**WHAT IS MANAGEMENT?**

**Management** is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to *Harold Koontz*, “Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals”. According to *F.W. Taylor*, “Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way”.

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre - determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another. E.g.: For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.

Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of management to create such conditions which are conducive to maximum efforts so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc.

Therefore, we can say that good management includes both being effective and efficient. Being effective means doing the appropriate task i.e, fitting the square pegs in square holes and round pegs in round holes. Being efficient means doing the task correctly, at least possible cost with minimum wastage of resources.

Management can be defined in detail in following categories :

1. Management as a [Process](https://www.managementstudyguide.com/management_process.htm)
2. Management as an [Activity](https://www.managementstudyguide.com/management_activity.htm)
3. Management as a [Discipline](https://www.managementstudyguide.com/management_discipline.htm)
4. Management as a [Group](https://www.managementstudyguide.com/management_group.htm)

5Management as a [Science](https://www.managementstudyguide.com/management_science.htm)

6Management as an [Art](https://www.managementstudyguide.com/management_art.htm)

7 Management as a [Profession](https://www.managementstudyguide.com/management_profession.htm)

**Management as a Process**

As a process, management refers to a series of inter-related functions. It is the process by which management creates, operates and directs purposive organization through systematic, coordinated and co-operated human efforts, according to George R. Terry, “Management is a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish stated objective by the use of human beings and other resources”. As a process, management consists of three aspects:

1. **Management is a social process -** Since human factor is most important among the other factors, therefore management is concerned with developing relationship among people. It is the duty of management to make interaction between people - productive and useful for obtaining organizational goals.
2. **Management is an integrating process -** Management undertakes the job of bringing together human physical and financial resources so as to achieve organizational purpose. Therefore, is an important function to bring harmony between various factors.
3. **Management is a continuous process -** It is a never ending process. It is concerned with constantly identifying the problem and solving them by taking adequate steps. It is an on-going process.

# Management as an Activity

Like various other activities performed by human beings such as writing, playing, eating, cooking etc, management is also an activity because a manager is one who accomplishes the objectives by directing the efforts of others. According to Koontz, “Management is what a manager does”. Management as an activity includes -

1. **Informational activities -** In the functioning of business enterprise, the manager constantly has to receive and give information orally or in written. A communication link has to be maintained with subordinates as well as superiors for effective functioning of an enterprise.
2. **Decisional activities -** Practically all types of managerial activities are based on one or the other types of decisions. Therefore, managers are continuously involved in decisions of different kinds since the decision made by one manager becomes the basis of action to be taken by other managers. (E.g. Sales Manager is deciding the media & content of advertising).
3. **Inter-personal activities -** Management involves achieving goals through people. Therefore, managers have to interact with superiors as well as the sub-ordinates. They must maintain good relations with them. The inter-personal activities include with the sub-ordinates and taking care of the problem. (E.g. Bonuses to be given to the sub-ordinates).

# Management as a Discipline

Management as a discipline refers to that branch of knowledge which is connected to study of principles & practices of basic administration. It specifies certain code of conduct to be followed by the manager & also various methods for managing resources efficiently.

Management as a discipline specifies certain code of conduct for managers & indicates various methods of managing an enterprise. Management is a course of study which is now formally being taught in the institutes and universities after completing a prescribed course or by obtaining degree or diploma in management, a person can get employment as a manager.

Any branch of knowledge that fulfils following two requirements is known as discipline:

1. There must be scholars & thinkers who communicate relevant knowledge through research and publications.
2. The knowledge should be formally imparted by education and training programmes.

Since management satisfies both these problems, therefore it qualifies to be a discipline. Though it is comparatively a new discipline but it is growing at a faster pace.

**Management as a Group**

Management as a group refers to all those persons who perform the task of managing an enterprise. When we say that management of ABC & Co. is good, we are referring to a group of people those who are managing. Thus as a group technically speaking, management will include all managers from chief executive to the first - line managers (lower-level managers). But in common practice management includes only top management i.e. Chief Executive, Chairman, General Manager, Board of Directors etc. In other words, those who are concerned with making important decisions, these persons enjoy the authorities to use resources to accomplish organizational objectives & also responsibility to for their efficient utilization.

Management as a group may be looked upon in 2 different ways:

1. All managers taken together.
2. Only the top management

The interpretation depends upon the context in which these terms are used. Broadly speaking, there are 3 types of managers -

1. **Patrimonial / Family Manager:** Those who have become managers by virtue of their being owners or relatives of the owners of company.
2. **Professional Managers:** Those who have been appointed on account of their specialized knowledge and degree.
3. **Political Managers / Civil Servants:** Those who manage public sector undertakings.

Managers have become a part of elite group of society as they enjoy higher standard of living in the society.

**Management as a Science**

Science is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon. **It establishes cause and effect relationship between two or more variables and underlines the principles governing their relationship. These principles are developed through scientific method of observation and verification through testing.**

Science is characterized by following main features:

1. **Universally acceptance principles -** Scientific principles represents basic truth about a particular field of enquiry. These principles may be applied in all situations, at all time & at all places. E.g. - law of gravitation which can be applied in all countries irrespective of the time.

