "laissez-faire leadership", a **delegative leadership** style focuses on delegating initiative to team members. This can be a successful strategy if team members are competent, take responsibility and prefer engaging in individual work. However, disagreements among the members may split and divide a group, leading to poor motivation and low morale.

Advantages:

- Experienced employees can take advantage of their competence and experience.
- Innovation & creativity is highly valued.
- **Delegative leadership** creates a positive work environment.

Disadvantages:

- Command responsibility is not properly defined.
- **Delegative leadership** creates difficulty in adapting to change.

4. Transactional leadership

Transactional leadership styles use "transactions" between a leader and his or her followers - rewards, punishments and other exchanges - to get the job done. The leader sets clear goals, and team members know how they'll be rewarded for their compliance. This "give and take" **leadership style** is more concerned with following established routines and procedures in an efficient manner, than with making any transformational changes to an organization.

Advantages:

- ✓ Leaders create specific, measurable and time-bound goals that are achievable for employees.
- ✓ Employee motivation and productivity is increased.
- ✓ **Transactional leadership** eliminates or minimizes confusion in the chain of command.
- ✓ It creates a system that is easy to implement for leaders and easy to follow by employees.
- ✓ Employees can choose reward systems.

Disadvantages:

- ❑ Innovation & creativity is minimized.
- ❑ Empathy is not valued.
- ❑ **Transactional leadership** creates more followers than leaders among employees.

5. Transformational Leadership

In transformational leadership styles, the leader inspires his or her followers with a vision and then encourages and empowers them to achieve it. The leader also serves as a role model for the vision.

Advantages:

- ✓ It leads to a lower employee turnover rate.
- ✓ **Transformational leadership** places high value on corporate vision.
- ✓ High morale of employees is often experienced.
- ✓ It uses motivation and inspiration to gain the support of employees.
- ✓ It is not a coercive approach to leadership.
- ✓ It places high value on relationships.

Disadvantages:

- Leaders can deceive employees.
- Consistent motivation and constant feedback may be required.
- Tasks can't be pushed through without the agreement of employees.
- **Transformational leadership** can sometimes lead to the deviation of protocols and regulations.

Leadership Theories

In influencing the people in the organization towards the goals of the organization, there have been various approaches adopted by different set of leaders, as one model may not be suitable for different organizations with different set of objectives. Moreover, such models or theories of leadership also depend on the qualities that a leader inherit or display in managing her/his team.

□ Some of the theories of leadership ranging from conventional theories to contemporary theories have been dealt with over here, the chief of them being the following:

- ◆ **Great Man Theory/Trait Theory**
- ◆ **Behavioural Theories**
- ◆ **Contingency/Situational Theories,**
- ◆ **Transactional Theory of Leadership**
- ◆ **Transformational Theory of Leadership**

1 Great Man Theory/Trait Theory of Leadership Some of the leaders in the history have always been identified as strong leaders based on the qualities or traits that they display. Leaders like Mahatma Gandhi, Indira Gandhi, Margaret Thatcher, Nelson Mandela, Narayana Murthy of Infosys, Apple's Cofounder Steve Jobs etc. has been identified, based on the traits that they displayed.

The trait theories of leadership consider personal qualities and characteristics that differentiate leaders from non-leaders (Robbins, Judge, & Sanghi, 2007). In the beginning, the assumption behind trait theory was that leaders are born and not made. This concept was popularly known as the „Great Man Theory of leadership.

The great man theory was originally proposed by Thomas Carlyle in 1949 and the assumption behind this theory is that great leaders will arise, when there is great need. The theory also assumes that a leader cannot be a normal person and they are different from the average person in terms of personality traits such as intelligence, perseverance and ambition.

In the period of 1960s, various research studies were made on the traits of a leader and about 80 traits that a leader could display was identified. The trait theory assumes that leaders are born with inherited traits and good leaders have the right combination of traits. In 1974, Stogdill identified certain traits and skills that are essential for a leader, which are as follows:

Traits and Skills

Traits	Skills
<ul style="list-style-type: none">✓ Adaptable to situations✓ Alert to social environment✓ Ambitious and achievement oriented✓ Assertive✓ Cooperative✓ Decisive✓ Dependable✓ Dominant (desire to influence others)✓ Energetic (high activity level)✓ Persistent✓ Self-confident✓ Tolerant to stress✓ Willing to assume responsibility	<ul style="list-style-type: none">☐ Clever (Intelligent)☐ Conceptually skilled☐ Creative☐ Diplomatic and tactful☐ Fluent in speaking☐ Knowledgeable about group task☐ Organised (administrative ability)☐ Persuasive☐ Socially-skilled

A comprehensive review of the leadership literature on traits, reveal that one of the significant approach that was developed was the **Big Five Personality Framework**. Though various traits were identified by different studies, it was possible that such traits were somehow clubbed or subsumed under the Big Five approach. Though the approach seems to be complex, it offers useful insights.

Physical Traits: energy, appearance, height, intelligence, ability.

Personality traits: adaptability, aggressiveness, enthusiasm and self-confidence.

Social Skills: cooperativeness, interpersonal skills and administrative ability

Leaders who are extraverted (individuals who like being around people and are able to assert themselves), **conscientious** (individuals who are disciplined and keep commitments they make), and **open** (individuals who are creative and flexible) do seem to have an advantage when it comes to leadership, suggesting that good leaders do have key traits in common.

In recent years, another trait that has been identified with leadership is the **Emotional Intelligence (EI)**. Advocates of EI argue that without it, a person can have outstanding training, a highly analytical mind, a compelling vision, and an endless supply of terrific ideas, but still not make a great leader.

Trait Theories: Criticism

1. Too simplistic in approach.
2. Doesn't hold good for all circumstances and situations.
3. Ignores other factors that influence the development of leaders.
4. There is no congruence among different thinkers of trait theories.
5. No definitive universal test to measure the traits and their degree.
6. Ignores the fact that traits may change over time.

Behavioural Theories

The failures of early trait studies led researchers in the late 1940s through the 1960s to wonder whether there was something unique in the way effective leaders behave. Trait research provides a basis for selecting the right people for leadership. In contrast, behavioural theories of leadership implied, we could train people to be leaders. Behavioural theories assume that specific behavioural patterns of leaders can be acquired through learning and experience. While the trait theory concentrates on “what the leaders are”, the behavioural theories concentrate on “what the leaders do”

(1) Ohio State Studies: One of the foremost studies that emanated on behavioural theories was the study made by Ohio State University in 1945 by E.A. **Fleishman, E.F. Harris and H.E. Burt**. A survey was conducted, with the Leadership Behaviour Description Questionnaire (LBDQ), on **leaders to identify what types of behaviors were most effective in leading**. The study narrowed the leadership behaviours into two categories, viz. initiating structure and consideration, under which the various leadership behaviours were clubbed.

(i) Initiating Structure: Initiating structure refers to the extent to which a leader is likely to define and structure his or her role and those of employees in the search for goal attainment. It includes behaviour that attempts to organize work, work relationships, and goals. **A leader with initiating structure is generally task oriented, with focus on performance of employees and meeting of deadlines.**

(ii) Consideration: As per consideration category, **a leader pays more attention to the employee of the organization rather than the task and shows concern for the well-being, comfort and satisfaction of employees.** That is, a leader **focuses on the relationships that are characterised by mutual trust, respect for employees' ideas, and regard for their feelings.** The two-factor conceptualization of Ohio Studies has been gaining wide recognition in recent times.