Management also contains some fundamental principles which can be applied universally like the Principle of Unity of Command i.e. one man, one boss. This principle is applicable to all type of organization - business or non business.

1. **Experimentation & Observation -** Scientific principles are derived through scientific investigation & researching i.e. they are based on logic. E.g. the principle that earth goes round the sun has been scientifically proved.

Management principles are also based on scientific enquiry & observation and not only on the opinion of Henry Fayol. They have been developed through experiments & practical experiences of large no. of managers. E.g. it is observed that fair remuneration to personal helps in creating a satisfied work force.

1. **Cause & Effect Relationship -** Principles of science lay down cause and effect relationship between various variables. E.g. when metals are heated, they are expanded. The cause is heating & result is expansion.

The same is true for management, therefore it also establishes cause and effect relationship. E.g. lack of parity (balance) between authority & responsibility will lead to ineffectiveness. If you know the cause i.e. lack of balance, the effect can be ascertained easily i.e. in effectiveness. Similarly if workers are given bonuses, fair wages they will work hard but when not treated in fair and just manner, reduces productivity of organization.

1. **Test of Validity & Predictability -** Validity of scientific principles can be tested at any time or any number of times i.e. they stand the test of time. Each time these tests will give same result. Moreover future events can be predicted with reasonable accuracy by using scientific principles. E.g. H2 & O2 will always give H2O.

Principles of management can also be tested for validity. E.g. principle of unity of command can be tested by comparing two persons - one having single boss and one having 2 bosses. The performance of 1st person will be better than 2nd.

It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry etc. The main reason for the inexactness of science of management is that it deals with human beings and it is very difficult to predict their behavior accurately. Since it is a social process, therefore it falls in the area of social sciences. It is a flexible science & that is why its theories and principles may produce different results at different times and therefore it is a behavior science. Ernest Dale has called it as a *Soft Science*.

**Management as an Art**

Art implies application of knowledge & skill to trying about desired results. **An art may be defined as personalized application of general theoretical principles for achieving best possible results. Art has the following characters -**

1. **Practical Knowledge:** Every art requires practical knowledge therefore learning of theory is not sufficient. It is very important to know practical application of theoretical principles. E.g. to become a good painter, the person may not only be knowing different colour and brushes but different designs, dimensions, situations etc to use them appropriately. A manager can never be successful just by obtaining degree or diploma in management; he must have also know how to apply various principles in real situations by functioning in capacity of manager.
2. **Personal Skill:** Although theoretical base may be same for every artist, but each one has his own style and approach towards his job. That is why the level of success and quality of performance differs from one person to another. E.g. there are several qualified painters but M.F. Hussain is recognized for his style. Similarly management as an art is also personalized. Every manager has his own way of managing things based on his knowledge, experience and personality, that is why some managers are known as good managers (like Aditya Birla, Rahul Bajaj) whereas others as bad.
3. **Creativity:** Every artist has an element of creativity in line. That is why he aims at producing something that has never existed before which requires combination of intelligence & imagination. Management is also creative in nature like any other art. It combines human and non-human resources in useful way so as to achieve desired results. It tries to produce sweet music by combining chords in an efficient manner.
4. **Perfection through practice:** Practice makes a man perfect. Every artist becomes more and more proficient through constant practice. Similarly managers learn through an art of trial and error initially but application of management principles over the years makes them perfect in the job of managing.
5. **Goal-Oriented:** Every art is result oriented as it seeks to achieve concrete results. In the same manner, management is also directed towards accomplishment of pre-determined goals. Managers use various resources like men, money, material, machinery & methods to promote growth of an organization.

Thus, we can say that management is an art therefore it requires application of certain principles rather it is an art of highest order because it deals with moulding the attitude and behavior of people at work towards desired goals.

**Management as both Science and Art**

Management is both an art and a science. The above mentioned points clearly reveals that management combines features of both science as well as art. It is considered as a science because it has an organized body of knowledge which contains certain universal truth. It is called an art because managing requires certain skills which are personal possessions of managers. Science provides the knowledge & art deals with the application of knowledge and skills.

A manager to be successful in his profession must acquire the knowledge of science & the art of applying it. Therefore management is a judicious blend of science as well as an art because it proves the principles and the way these principles are applied is a matter of art. Science teaches to ’know’ and art teaches to ’do’. E.g. a person cannot become a good singer unless he has knowledge about various ragas & he also applies his personal skill in the art of singing. Same way it is not sufficient for manager to first know the principles but he must also apply them in solving various managerial problems that is why, science and art are not mutually exclusive but they are complementary to each other (like tea and biscuit, bread and butter etc.).

The old saying that “Manager are Born” has been rejected in favor of “Managers are Made”. It has been aptly remarked that management is the oldest of art and youngest of science. To conclude, we can say that science is the root and art is the fruit.

**Management as a Profession**

Over a large few decades, factors such as growing size of business unit, separation of ownership from management, growing competition etc have led to an increased demand for professionally qualified managers. The task of manager has been quite specialized. As a result of these developments the management has reached a stage where everything is to be managed professionally.

A profession may be defined as an occupation that requires specialized knowledge and intensive academic preparations to which entry is regulated by a representative body. The essentials of a profession are:

1. **Specialized Knowledge -** A profession must have a systematic body of knowledge that can be used for development of professionals. Every professional must make deliberate efforts to acquire expertise in the principles and techniques. Similarly a manager must have devotion and involvement to acquire expertise in the science of management.
2. **Formal Education & Training -** There are no. of institutes and universities to impart education & training for a profession. No one can practice a profession without going through a prescribed course. Many institutes of management have been set up for imparting education and training. For example, a CA cannot audit the A/C’s unless he has acquired a degree or diploma for the same but no minimum qualifications and a course of study has been prescribed for managers by law. For example, MBA may be preferred but not necessary.
3. **Social Obligations -** Profession is a source of livelihood but professionals are primarily motivated by the desire to serve the society. Their actions are influenced by social norms and values. Similarly a manager is responsible not only to its owners but also to the society and therefore he is expected to provide quality goods at reasonable prices to the society.
4. **Code of Conduct -** Members of a profession have to abide by a code of conduct which contains certain rules and regulations, norms of honesty, integrity and special ethics. A code of conduct is enforced by a representative association to ensure self discipline among its members. Any member violating the code of conduct can be punished and his membership can be withdrawn. The AIMA has prescribed a code of conduct for managers but it has no right to take legal action against any manager who violates it.
5. **Representative Association -** For the regulation of profession, existance of a representative body is a must. For example, an institute of Charted Accountants of India establishes and administers standards of competence for the auditors but the AIMA however does not have any statuary powers to regulate the activities of managers.

From above discussion, it is quite clear that management fulfills several essentials of a profession, even then it is not a full fledged profession because: -

1. It does not restrict the entry in managerial jobs for account of one standard or other.
2. No minimum qualifications have been prescribed for managers.
3. No management association has the authority to grant a certificate of practice to various managers.
4. All managers are supposed to abide by the code formulated by AIMA,
5. Competent education and training facilities do not exist.
6. Managers are responsible to many groups such as shareholders, employees and society. A regulatory code may curtail their freedom.
7. Managers are known by their performance and not mere degrees.
8. The ultimate goal of business is to maximize profit and not social welfare. That is why Haymes has rightly remarked, “The slogan for management is becoming - ’He who serves best, also profits most’.”

# Features of Management

Management is an activity concerned with guiding human and physical resources such that organizational goals can be achieved. Nature of management can be highlighted as: -

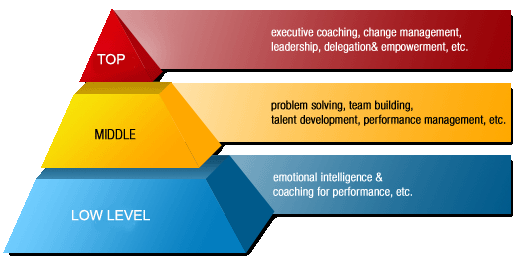
1. **Management is Goal-Oriented:** The success of any management activity is assessed by its achievement of the predetermined goals or objective. Management is a purposeful activity. It is a tool which helps use of human & physical resources to fulfill the pre-determined goals. For example, the goal of an enterprise is maximum consumer satisfaction by producing quality goods and at reasonable prices. This can be achieved by employing efficient persons and making better use of scarce resources.
2. **Management integrates Human, Physical and Financial Resources:** In an organization, human beings work with non-human resources like machines. Materials, financial assets, buildings etc. Management integrates human efforts to those resources. It brings harmony among the human, physical and financial resources.
3. **Management is Continuous:** Management is an ongoing process. It involves continuous handling of problems and issues. It is concerned with identifying the problem and taking appropriate steps to solve it. E.g. the target of a company is maximum production. For achieving this target various policies have to be framed but this is not the end. Marketing and Advertising is also to be done. For this policies have to be again framed. Hence this is an ongoing process.
4. **Management is all Pervasive:** Management is required in all types of organizations whether it is political, social, cultural or business because it helps and directs various efforts towards a definite purpose. Thus clubs, hospitals, political parties, colleges, hospitals, business firms all require management. When ever more than one person is engaged in working for a common goal, management is necessary. Whether it is a small business firm which may be engaged in trading or a large firm like Tata Iron & Steel, management is required everywhere irrespective of size or type of activity.
5. **Management is a Group Activity:** Management is very much less concerned with individual’s efforts. It is more concerned with groups. It involves the use of group effort to achieve predetermined goal of management of ABC & Co. is good refers to a group of persons managing the enterprise.

**Levels of Management**

The term “**Levels of Management**’ refers to a line of demarcation between various managerial positions in an organization. The number of levels in management increases when the size of the business and work force increases and vice versa. The level of management determines a chain of command, the amount of authority & status enjoyed by any managerial position. The levels of management can be classified in three broad categories:

1. **Top level / Administrative level/strategic level**
2. **Middle level / Executory/tactical level**
3. **Low level / Supervisory / Operative / First-line managers/Entry Level**

Managers at all these levels perform different functions. The role of managers at all the three levels is discussed below:

  
**LEVELS OF MANAGEMENT**

1. **Top Level of Management**

It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions.