(2) University of Michigan Studies: Similar to the Ohio State University studies, research on leadership studies was also carried out by the University of Michigan's Research centres, in **1946 by Rensis Likert and his associates.**

The study made an analysis of the relationship between leadership behaviours and organizational performances. Michigan Studies also identified a two-factor component, viz. **1. employee-oriented leader and 2 Production-oriented leader.**

- (i) Employee-Oriented Leader:** The concern of the employee-oriented leaders were more on the interpersonal relations with the employees and such **leaders paid more attention on the needs of the employees and accepted the individual differences among members.**
- ii) Production-Oriented Leader:** The production oriented-leaders **paid attention to the technical aspects of the job, or the tasks assigned to the employees, rather than on employees.** Such leaders gave least importance to the group members and regarded the employees as only a means to achieve the ends, that is, the goals of an organization.

It can be found that the two-factor conceptualization of the Ohio study is similar to the two way dimension of the Michigan studies. While the employee-oriented leadership can be compared with the consideration component of Ohio studies, production-oriented leadership can be compared with initiating structure. While the Ohio studies considered both its components to be important for effective leadership, the Michigan studies gave supremacy to the component of employee-orientation" over production-orientation.

Through the Managerial Grid, 5 kinds of Leadership Style was identified, which include the following:

- (i) **Impoverished Management** , in which there is low concern for people and production (1 by 1)
- (ii) **Country Club** , wherein the concern for production is low, but for people is high (1 by 9)
- (iii) **Autocratic or Authoritative Management / Task**, in which there is high concern for production and low concern for people (9 by 1)
- (iv) **Team Management**, wherein there is high concern for both the people and production (9 by 9).
- (v) **Middle of the Road**, where there is moderate concern for both the production and the people (5 by 5)

This theory, thus offers a useful framework for conceptualizing and understanding the leadership styles.

Though behavioural theories make its contribution in understanding leadership effectiveness, it cannot be considered as the utmost option, to determine the success of leadership. In other words, it cannot be said with utmost clarity that a leader depicting a certain kind of leadership traits and behaviours are always successful. At times, the situational contexts play a strong role in determining the effectiveness of leaders.

High

Concern for People

9

1,9

Country Club Management

Thoughtful attention to the needs of people leads to a comfortable, friendly work environment.

8

7

6

5,5

Middle-of-the-road Management

Adequate organization performance is possible through balancing the necessity to get work done while maintaining the morale of people at a satisfactory level.

5

4

3

Impoverished Management

Exertion of minimum effort to get required work done as appropriate to sustain organization membership.

2

1,1

Team Management

Interdependence through a "common stake" in organization purpose leads to relationships of trust and respect.

9,9

Authority-compliance Management

Efficiency in operations results from arranging conditions of work in such a way that human elements interfere to a minimum degree.

9.1

1

1

2

3

4

5

6

7

8

9

Low

Low

Concern for Results

High

Behavioural Theories: Criticism

1. Behavioral theory of Leadership proposes leadership styles but a specific leadership style may not be best in all circumstances.
2. Help managers develop particular leadership behaviors but they provide little guidance as to what constitutes effective leadership in different situations.
3. Difficult to say which style of leadership was significant in enabling one group to work better than another.
4. Does not consider the time factor

Contingency/Situational Theories

Sometimes the success of a leader does not depend upon the qualities, traits and behaviour of a leader alone. The context in which a leader exhibits her/his skills, traits and behaviour matters, because same style of functioning may not be suitable for different situations.

Thus, the effectiveness of leadership also depends upon situations. Several research studies, when analysing the reason for inconsistent results in differing conditions with the same leadership style, laid their focus on situational variables. This theory views leadership in terms of a dynamic interaction between a number of situational variables like the leader, the followers, the task situation, the environment, etc.

Some of the noteworthy studies on situational contexts that gained wide recognition include

- Fiedler's model,
- Hersey Blanchard's Situational theory,
- Leader-Member Exchange theory,
- Path-Goal theory and Leader-Participation model

(1) Fiedler Model: Fred Fiedler was the first person to develop a comprehensive model for the contingency theory of leadership in 1967. The basic premise behind this theory is that effective performance of an organization or a group of people in an organization highly depend upon the style adopted by a leader and the degree to which a situation gives control to the leader.

In order to assess the style followed by a leader, Fiedler developed Least-Preferred Co-worker (LPC) scale, in which the leaders were asked to give their preference on the employee with whom they have least preference to work with. If the least preferred co- worker was described in favourable terms, such response was rated as ‘relationship oriented’ and if rated in unfavourable terms, a leader was regarded as ‘production oriented’.

Fiedler's Model of Leadership								
Category	I	II	III	IV	V	VI	VII	VIII
Leader-Member Relations	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task Structure	High	High	Low	Low	High	High	Low	Low
Position Power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak

Based on the results derived, Fiedler has identified three situational factors, viz. leader member relations, task structure and position power, which determine leadership effectiveness. A brief discussion on such situational factors is as follows:

- (i) Leader-Member Relations:** The degree of confidence, trust and respect that members have on their leader;
- (ii) Task Structure:** The degree to which the job assignments are structured or unstructured;
- (iii) Position Power:** The degree of influence a leader has overpower variables such as hiring, firing, discipline, promotions, and salary increases.

Fiedler's model evaluates the effectiveness of leadership, based on the degree of existence of the above-mentioned situational factors. The degree varies from good to poor in leader-member relations, high to low in task structure and strong to weak in position power. According to Fiedler, a leadership is said to have more control of organizational situations, if the leader-member relations are good, task assignments are highly structured along with a stronger power positions. Similarly, the situations in an organization would be unfavourable, if the respect that members have for leaders is poor, with unstructured task assignments and weak position power.

(2) Hersey and Blanchard's Situational Theory

- One of the path-breaking models that were developed in the leadership studies is that of the Situational Leadership Theory (SLT), that was put forward by Paul Hersey and Ken Blanchard. The focus of this theory is laid on the followers and the readiness that followers show in accepting a leadership.
- The basic assumption behind this theory is that, it is the followers who accept or reject a leader and thus, effectiveness of a leader also depends on their followers. Thus, regardless of what a leader does, effectiveness of leadership depends upon the actions of the followers.
- By readiness, Hersey and Blanchard mean to say the extent to which people have the ability and willingness to accomplish a specific task set by the leader. In analysing the leader-follower relationship, the Situational Leadership Theory, equates the relationship with that of a parent and a child.