The role of the top management can be summarized as follows -

* 1. Top management lays down the objectives and broad policies of the enterprise.
  2. It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
  3. It prepares strategic plans & policies for the enterprise.
  4. It appoints the executive for middle level i.e. departmental managers.
  5. It controls & coordinates the activities of all the departments.
  6. It is also responsible for maintaining a contact with the outside world.
  7. It provides guidance and direction.
  8. The top management is also responsible towards the shareholders for the performance of the enterprise.

1. **Middle Level of Management**

The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department. They devote more time to organizational and directional functions. In small organization, there is only one layer of middle level of management but in big enterprises, there may be senior and junior middle level management. Their role can be emphasized as -

* 1. They execute the plans of the organization in accordance with the policies and directives of the top management.
  2. They make plans for the sub-units of the organization.
  3. They participate in employment & training of lower level management.
  4. They interpret and explain policies from top level management to lower level.
  5. They are responsible for coordinating the activities within the division or department.
  6. It also sends important reports and other important data to top level management.
  7. They evaluate performance of junior managers.
  8. They are also responsible for inspiring lower level managers towards better performance.

1. **Lower Level of Management**

Lower level is also known as supervisory / operative level of management. It consists of supervisors, foreman, section officers, superintendent etc. According to *R.C. Davis*, “Supervisory management refers to those executives whose work has to be largely with personal oversight and direction of operative employees”. In other words, they are concerned with direction and controlling function of management. Their activities include -

* 1. Assigning of jobs and tasks to various workers.
  2. They guide and instruct workers for day to day activities.
  3. They are responsible for the quality as well as quantity of production.
  4. They are also entrusted with the responsibility of maintaining good relation in the organization.
  5. They communicate workers problems, suggestions, and recommendatory appeals etc to the higher level and higher level goals and objectives to the workers.
  6. They help to solve the grievances of the workers.
  7. They supervise & guide the sub-ordinates.
  8. They are responsible for providing training to the workers.
  9. They arrange necessary materials, machines, tools etc for getting the things done.
  10. They prepare periodical reports about the performance of the workers.
  11. They ensure discipline in the enterprise.
  12. They motivate workers.
  13. They are the image builders of the enterprise because they are in direct contact with the workers.

# Importance of Management

1. **It helps in Achieving Group Goals -** It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals. It directs group efforts towards achievement of pre-determined goals. By defining objective of organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.
2. **Optimum Utilization of Resources -** Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professional and these services leads to use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under employment of any resources.
3. **Reduces Costs -** It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.
4. **Establishes Sound Organization -** No overlapping of efforts (smooth and coordinated functions). To establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for fulfillment of this, it establishes effective authority & responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors & who are subordinates. Management fills up various positions with right persons, having right skills, training and qualification. All jobs should be cleared to everyone.
5. **Establishes Equilibrium -** It enables the organization to survive in changing environment. It keeps in touch with the changing environment. With the change is external environment, the initial co-ordination of organization must be changed. So it adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.
6. **Essentials for Prosperity of Society -** Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource. It improves standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society

# Management and Administration

According to *Theo Haimann*, “Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects”. It refers to the activities of higher level. It lays down basic principles of the enterprise. According to Newman, “Administration means guidance, leadership & control of the efforts of the groups towards some common goals”.

Whereas, management involves conceiving, initiating and bringing together the various elements; coordinating, actuating, integrating the diverse organizational components while sustaining the viability of the organization towards some pre-determined goals. In other words, it is an art of getting things done through & with the people in formally organized groups.

The difference between Management and Administration can be summarized under 2 categories: -

1. **Functions**
2. **Usage / Applicability**

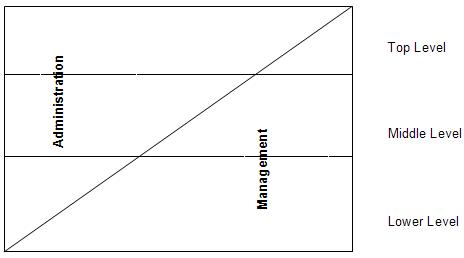
**On the Basis of Functions: -**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Management** | **Administration** |
| Meaning | Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals. | It is concerned with formulation of broad objectives, plans & policies. |
| Nature | Management is an executing function. | Administration is a decision-making function. |
| Process | Management decides who should as it & how should he dot it. | Administration decides what is to be done & when it is to be done. |
| Function | Management is a doing function because managers get work done under their supervision. | Administration is a thinking function because plans & policies are determined under it. |
| Skills | Technical and Human skills | Conceptual and Human skills |
| Level | Middle & lower level function | Top level function |

**On the Basis of Usage: -**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Management** | **Administration** |
| Applicability | It is applicable to business concerns i.e. profit-making organization. | It is applicable to non-business concerns i.e. clubs, schools, hospitals etc. |
| Influence | The management decisions are influenced by the values, opinions, beliefs & decisions of the managers. | The administration is influenced by public opinion, govt. policies, religious organizations, customs etc. |
| Status | Management constitutes the employees of the organization who are paid remuneration (in the form of salaries & wages). | Administration represents owners of the enterprise who earn return on their capital invested & profits in the form of dividend. |

Practically, there is no difference between management & administration. Every manager is concerned with both - administrative management function and operative management function as shown in the figure. However, the managers who are higher up in the hierarchy denote more time on administrative function & the lower level denote more time on directing and controlling worker’s performance i.e. management.



The Figure above clearly shows the degree of administration and management performed by the different levels of management

**Functions of Management (BASIC)**

Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfillment of given purposes. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manger irrespective of his level or status.

Different experts have classified functions of management. According to *George & Jerry*, “There are four fundamental functions of management i.e. planning, organizing, actuating and controlling”.

According to Henry Fayol, “To manage is to forecast and plan, to organize, to command, & to control”. Whereas Luther Gullick has given a keyword ’**POSDCORB**’ where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O’DONNEL i.e. **Planning**, **Organizing**, **Staffing**, **Directing** and **Controlling**.

For theoretical purposes, it may be convenient to separate the functions of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Each function blends into the other & each affects the performance of others.

1. [**Planning**](https://www.managementstudyguide.com/planning_function.htm)

It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, “Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be”. A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

1. [**Organizing**](https://www.managementstudyguide.com/organizing_function.htm)

It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, “To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel’s”. To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

* + Identification of activities.
  + Classification of grouping of activities.
  + Assignment of duties.
  + Delegation of authority and creation of responsibility.
  + Coordinating authority and responsibility relationships.

1. [**Directing**](https://www.managementstudyguide.com/directing_function.htm)

It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

* + Supervision/Coordination
  + [Motivation](https://www.managementstudyguide.com/what_is_motivation.htm)
  + [Leadership](https://www.managementstudyguide.com/leadership_basics.htm)
  + [Communication](https://www.managementstudyguide.com/understanding-communication.htm)

**Supervision or coordination** implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

**Motivation-** means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

**Leadership-** may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

**Communications-** is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

1. [**Controlling**](https://www.managementstudyguide.com/controlling_function.htm)

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to *Theo Haimann*, “Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation”. According to Koontz & O’Donell “Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished”. Therefore controlling has following steps:

* + Establishment of standard performance.
  + Measurement of actual performance.
  + Comparison of actual performance with the standards and finding out deviation if any.
  + Corrective action

**FUNCTIONS OF MANAGEMENT According to Fayol’s Administrative Theory of Management.**

**1. Planning**

Planning is looking ahead. According to [Henri Fayol](http://www.toolshero.com/toolsheroes/henri-fayol/), drawing up a good plan of action is the hardest of the five functions of management. This requires an active participation of the entire organization. With respect to time and implementation, planning must be linked to and coordinated on different levels. Planning must take the organization’s available resources and flexibility of personnel into consideration as this will guarantee continuity.

**2. Organizing**

An organization can only function well if it is well-organized. This means that there must be sufficient capital, staff and raw materials so that the organization can run smoothly and that it can build a good working structure. The organizational structure with a good division of functions and tasks is of crucial importance. When the number of functions increases, the organization will expand both horizontally and vertically. This requires a different type of leadership. Organizing is an important function of the five functions of management.

**3. Commanding**

When given orders and clear working instructions, employees will know exactly what is required of them. Return from all employees will be optimized if they are given concrete instructions with respect to the activities that must be carried out by them. Successful managers have integrity, communicate clearly and base their decisions on regular audits. They are capable of motivating a team and encouraging employees to take initiative.

**4. Coordinating**

When all activities are harmonized, the organization will function better. Positive influencing of employees behaviour is important in this. Coordination therefore aims at stimulating motivation and discipline within the group dynamics. This requires clear communication and good leadership. Only through positive employee behaviour management can the intended objectives be achieved.

**5. Controlling**

By verifying whether everything is going according to plan, the organization knows exactly whether the activities are carried out in conformity with the plan. Control takes place in a four-step process:

1. Establish performance standards based on organizational objectives
2. Measure and report on actual performance
3. Compare results with performance and standards
4. Take corrective or preventive measures as needed

Each of these steps is about solving problems in a creative manner. Finding a creative solution is often more difficult than discovering what the problem is, than making choices or the decision-making process. It starts with creating an environmental analysis of the organization and it ends with evaluating the results of the implemented solution.

**PLANNING**

**Importance of** **planning in management are:**

**Planning is the first and most important function of management**. It is needed at every level of management. In the absence of planning all the business activities of the organisation will become meaningless. The importance of planning has increased all the more in view of the increasing size of organisations and their complexities.

Image Courtesy : bloch.umkc.edu/executive-education/certificate-programs/advisor1.jpg

Planning has again gained importance because of uncertain and constantly changing business environment. In the absence of planning, it may not be impossible but certainly difficult to guess the uncertain events of future.

The following facts show the advantages of planning and its importance for a business organisation:

**(1) Planning Provides Direction:**

Under the process of planning the objectives of the organisation are defined in simple and clear words. The obvious outcome of this is that all the employees get a direction and all their efforts are focused towards a particular end. In this way, planning has an important role in the attainment of the objectives of the organisation.

For example, suppose a company fixes a sales target under the process of planning. Now all the departments, e.g., purchase, personnel, finance, etc., will decide their objectives in view of the sales target.

In this way, the attention of all the managers will get focused on the attainment of their objectives. This will make the achievement of sales target a certainty. Thus, in the absence of objectives an organisation gets disabled and the objectives are laid down under planning.