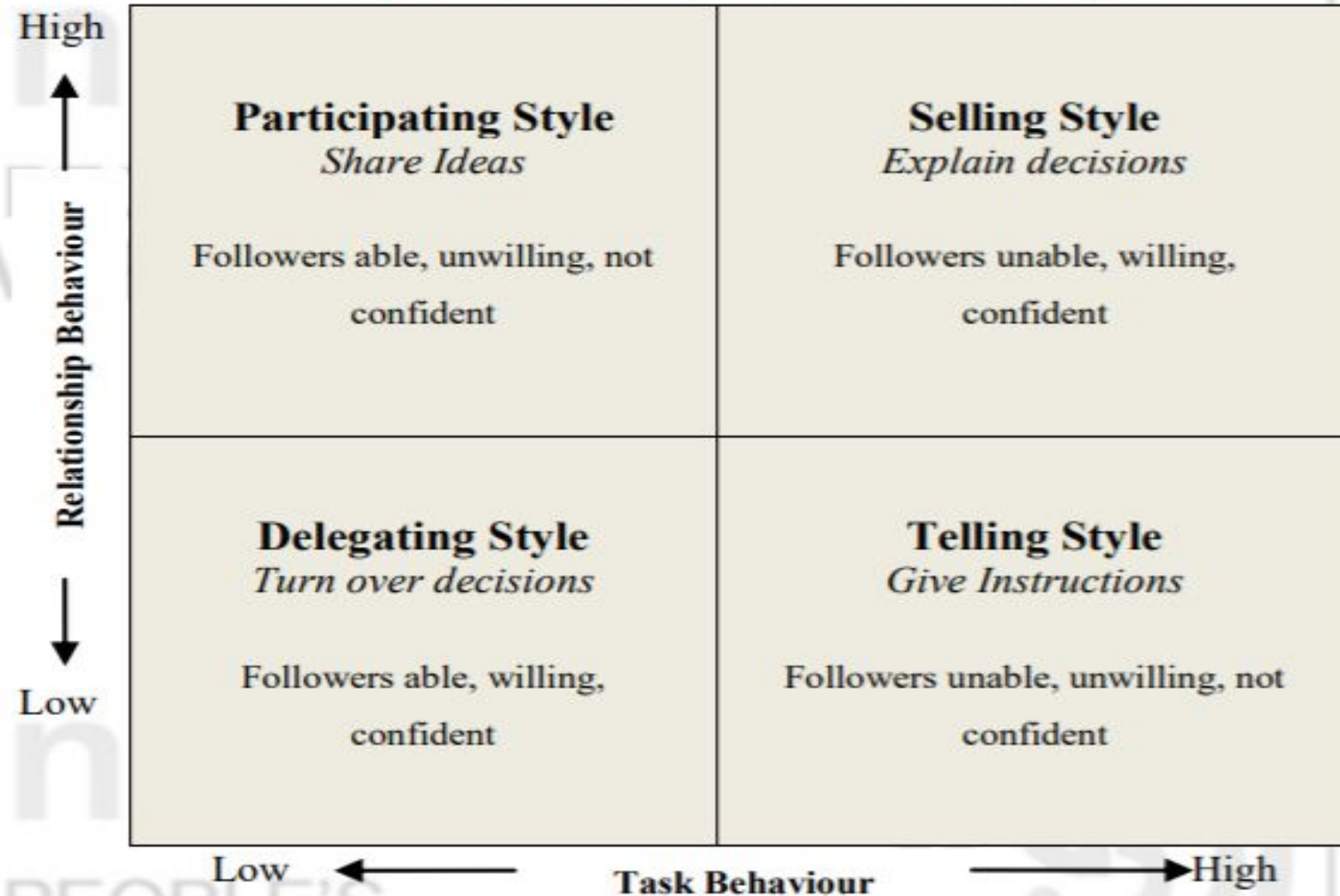
According to Hersey and Blanchard there are four types of leadership behaviour that varies from highly directive to highly laissez-faire, which again depends upon the ability and willingness of followers to perform a given task.

According to SLT, if a follower is unable and unwilling to do a task, the leader needs to give clear and specific directions; if followers are unable and willing, the leader needs to display high task orientation to compensate for the followers' lack of ability and high relationship orientation to get the followers to „buy into“ the leader's desire; if followers are able and unwilling, the leader needs to use a supportive and participative style; and if the employee is both able and willing, the leader doesn't need to do much.

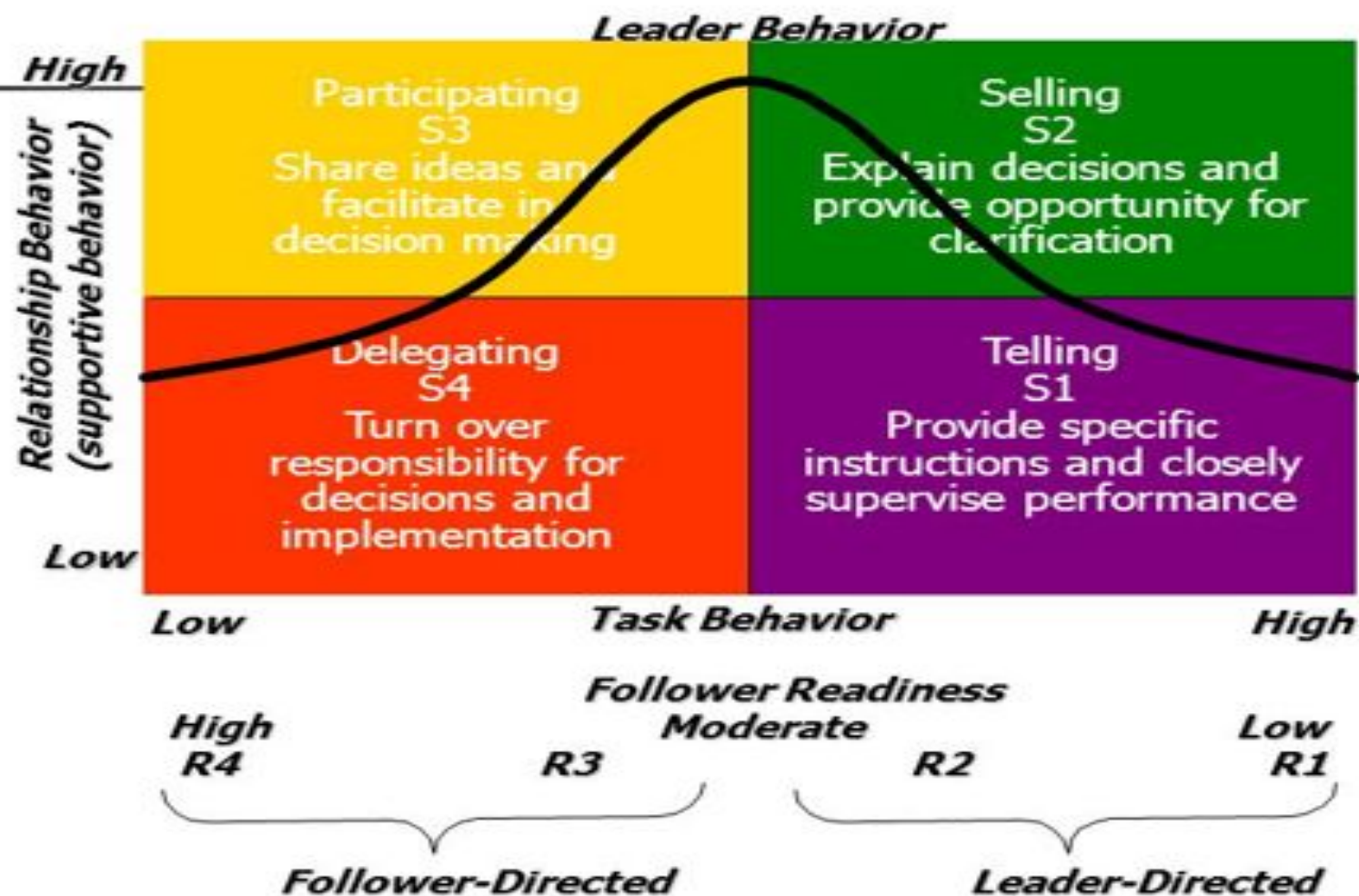
Model diagram (next slide)

This theory, thus gives a new dimension to the study of leadership, and the aspects that appeals in this theory is the importance given to the followers and the capacity of the leader to compensate for the ability and motivational limitations in their followers. However, in spite of the wide recognition and popularity that this theory has gained, it is said to have internal ambiguities and inconsistencies.

Hersey-Blanchard Situational Leadership Model



Hersey and Blanchard's Situational Leadership Theory



- Delegating style:** A low-task, low-relationship style wherein the leader allows the group to take responsibility for task decisions. This is best used with high maturity followers.
- Participating style:** A low-task, high-relationship style that emphasizes shared ideas and decisions. Managers can use this style with moderate followers who are experienced but may lack the confidence to do the tasks assigned.
- Selling style:** A high-task, high-relationship style in which the leader attempts to sell their ideas to the group by explaining task directions in a persuasive manner. This, too, is used with moderate followers. Unlike the previous style, these followers have the ability but are unwilling to do the job.
- Telling style:** A high-task, low-relationship style wherein the leader gives explicit directions and supervises work closely. This style is geared toward low maturity followers.

LEADERSHIP SKILL

The leader is expected to play many roles and therefore, must be qualified to guide others to organizational achievement. Although no set of absolute traits or skills may be identified, the individuals who possess abilities to lead others must have certain attributes to help them in performing their leadership rolls. In a broad way the skills which are necessary for an industrial leader may be summarized under four heads:-

1. Human skill
2. Conceptual skill
3. Technical skill and
4. Personal skill.

2 Human Skill: A good leader is considerate towards his followers because his success largely depends on the co-operation of his followers. He approaches various problems in terms of people involved more than in terms of technical aspects involved. A leader should have an understanding of human behaviour. He should know people; know their needs, sentiments, emotions, as also their actions and reactions to particular decisions, their motivations etc.

Thus, a successful leader possesses the human relations attitude. He always tries to develop social understanding with other people. The human skill involves the following:-

Empathy: A leader should be able to look at things objectively. He should respect the rights, belief and sentiments of others. He should equip himself to meet the challenges emanating from the actions and reactions of other people.

Objectivity: A good leader is fair and objective in dealing with subordinates. He must be free from bias and prejudice while becoming emotionally involved with the followers.

Communication Skill: A leader should have the ability to persuade, to inform, stimulate, direct and convince his subordinates. To achieve this, a leader should have good communication skill.

Teaching Skill: A leader should have the ability to demonstrate how to accomplish a particular task.

Social Skill: A leader should understand his followers. He should be helpful, sympathetic and friendly. He should have the ability to win his followers confidence and loyalty.

2 Conceptual Skill: In the words of Chester Barnard “the essential aspect of the executive process is the sensing of the organization as a whole and the total situation relevant to it”. Conceptual skills include -

- (a) **The understanding of the organization behaviour,**
- (b) **Understanding the competitors of the firm, and**
- (c) **Knowing the financial status of the firm.**

A leader should have the ability to look at the enterprise as a whole, to recognize that the various functions of an organization depend upon one another and are interrelated, that changes in one affect all others.

3 Technical Skill: A leader should have a thorough knowledge of, and competence in, the principles, procedures and operations of a job. Technical skill involves specialized knowledge, analytical skill and a facility in the use of the tools and techniques of a specific discipline. Technical competence is an essential quality of leadership.

4 Personal Skill: The most important task of the leader is to get the best from others. This is possible only, if he possesses certain qualities. These personal skills include-

Intelligence: Intellectual capacity is an essential quality of leadership. Leaders generally have somewhat higher level of intelligence than the average of their followers.

Emotional Maturity: A leader should act with self-coincidence, avoid anger, take decisions on a rational basis and think clearly and maturely. A leader should also have high frustration tolerance

Personal Motivation: This involves the creation of enthusiasm within the leader himself to get a job done. It is only through enthusiasm that one can achieve what one wants.

Integrity: In the words of F.W Taylor - "integrity is the straightforward honesty of purpose which makes a man truthful, not only to others but to himself; which makes a man high-minded and gives him high aspirations and high ideals".

Flexibility of Mind: A leader must be prepared to accommodate other's viewpoints and modify his decisions, if need be. A leader should have a flexible mind, so that he may change in obedience to the change in circumstances.

Motivation – Types; Motivational Theories – Needs

Hierarchy Theory, Two Factor Theory, Theory X

and Theory Y. –

Motivation and Types of Motivation

Motivation is the word derived from the word 'motive' which means needs, desires, wants or drives within the individuals. It is the process of stimulating people to actions to accomplish the goals. In the work goal context, **the psychological factors stimulating the people's behaviour can be -**

- desire for money
- success
- recognition
- job-satisfaction
- team work, etc

One of the most important functions of management is to create willingness amongst the employees to perform in the best of their abilities. Therefore, the role of a leader is to arouse interest in performance of employees in their jobs. **The process of motivation consists of three stages:-**

1. A felt need or drive
2. A stimulus in which needs have to be aroused
3. When needs are satisfied, the satisfaction or accomplishment of goals.

Therefore, we can say that motivation is a psychological phenomenon which means needs and wants of the individuals have to be tackled by framing an incentive plan.

Motivation" is a Latin word, meaning "to move". Human motives are internalized goals within individuals. *Motivation may be defined as those forces that cause people to behave in certain ways.*

□ According to William G Scott, "Motivation means a process of stimulating people to action to accomplish desired goals".

□ *In the words of Lewis Allen, "Motivation is the work a manager performs to inspire, encourage and impel people to take required action"*

□ *In the words of Dalton E McFarland, "Motivation refers to the way in which urges, drives, desires, aspirations, striving or needs direct, control or explain the behaviour of human beings".*

□ *According to Koontz and O'Donnell, "Motivation is a general term applying to the entire class of drives, needs, wishes and similar forces".*

Motivation is a process by which a need or desire is aroused and a psychological force within our mind sets us in motion to fulfil our needs and desire. An unsatisfied need becomes the motive for a person to spend his energy in order to achieve a goal. In a business organization the 4 P's praise, prestige promotion and pay are the best positive motivators.

Nature and Types of Motivation

Psychologists generally agree that all behaviour is motivated, and that people have reasons for doing the things they do or for behaving in the manner that they do. Motivating is the work a manager performs to inspire, encourage and impel people to take required action. The process of motivation is characterized by the following:-

1 Motivation is an Internal Feeling: Motivation is a psychological phenomenon which generates in the mind of an individual the feeling that he lacks certain things and needs those things. Motivation is a force within an individual that drives him to behave in a certain way.

2 Motivation is Related to Needs: Needs are deficiencies which are created whenever there is a physiological or psychological imbalance. In order to motivate a person, we have to understand his needs that call for satisfaction.

3 Motivation Produces Goal-Directed Behaviour: Goals are anything which will alleviate a need and reduce a drive. An individual's behaviour is directed towards a goal.

4 Motivation can be either Positive or Negative: Positive or incentive motivation is generally based on reward. According to Flippo - “**Positive motivation** is a process of attempting to influence others to do your will through the possibility of gain or reward”.

Negative or fear motivation is based on force and fear. Fear causes persons to act in a certain way because they are afraid of the consequences if they don't.

Importance of Motivation :

.Puts human resources into action: Every concern requires physical, financial and human resources to accomplish the goals. It is through motivation that the human resources can be utilized by making full use of it. This can be done by building willingness in employees to work. This will help the enterprise in securing best possible utilization of resources.

.Improves level of efficiency of employees: The level of a subordinate or a employee does not only depend upon his qualifications and abilities. For getting best of his work performance, the gap between ability and willingness has to be filled which helps in improving the level of performance of subordinates. This will result into-
Increase in productivity, Reducing cost of operations, and Improving overall efficiency.

.Leads to achievement of organizational goals: The goals of an enterprise can be achieved only when the following factors take place :-

1. There is best possible utilization of resources,
2. There is a co-operative work environment,
3. The employees are goal-directed and they act in a purposive manner,
4. Goals can be achieved if co-ordination and co-operation takes place simultaneously which can be effectively done through motivation.

.Builds friendly relationship: Motivation is an important factor which brings employees satisfaction. This can be done by keeping into mind and framing an incentive plan for the benefit of the employees.

.Leads to stability of work force: Stability of workforce is very important from the point of view of reputation and goodwill of a concern. The employees can remain loyal to the enterprise only when they have a feeling of participation in the management.

TYPES OF MOTIVATION

If a manager wants to get work done by his employees, he may either hold out a promise of a reward (positive motivation) or he may install fear (negative motivation). Both these types are widely used by managements.

1 Positive or Incentive Motivation: This type of motivation is generally based on reward. A positive motivation involves the possibility of increased motive satisfaction. According to Flippo - "Positive motivation is a process of attempting to influence others to do your will through the possibility of gain or reward". Incentive motivation is the "pull" mechanism. The receipt of awards, due recognition and praise for work-well done definitely lead to good team spirit, co-operation and a feeling of happiness.

Positive motivation Include:-

- ❑ Praise and credit for work done
- ❑ Wages and Salaries
- ❑ Appreciation
- ❑ A sincere interest in subordinates as individuals
- ❑ Delegation of authority and responsibility

2 **Negative or Fear Motivation**

This type of motivation is based on force and fear. Fear causes persons to act in a certain way because they fear the consequences. Negative motivation involves the possibility of decreased motive satisfaction. It is a "push" mechanism.