**(2) Planning Reduces Risks of Uncertainty:**

Planning is always done for future and future is uncertain. With the help of planning possible changes in future are anticipated and various activities are planned in the best possible way. In this way, the risk of future uncertainties can be minimised.

For example, in order to fix a sales target a survey can be undertaken to find out the number of new companies likely to enter the market. By keeping these facts in mind and planning the future activities, the possible difficulties can be avoided.

**(3) Planning Reduces Overlapping and Wasteful Activities:**

Under planning, future activities are planned in order to achieve objectives. Consequently, the problems of when, where, what and why are almost decided. This puts an end to disorder and suspicion. In such a situation coordination is established among different activities and departments. It puts an end to overlapping and wasteful activities.

Consequently, wastages moves towards nil, efficiency increases and costs get to the lowest level. For example, if it is decided that a particular amount of money will be required in a particular month, the finance manager will arrange for it in time.

In the absence of this information, the amount of money can be more or less than the requirement in that particular month. Both these situations are undesirable. In case, the money is less than the requirement, the work will not be completed and in case it is more than the requirement, the amount will remain unused and thus cause a loss of interest.

**(4) Planning Promotes Innovative Ideas:**

It is clear that planning selects the best alternative out of the many available. All these alternatives do not come to the manager on their own, but they have to be discovered. While making such an effort of discovery, many new ideas emerge and they are studied intensively in order to determine the best out of them.

In this way, planning imparts a real power of thinking in the managers. It leads to the birth of innovative and creative ideas. For example, a company wants to expand its business. This idea leads to the beginning of the planning activity in the mind of the manager. He will think like this:

Should some other varieties of the existing products be manufactured?

Should retail sales be undertaken along with the wholesales?

Should some branch be opened somewhere else for the existing or old product?

Should some new product be launched?

In this way, many new ideas will emerge one after the other. By doing so, he will become habituated to them. He will always be thinking about doing something new and creative. Thus, it is a happy situation for a company which is born through the medium of planning.

**(5) Planning Facilitates Decision Making:**

Decision making means the process of taking decisions. Under it, a variety of alternatives are discovered and the best alternative is chosen. The planning sets the target for decision making. It also lays down the criteria for evaluating courses of action. In this way, planning facilitates decision making.

**(6) Planning Establishes Standards for Controlling:**

By determining the objectives of the organisation through planning all the people working in the organisation and all the departments are informed about ‘when’, ‘what’ and ‘how’ to do things.

Standards are laid down about their work, time and cost, etc. Under controlling, at the time of completing the work, the actual work done is compared with the standard work and deviations are found out and if the work has not been done as desired the person concerned are held responsible.

For example, a labourer is to do 10 units of work in a day (it is a matter of planning), but actually he completes 8 units. Thus there is a negative deviation of 2 units. For this, he is held responsible. (Measurement of actual work, knowledge of deviation and holding the labourer responsible falls under controlling.) Thus, in the absence of planning controlling is not possible.

**TYPES OF PLANS/PLANNING**

There are three main types of plans that a manager will use in his or her pursuit of company goals, which include **operational, tactical and strategic**. If you think about these three types of plans as stepping stones, you can see how their relationship to one another aids in the achievement of organizational goals. Operational plans are necessary to attain tactical plans and tactical plans lead to the achievement of strategic plans. Then, in true planning fashion, there are also plans to backup plans that fail. These are known as **contingency plans**. To better understand how each type of plan is used by managers, let's take a look at an example from Nino's Pizzeria and how Tommy, Martha and Frank carry out their planning responsibilities.

**Strategic Plans**

To best understand the relationship between the different types of plans, let's start at the top. **Strategic plans** are designed with the entire organization in mind and begin with an organization's mission. Top-level managers, such as CEOs or presidents, will design and execute strategic plans to paint a picture of the desired future and long-term goals of the organization. Essentially, strategic plans look ahead to where the organization wants to be in three, five, even ten years. Strategic plans, provided by top-level managers, serve as the framework for lower-level planning.

Tommy is a top-level manager for Nino's Pizzeria. As a top-level manager, Tommy must use strategic planning to ensure the long-term goals of the organization are reached. For Tommy, that means developing long-term strategies for achieving growth, improving productivity and profitability, boosting [return on investments](http://study.com/academy/lesson/return-of-investment-definition-formula-example.html), improving customer service and finding ways to give back to the community in which it operates.

For example, Tommy's strategic plans for achieving growth, improving productivity and profitability and boosting return on investments are all part of the desired future of the pizzeria. Strategic plans also tend to require multilevel involvement so that each level of the organization plays a significant role in achieving the goals being [strategically planned](http://study.com/academy/lesson/what-are-strategic-plans-in-business-definition-examples-quiz.html) for. Top-level managers, such as Tommy, develop the organizational objectives so that middle- and lower-level managers can create compatible plans aligned with those objectives.

**Tactical Plans**

Now that you have a general idea for how organizational planning evolves, let's look at the next level of planning, known as tactical planning. **Tactical plans** support strategic plans by translating them into specific plans relevant to a distinct area of the organization. Tactical plans are concerned with the responsibility and functionality of lower-level departments to fulfill their parts of the strategic plan.