The imposition of punishment frequently results in frustration among those punished, leading to the development of maladaptive behaviour. It also creates a hostile state of mind and an unfavourable attitude to the job. However, there is no management which has not used the negative motivation at some time or the other.

Negative Motivation: Force and fear, punishment, Demotion, Transfer etc.

Motivation Theories

It is important to ensure that every team member in an organization is motivated. Various psychologists have studied human behaviour and have formalized their findings in the form various motivation theories. These motivation theories provide great understanding on how people behave and what motivates them.

Motivation is a huge field of study. There are many theories of motivation. Some of the famous motivation theories include the following:

Maslow's Need-Hierarchy Theory of Motivation

Abraham Maslow, a U.S psychologist, first introduced his concept of a hierarchy of needs in his 1943 paper "A Theory of Human Motivation" and his subsequent book Motivation and Personality. This hierarchy suggests that people are motivated to fulfil basic needs before moving on to other, more advanced needs. All motivated behaviour of man is directed towards the satisfaction of his needs. The theory postulated that people are motivated by multiple needs, which could be arranged in a hierarchy.

Maslow offers a general theory of motivation called the 'need hierarchy theory'.

The features of needs hierarchy theory are as follows:-

1. People have a wide range of needs which motivate them to strive for fulfilment.
2. Human needs can be categorized into five types
3. These needs can be arranged into a hierarchy. Physical needs are at the base whereas self-actualization needs are at the apex.
4. People gratify their physical needs first, when the need is satisfied, they feel the urge for the next higher-level need.
5. Relative satisfaction of lower-level need is necessary to activate the next higher-level need.
6. A satisfied need does not motivate human behaviour. It only triggers or activates the urge for the next higher level of needs.

Human behavior is goal-directed. Motivation cause goal-directed behaviour. It is through motivation that needs can be handled and tackled purposely. This can be understood by understanding the hierarchy of needs by manager. The needs of individual serves as a driving force in human behaviour. Therefore, a manager must understand the “hierarchy of needs”. Maslow has proposed “The Need Hierarchy Model”.



The needs have been classified into the following in order:

- 1. Physiological needs-** These are the basic needs of an individual which includes food, clothing, shelter, air, water, etc. These needs relate to the survival and maintenance of human life.
- 2. Safety needs-** These needs are also important for human beings. Everybody wants job security, protection against danger, safety of property, etc.
- 3. Social needs-** These needs emerge from society. Man is a social animal. These needs become important. For example- love, affection, belongingness, friendship, conversation, etc.
- 4. Esteem needs-** These needs relate to desire for self-respect, recognition and respect from others.
- 5. Self-actualization needs-** These are the needs of the highest order, and these needs are found in those person whose, previous four needs are satisfied. This will include need for social service, meditation.

Hertzberg's Theory of Motivation

Hertzberg developed a theory of motivation on the premise that human nature has two separate elements - The motivators and maintenance factors. According to this theory **of motivation the items that determine job content are considered motivational factors** e.g.:- Achievement, recognition, responsibility, advancement and the work itself. **The elements that influence the job context are the hygiene or maintenance factors** e.g.:- company policy, salary, inter-personal relations, working conditions etc. They must be adequate and if they are absent or inadequate, they will create dissatisfaction.

(a) Hygiene Factors: Hygiene factors represent the need to avoid pain in the environment. They are not an intrinsic part of a job, but they are related to the conditions under which a job is performed. **They are associated with negative feelings.** They must be viewed as preventive measures that remove sources of dissatisfaction from environment. Hertzberg believed that **hygiene factors created a zero level of motivation** and if maintained at proper level prevents negative type of motivation from occurring. Thus, hygiene factors, when absent, increase dissatisfaction with the job. When present, help in preventing dissatisfaction but do not increase satisfaction or motivation.

Motivators : Motivators are associated with positive feelings of employees about the job. They make people satisfied with their job. Motivators are necessary to keep job satisfaction and job performance high. On the other hand, if they are not present, they do not prove highly satisfying. Motivational factors or satisfiers are directly related to job content itself, the individual's performance of it, its responsibilities and the growth and recognition obtained from it. Motivators are intrinsic to the job.

Thus, when motivators are absent, prevent both satisfaction and motivation. When, motivators are present, they lead to satisfaction and motivation.

To apply the two-factor theory to the workplace, Herzberg suggests a two-step process

- (i) The supervisor should attempt to eliminate the hygiene factors that are found to be more basic than factors that lead to satisfaction.
- (ii) Once the dissatisfies have been somewhat neutralized, the supervisor may be able to motivate workers through the introduction of motivational factors.

McGregor's Theory X and Theory Y

Different styles of management have a different bearing on the motivation of workers in the organization. **The style adopted by a manager in managing his subordinates is basically dependent upon his assumption about human behaviour.** Theory X is negative, traditional and autocratic style while Theory Y is positive, participatory and democratic. Thus, these labels describe contrasting set of assumptions about human nature. Douglas McGregor has classified the basic assumption regarding human nature into two parts and has designated them as 'theory X' and 'theory Y'. **Comparison of Theory X and Theory Y**

THEORY X	THEORY Y
1. Theory X assumes human beings inherently dislike work and are distasteful towards work.	1.Theory Y assumes that work is as natural as play or rest
2. Theory X emphasizes that people do not have ambitions and they shrink responsibility	2. Theory Y assumes just the reverse. Given proper conditions, people have ambitions and accept responsibility
3. Theory X assumes that people in general have little capacity for creativity	3. According to Theory Y the creativity is widely distributed in the population
4. According to Theory X, people lack self motivation and require be externally controlling and closely supervising in order to get maximum output.	4. While in Theory Y people are self-directed and creative and prefer Self-control
5. Theory X emphasise upon centralization of authority in decision-making process	5. Theory Y emphasizes decentralisation and greater participation in decision-making process

Theory X: This is the traditional theory of human behaviour, which makes the following assumptions about human nature:

1. Management is responsible for organizing the elements of productive enterprises - money, material, equipment, and people - in the interest of economic ends.
2. With reference to people it is a process of directing their efforts, motivating them, controlling their actions, modifying their behaviour in order to be in conformity with the needs of the organization.
3. **Without this active intervention by management, people would be passive – even resistant to organizational needs. Hence, they must be persuaded, rewarded, punished and properly directed.**
4. The average human being has an inherent dislike of work and will avoid it if he can.
5. He lacks ambition, dislikes responsibility and prefers to be led.
6. He is inherently self-centred, indifferent to organizational needs.
7. He is by nature resistant to change.
8. He is gullible, not very bright.

Theory Y: The assumption of theory Y, according to McGregor are as follows:-

1. Work is as natural as play or rest, provided the conditions are favourable; the average human being does not inherently dislike work.
 2. **External control and the thrust of punishment are not the only means for bringing about efforts towards organizational objectives. Man can exercise self-control and self-direction in the service of objectives to which he is committed.**
 3. Commitment to objectives is a result of the rewards associated with their achievement. People select goals for themselves if they see the possibilities of some kind of reward that may be material or even psychological.
 4. The average human being, under proper conditions does not shirk responsibility, but learn not only to accept responsibility but also to seek it.
 5. He has capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organizational problems in widely, not narrowly distributed in the population.
 6. Under conditions of modern industrial life the intellectual potentialities of people are only partially utilized.
- As a matter of fact, men, have unlimited potential.

Controlling

- Controlling is an important function of management. It is the process that measures current performance and guides it towards some predetermined objectives.
- The modern concept of control envisages a system that not only provides a historical record of what has happened to the business but also pinpoints the reasons why it has happened and provides data that enable the manager to take corrective steps, if he finds he is on the wrong track.