For example, when Martha, the middle-level manager at Nino's, learns about Tommy's strategic plan for increasing productivity, Martha immediately begins to think about possible tactical plans to ensure that happens. Tactical planning for Martha might include things like testing a new process in making pizzas that has been proven to shorten the amount of time it takes for prepping the pizza to be cooked or perhaps looking into purchasing a better oven that can speed up the amount of time it takes to cook a pizza or even considering ways to better map out delivery routes and drivers. As a tactical planner, Martha needs to create a set of calculated actions that take a shorter amount of time and are narrower in scope than the strategic plan is but still help to bring the organization closer to the long-term goal.

**Operational Plans**

**Operational plans** sit at the bottom of the totem pole; they are the plans that are made by frontline, or low-level, managers. All operational plans are focused on the specific procedures and processes that occur within the lowest levels of the organization. Managers must plan the routine tasks of the department using a high level of detail.

Frank, the frontline manager at Nino's Pizzeria, is responsible for operational planning. Operational planning activities for Frank would include things like scheduling employees each week; assessing, ordering and stocking inventory; creating a monthly budget; developing a promotional advertisement for the quarter to increase the sales of a certain product (such as the Hawaiian pizza) or outlining an employee's performance goals for the year.

Operational plans can be either single-use or ongoing plans. **Single-use plans** are those plans that are intended to be used only once. They include activities that would not be repeated and often have an expiration. Creating a monthly budget and developing a promotional advertisement for the quarter to increase the sales of a certain product are examples of how Frank would utilize single-use planning.

**Ongoing plans** are those plans that are built to withstand the test of time. They are created with the intent to be used several times and undergo changes when necessary. Outlining an employee's performance goals for the year would be considered an ongoing plan that Frank must develop, assess and update, if necessary. Ongoing plans are typically a **policy**, **procedure** or **rule**. Policies are general statements, or guidelines, that aid a manager in understanding routine responsibilities of his or her role as a manager. Examples of policies include things such as hiring, training, outlining and assessing performance appraisals and disciplining and terminating subordinates. A procedure details the step-by-step process of carrying out a certain task, such as assessing, ordering and stocking inventory. A rule provides managers and employees with specific and explicit guidelines of behavior that is what they should and should not do as a member of the organization.

**Other kinds of Planning**

***Automated planning and scheduling***  
***• Business plan***  
***• Comprehensive planning***  
***• Contingency planning***  
***• Economic planning***  
***• Enterprise architecture planning***  
***• Environmental planning***  
***• Event planning and production***  
***• Financial planning***  
***• Marketing plan***  
***• Network resource planning***  
***• Operational planning***  
***• Regional planning***  
***• Site planning***  
***• Strategic planning***  
***• Succession planning***

**The Planning Process for Managers/organizations and individuals.**

**1. Establish Goals**

The first step of the management planning process is to identify specific company goals. This portion of the planning process should include a detailed overview of each goal, including the reason for its selection and the anticipated outcomes of goal-related projects. Where possible, objectives should be described in quantitative or qualitative terms. An example of a goal is to raise profits by 25 percent over a 12-month period.

**2. Identify Resources**

Each goal should have financial and human resources projections associated with its completion. For example, a management plan may identify how many sales people it will require and how much it will cost to meet the goal of increasing sales by 25 percent.

**3. Establish Goal-Related Tasks**

Each goal should have tasks or projects associated with its achievement. For example, if a goal is to raise profits by 25 percent, a manager will need to outline the tasks required to meet that objective. Examples of tasks might include increasing the sales staff or developing advanced sales training techniques.

**4. Prioritize Goals and Tasks**

Prioritizing goals and tasks is about ordering objectives in terms of their importance. The tasks deemed most important will theoretically be approached and completed first. The prioritizing process may also reflect steps necessary in completing a task or achieving a goal. For example, if a goal is to increase sales by 25 percent and an associated task is to increase sales staff, the company will need to complete the steps toward achieving that objective in chronological order.

**5. Create Assignments and Timelines**

As the company prioritizes projects, it must establish timelines for completing associated tasks and assign individuals to complete them. This portion of the management planning process should consider the abilities of staff members and the time necessary to realistically complete assignments. For example, the sales manager in this scenario may be given monthly earning quotas to stay on track for the goal of increasing sales by 25 percent.

**6. Establish Evaluation Methods**

A management planning process should include a strategy for evaluating the progress toward goal completion throughout an established time period. One way to do this is through requesting a monthly progress report from department heads.

**7. Identify Alternative Courses of Action**

Even the best-laid plans can sometimes be thrown off track by unanticipated events. A management plan should include a contingency plan if certain aspects of the master plan prove to be unattainable. Alternative courses of action can be incorporated into each segment of the planning process, or for the plan in its entirety.

**8. Implement – Act as per 1…….7.**

**THE ORGANIZING FUNCTION OF MANAGEMENT (organizational structure)**

**Organizing** is the function of management which follows planning. It is a function in which the synchronization and combination of human, physical and financial resources takes place. All the three resources are important to get results. Therefore, organizational function helps in achievement of results which in fact is important for the functioning of a concern. According to *Chester Barnard*, “Organizing is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organize in order to get results.