Control is a primary goal-oriented function of management in an organisation. It is a process of comparing the actual performance with the set standards of the company to ensure that activities are performed according to the plans and if not then taking corrective action.

According to Breach - "Control is checking current performance against predetermined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance."

According to George R Terry - "Controlling is determining what is being accomplished i.e., evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans."

In the words of Koontz and O'Donnell - "Managerial control implies measurement of accomplishments against the standards and the correction of deviations to assure attainment of objectives according to plans."

Based on the concept, control has the following features:

- 1. Control is a Managerial Process:** Management process comprises of five functions, viz., planning, organizing, staffing, directing and controlling. Thus, control is part of the process of management.
- 2. Control is forward looking:** Whatever has happened has happened, and the manager can take corrective action only of the future operations. Past is relevant to suggest what has gone wrong and how to correct the future.
- 3. Control exists at each level of Organization:** Anyone who is a manager, has to involve into control – may be Chairman, Managing Director, CEO, Departmental head, or first line manager. However, at every level the control will differ – top management would be involved in strategic control, middle management into tactical control and lower level into operational control.
- 4. Control is a Continuous Process:** Controlling is not the last function of management, but it is a continuous process. Control is not a one-time activity, but a continuous process. The process of setting the standards needs constant analysis and revision depending upon external forces, plans, and internal performance.
- 5. Control is closely linked with Planning:** Planning and controlling are closely linked. The two are rightly called as ‘Siamese twins’ of management. “Every objective, every goal, every policy, every procedure and every budget become standard against which actual performance is compared.
- 6. Purpose of Controlling is Goal Oriented and hence Positive:** Control is there because without it the business may go off the track. The controlling has positive purpose both for the organization (to make things happen) and individuals (to give up a part of their independence for the attainment of organizational goals).

The significance of the controlling function in an organisation is as follows:

- 1. Accomplishing Organisational Goals:** Controlling helps in comparing the actual performance with the predetermined standards, finding out deviation and taking corrective measures to ensure that the activities are performed according to plans. Thus, it helps in achieving organisational goals.
- 2. Judging Accuracy of Standards:** An efficient control system helps in judging the accuracy of standards. It further helps in reviewing & revising the standards according to the changes in the organisation and the environment.
- 3. Making Efficient Use of Resources:** Controlling checks the working of employees at each and every stage of operations. Hence, it ensures effective and efficient use of all resources in an organisation with minimum wastage or spoilage.
- 4. Improving Employee Motivation:** Employees know the standards against which their performance will be judged. Systematic evaluation of performance and consequent rewards in the form of increment, bonus, promotion etc. motivate the employees to put in their best efforts.
- 5. Ensuring Order and Discipline:** Controlling ensures a close check on the activities of the employees. Hence, it helps in reducing the dishonest behaviour of the employees and in creating order and discipline in an organization.
- 6. Facilitating Coordination in Action:** Controlling helps in providing a common direction to the all the activities of different departments and efforts of individuals for attaining the organizational objectives.

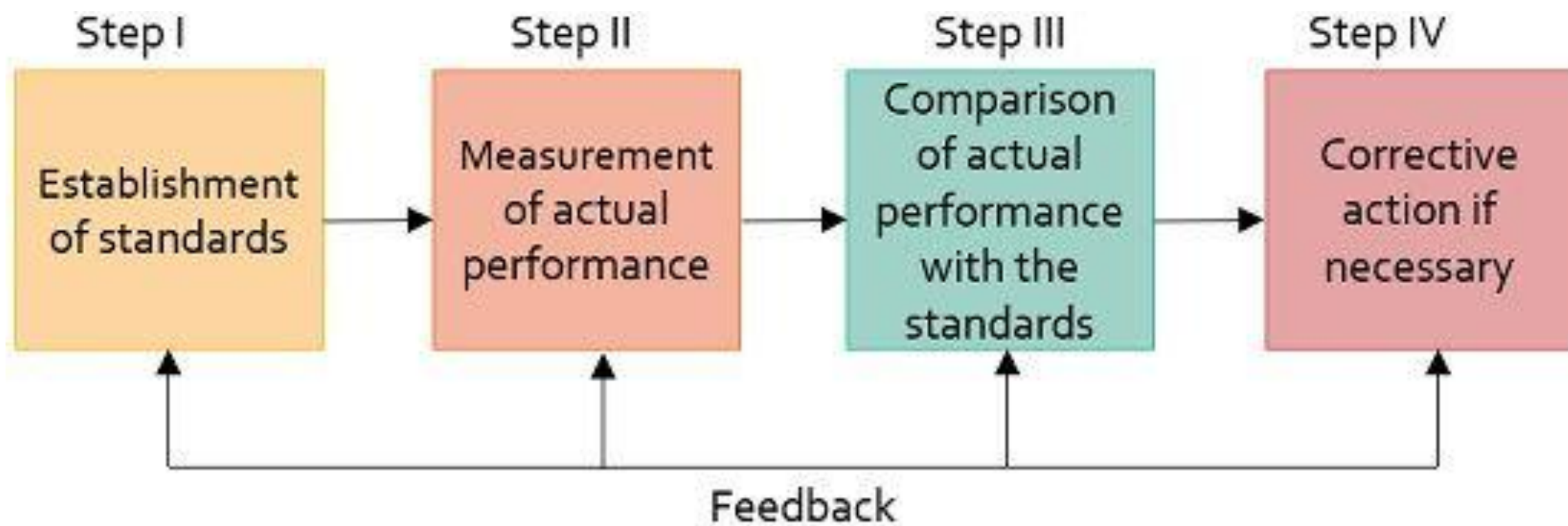
Control Process in Business Management

The control process of management ensures that every activity of a business is furthering its goals. This process basically helps managers in evaluating their organization's performance. By using it effectively, they can decide whether to change their plans or continue with them as they are.

The control process is the functional process for organizational control that arises from the goals and strategic plans of the organization.

Steps of Control Process are;

- 1.Establishing standards and methods for measuring performance.**
- 2.Measuring performance.**
- 3.Determining whether performance matches the standard.**
- 4.Taking corrective action.**



1. Establishing Standards and Methods for Measuring Performance

The task of fixing goals and **standards takes place while planning but it plays a big role in controlling also**. This is because the main aim of controlling is to direct a business's actions towards its goals. If the members of an organization know their goals clearly, they will invest their entire focus in achieving them.

Standards are, by definition, simply the criteria of performance. They are the selected points in an entire planning program at which performance is measured so that managers can receive signals about how things are going and thus do not have to watch every step in the execution of plans. **Standard elements form precisely worded, measurable objectives and are especially important for control.**

In an industrial enterprise, **standards could include sales and production targets, work attendance goals, safety records, etc.**

In service industries, on the other hand, standards might include several time customers have to wait in the queue at a bank or the number of new clients attracted by a revamped advertising campaign.

Standards such as: profitability standards , market position standards, productivity standard , social standards

2. Measuring the Performance: The measurement of performance against standards should be done on a forward-looking basis so that deviations may be detected in advance of their occurrence and avoided by appropriate actions.

Several methods are used for measuring the performance of the organization such as Category rating methods, Comparative methods. Behavioural /objective methods and Narrative methods.

If standards are appropriately drawn and if means are available for determining exactly what subordinates are doing, appraisal of actual or expected performance is easy for example, to establish labour-hour standards for the production of a mass-produced item and it may be equally simple to measure performance. **But there are many activities for which it is difficult to develop accurate standards, and there are many activities that are hard to measure.** For example, controlling the work of the industrial relations manager is not easy because definite standards cannot be easily developed.

The superior of this type of manager often rely on vague standards, such as the attitude of labour unions, the enthusiasm, and loyalty of subordinates, the index of labour turnover and/or industrial disputes, etc. In such cases, the superior's measurements are often equally vague.

3. Determining whether Performance Matches the Standard: Determining whether performance matches the standard is an easy but important step in the control process. **It involves comparing the measured results with the standards already set. If performance matches the standard, managers may assume that “everything is under control”.** In such a case the managers do not have to intervene in the organization’s operations. In case there are discrepancies between actual performances and goals, managers need to take corrective actions immediately.

4. Taking Corrective Action: This step becomes essential if performance falls short of standards and the analysis indicates that corrective action is required. **The corrective action could involve a change in one or more activities of the organization’s operations. Control can also reveal inappropriate standards and in that case, the corrective action could involve a change in the original standards rather than a change in performance.** It needs to be mentioned that, unless managers see the control process through to its conclusion, they are merely monitoring performance rather than exercising control. The emphasis should always be on devising constructive ways to bring performance up to a standard rather than merely identifying a past failure.

Types of control

There are three types of control viz.,

- 1.Feedback Control:** This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.
- 2.Concurrent control:** It is also called real-time control. It checks any problem and examines it to take action before any loss is incurred. Example: control chart.
- 3.Predictive/ feedforward control:** This type of control helps to foresee problem ahead of occurrence. Therefore, action can be taken before such a circumstance arises. In an ever-changing and complex environment, controlling forms an integral part of the organization.

Techniques of Managerial Control

The various techniques of managerial control may be classified into two broad categories: traditional techniques, and modern techniques.

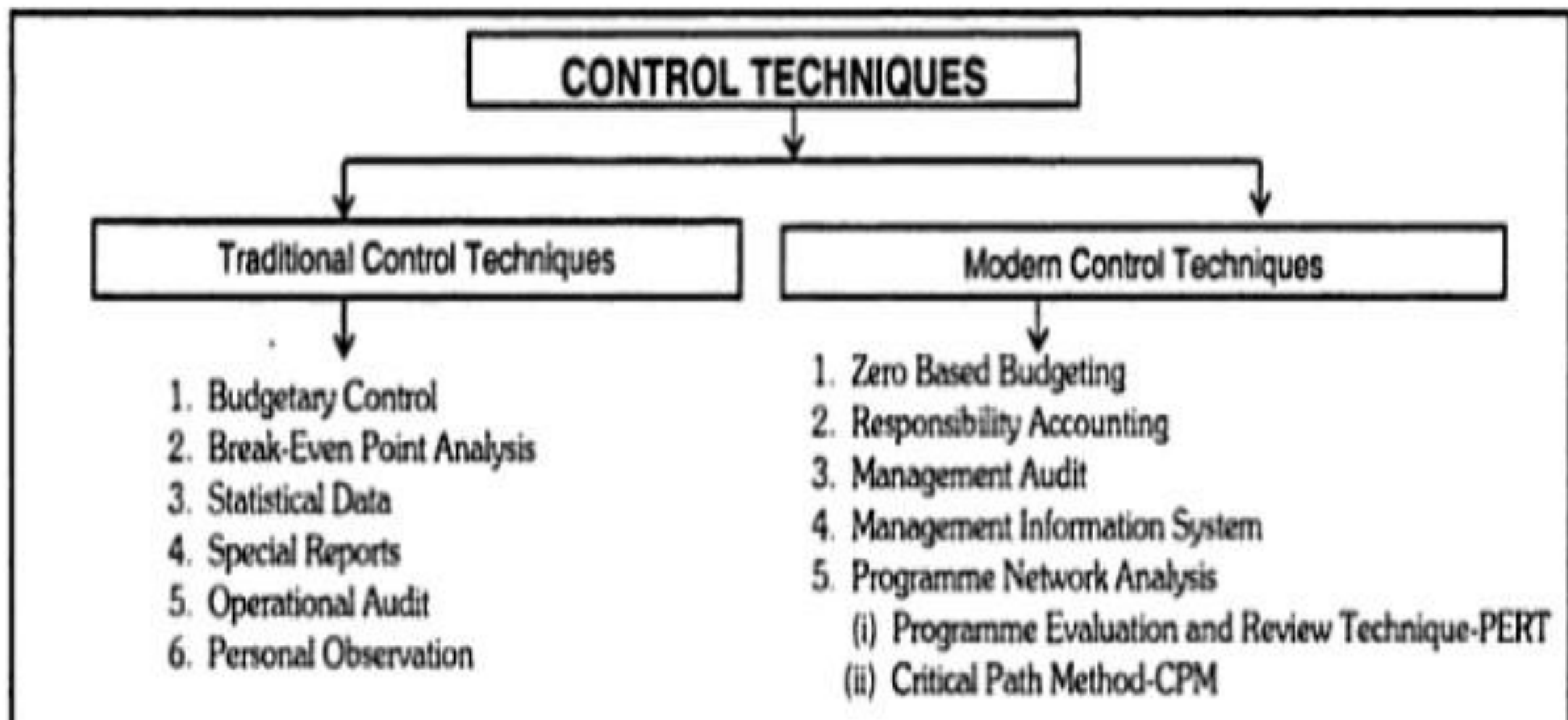
Traditional Techniques: Traditional techniques are those which have been used by the companies for a long time now. However, these techniques have not become obsolete and are still being used by companies. These include:

- (a) Personal observation
- (b) Statistical reports
- (c) Breakeven analysis
- (d) Budgetary control

Modern Techniques: Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

- (a) Return on investment
- (b) Ratio analysis
- (c) Responsibility accounting
- (d) Management audit
- (e) PERT and CPM
- (f) Management information system

CONTROL TECHNIQUES



Traditional Techniques

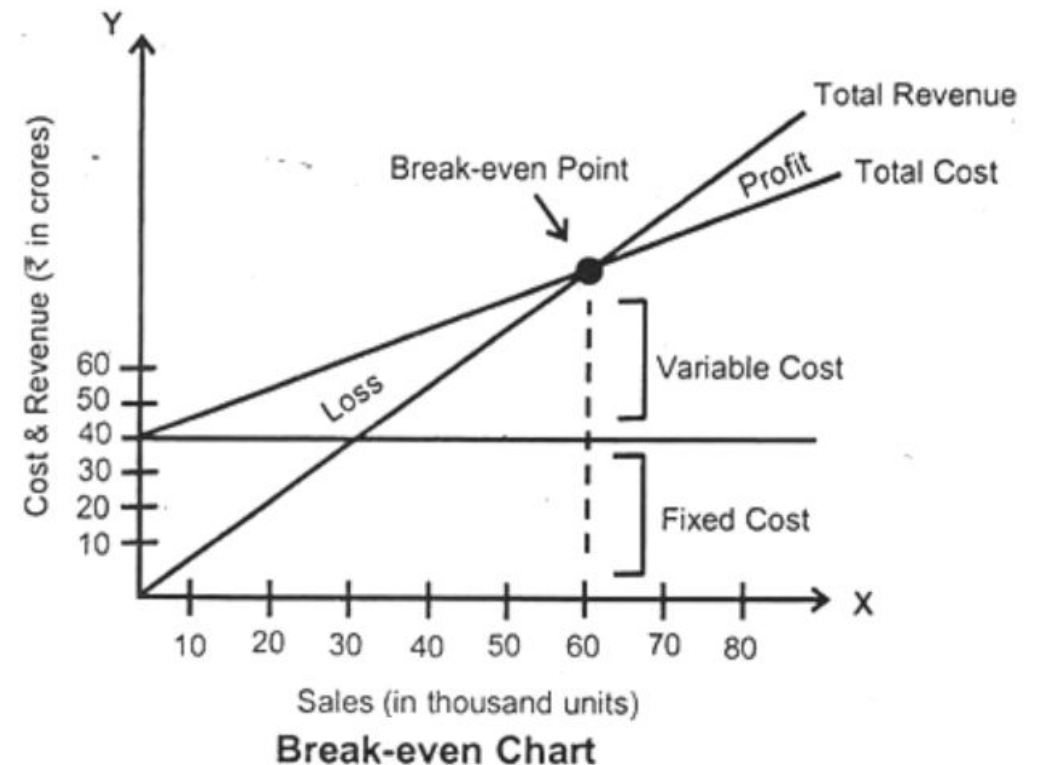
Personal Observation: This is the most traditional method of control. Personal observation enables the manager to collect first-hand information. **It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job.** However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs. However, such a technique is subjective and may be affected by personal bias and prejudices of the supervisor.

Statistical Reports Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks. With the help of various statistical tools and techniques, a data set may be used to arrive at many meaningful interpretations such as averages, regressions, variances, etc.

Break-Even Analysis: Break-even analysis helps in identifying that volume of sales at which a company is neither earning any profit nor is incurring any loss, i.e., the level at which revenue exactly equals the total cost. This is called as break-even point. Break-even analysis helps management in establishing a relationship between sales, costs and revenues. With break-even analysis, an organisation would be able to determine the probable profit at different levels of sales. It enables the management to identify that level of production beyond which it will start fetching profit or that level below which it will incur losses. Thus, it helps in deciding the appropriate level of production.

Breakeven point can be calculated with the help of the following formula:

$$\text{Breakeven Point} = \frac{\text{Fixed Costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$



Budgetary Control: One of the oldest control techniques and still widely used is the budgetary control.

According to J. Batty, “**budgetary control is a system which uses budget as a means of planning and controlling all aspects of producing and/or selling commodities and services.**”

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished. **A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective.** It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities. The most common types of budgets used by an organisation are

Types of Budgets

1. **Sales Budget:** A statement of what an organisation expects to sell in terms of quantity as well as value
2. **Production Budget:** A statement of what an organisation plans to produce in the budgeted period
3. **Material Budget:** A statement of estimated quantity and cost of materials required for production
4. **Cash Budget:** Anticipated cash inflows and outflows for the budgeted period
5. **Capital Budget:** Estimated spending on major long-term assets like new factory or major equipment
6. **Research and Development Budget:** Estimated spending for the development or refinement of products and processes.

However, the effectiveness of budgeting depends on how accurately estimates have been made about future.

Flexible budgets should be prepared which can be adopted if forecasts about future turn out to be different, especially in the face of changing environmental forces. **Managers must remember that budgeting should not be viewed as an end but a means to achieve organisational objectives.**

Modern Techniques of Controlling

Return on Investment Return on Investment (RoI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. RoI can be used to measure overall performance of an organisation or of its individual departments or divisions.

It can be calculated with a formula : $ROI = \frac{\text{Net Profit before Interest and Tax}}{\text{Capital employed}}$

Net Income before or after tax may be used for making comparisons. Total investment (capital employed) includes both working as well as fixed capital invested in business. According to this technique, RoI can be increased either by increasing sales volume proportionately more than total investment or by reducing total investment without having any reductions in sales volume. **RoI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects RoI in an adverse manner.**

Ratio Analysis: Ratio Analysis was perhaps the first financial tool developed to analyse and interpret the financial statements and is still used widely for this purpose. A financial ratio is a relationship between two variables drawn from the financial statements of a business enterprise. Such variables are normally taken either from the Profit-and-Loss Account or from the Balance Sheet of the undertaking.

Financial analysts have identified some ratios as significant and important, since they throw considerable light on the financial affairs of a business.

1. **Liquidity Ratios:** Liquidity ratios are **calculated to determine short-term solvency** of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.
2. **Solvency Ratios:** Ratios which are **calculated to determine the long-term solvency of business** are known as solvency ratios. Thus, these ratios determine the ability of a business to service its indebtedness.
3. **Profitability Ratios:** These ratios are **calculated to analyse the profitability position of a business**. Such ratios involve analysis of profits in relation to sales or funds or capital employed.
4. **Turnover Ratios:** Turnover ratios are **calculated to determine the efficiency of operations based on effective utilisation of resources**. Higher turnover means better utilisation of resources. The table given below gives examples of some ratios commonly used by managers.

Responsibility Accounting

Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

- 1. Cost Centre:** A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues. For example, in a manufacturing organisation, production department is classified as cost centre.
- 2. Revenue Centre:** A revenue centre is a segment of an organisation which is primarily responsible for generating revenue. For example, marketing department of an organisation may be classified as a revenue centre.
- 3. Profit Centre:** A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. For example, repair and maintenance department of an organisation may be treated as a profit center if it is allowed to bill other production departments for the services provided to them.
- 4. Investment Centre:** An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as a basis for judging the performance of the centre.

Management Audit: Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. **Thus, management audit may be defined as is a process of systematically examining, analyzing, and appraising management's overall performance.**

The main advantages of management audit are as follows.

1. It helps to **locate present and potential deficiencies in the performance** of management functions.
2. It helps to **improve the control system and coordination in the functioning** of an organisation by continuously monitoring the performance of management.
3. It ensures **updating of existing managerial policies and strategies** in the light of environmental changes.

Conducting management audit may sometimes pose a problem as there are no standard techniques of management audit. Also, management audit is not compulsory under any law. Enlightened managers, however, understand its usefulness in improving overall performance of the organisation.

Network Analysis: These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. These techniques deals with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs.

There are two network techniques:

1. Critical path method 2. Programme evaluation and review technique

1. Critical Path Method:

The Critical Path Method (CPM) is one of several related techniques for doing project planning. CPM is for projects that are made up of a number of individual “activities.” If some of the activities require other activities to finish before they can start, then the project becomes a complex web of activities.

CPM can help to figure out:

1. How long your complex project will take to complete
2. Which activities are “critical,” meaning that they have to be done on time or else the whole project will take longer.
3. The standard method for communicating project plans.

2. Programme Evaluation and Review Technique (PERT): PERT is a variation on Critical Path Analysis that takes a slightly **more sceptical view of time estimates made for each project stage**. To use it, estimate the shortest possible time each activity will take, the most likely length of time, and the longest time that might be taken if the activity takes longer than expected.

Use the formula below to calculate the time to use for each project stage:

$(\text{Shortest time} + 4 \times \text{likely time} + \text{longest time}) / 6$

This helps to bias time estimates away from the unrealistically short time-scales normally assumed.

Critical Path Analysis and PERT:

Critical Path Analysis is an effective and powerful method of assessing:

- i. What tasks must be carried out.
- ii. Where parallel activity can be performed.
- iii. The shortest time in which you can complete a project.
- iv. Resources needed to execute a project.
- v. The Sequence of activities, scheduling and timings involved.
- vi. Task priorities.
- vii. The most efficient way of shortening time on urgent projects.

An effective Critical Path Analysis can make the difference between success and failure on complex projects. It can be very useful for assessing the importance of problems faced during the implementation of the plan.

PERT is a variant of Critical Path Analysis that takes a more sceptical view of the time needed to complete each project stage.

Management Information System

Management Information System (MIS) is a computer-based information **system that provides information and support for effective managerial decision-making**. A decision-maker requires up-to-date, accurate and timely information. **MIS provides the required information to the managers by systematically processing a massive data generated in an organisation**. Thus, MIS is an important communication tool for managers. MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards. MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.
2. It supports planning, decision-making and controlling at all levels and improves the quality of information with which a manager works.
3. It ensures cost effectiveness in managing information and reduces information overload on the managers as only relevant information is provided to them.

Case 1

Manoj is a devoted subordinate who has high reverence for his manager Ajit. Ajit is an extroverted manager who likes to take important work decisions on his own and doesn't allow ideas to come from his team members. Anurag after completing his MBA degree from a reputed college joins Ajit's team as a Strategy consultant. Anurag likes to present his ideas and also has better command about strategy theory. Ajit thinks that Anurag doesn't have practical experience and as he has been in strategy for last 10 years, he needs to make decisions on his own. The team performance has dipped in the current quarter and top management has said that it needs better strategic inputs. The whole team is worried and Anurag has asked for the release from the team as he likes autonomy at work.