A manager performs organizing function with the help of following steps:-

 **Identification of activities -** All the activities which have to be performed in a concern have to be identified first. For example, preparation of accounts, making sales, record keeping, quality control, inventory control, etc. All these activities have to be grouped and classified into units.

 **Departmentally organizing the activities -** In this step, the manager tries to combine and group similar and related activities into units or departments. This organization of dividing the whole concern into independent units and departments is called departmentation.

 **Classifying the authority -** Once the departments are made, the manager likes to classify the powers and its extent to the managers. This activity of giving a rank in order to the managerial positions is called hierarchy. The top management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen. The clarification of authority help in bringing efficiency in the running of a concern. This helps in achieving efficiency in the running of a concern. This helps in avoiding wastage of time, money, effort, in avoidance of duplication or overlapping of efforts and this helps in bringing smoothness in a concern’s working.

 **Co-ordination between authority and responsibility -** Relationships are established among various groups to enable smooth interaction toward the achievment of the organizational goal. Each individual is made aware of his authority and he/she knows whom they have to take orders from and to whom they are accountable and to whom they have to report. A clear organizational structure is drawn and all the employees are made aware of it

**Importance of ORGANIZING**

 **Specialization -** Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.

 **Well defined jobs -** Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.

 **Clarifies authority -** Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.

 **Co-ordination -** Organization is a means of creating co-ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensure mutual co-operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.

Authority responsibility relationships can be fruitful only when there is a formal relationship between the two. For smooth running of an organization, the co-ordination between authority- responsibility is very important. There should be co-ordination between different relationships. Clarity should be made for having an ultimate responsibility attached to every authority. There is a saying, “Authority without responsibility leads to ineffective behaviour and responsibility without authority makes person ineffective.” Therefore, co-ordination of authority- responsibility is very important.

 **Effective administration -** The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.

 **Growth and diversification -** A company’s growth is totally dependant on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization. In addition to this, a company can diversify if its potential grow. This is possible only when the organization structure is well- defined. This is possible through a set of formal structure.

 **Sense of security -** Organizational structure clarifies the job positions. The roles assigned to every manager is clear. Co-ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job- satisfaction.

 **Scope for new changes -** Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.

**Principles of ORGANIZING**

The organizing process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organize in an effective manner, the following principles of organization can be used by a manager.

### Principle of Specialization

According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialization can be achieved which results in effective organization.

### Principle of Functional Definition

According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively. For example, the primary functions of production, marketing and finance and the authority responsibility relationships in these departments shouldbe clearly defined to every person attached to that department. Clarification in the authority-responsibility relationship helps in efficient organization.

### Principle of Span of Control/Supervision

According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either froma wide or narrow span. There are two types of span of control:-

* 1. **Wide span of control-** It is one in which a manager can supervise and control effectively a large group of persons at one time. The features of this span are:-
     1. Less overhead cost of supervision
     2. Prompt response from the employees
     3. Better communication
     4. Better supervision
     5. Better co-ordination
     6. Suitable for repetitive jobs

According to this span, one manager can effectively and efficiently handle a large number of subordinates at one time.

* 1. **Narrow span of control-** According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervises and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time. The features are:-
     1. Work which requires tight control and supervision, for example, handicrafts, ivory work, etc. which requires craftsmanship, there narrow span is more helpful.
     2. Co-ordination is difficult to be achieved.
     3. Communication gaps can come.
     4. Messages can be distorted.
     5. Specialization work can be achieved.

### Factors influencing Span of Control

* + - 1. **Managerial abilities-** In the concerns where managers are capable, qualified and experienced, wide span of control is always helpful.
      2. **Competence of subordinates-** Where the subordinates are capable and competent and their understanding levels are proper, the subordinates tend to very frequently visit the superiors for solving their problems. In such cases, the manager can handle large number of employees. Hence wide span is suitable.
      3. **Nature of work-** If the work is of repetitive nature, wide span of supervision is more helpful. On the other hand, if work requires mental skill or craftsmanship, tight control and supervision is required in which narrow span is more helpful.
      4. **Delegation of authority-** When the work is delegated to lower levels in an efficient and proper way, confusions are less and congeniality of the environment can be maintained. In such cases, wide span of control is suitable and the supervisors can manage and control large number of sub- ordinates at one time.
      5. **Degree of decentralization-** Decentralization is done in order to achieve specialization in which authority is shared by many people and managers at different levels. In such cases, a tall structure is helpful. There are certain concerns where decentralization is done in very effective way which results in direct and personal communication between superiors and sub- ordinates and there the superiors can manage large number of subordinates very easily. In such cases, wide span again helps.

### Principle of Scalar Chain

Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimized, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organization which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organization.

### Principle of Unity of Command

It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organization.

**Effective DELEGATION OF AUTHORITY**

The manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

### Elements of Delegation

1. **Authority** - in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn’t misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn’t imply escaping from accountability. Accountability still rest with the person having the utmost authority.

1. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn’t accomplish tasks assigned as expected, then also he is answerable for that.
2. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if ’A’ is given a task with sufficient authority, and ’A’ delegates this task to B and asks him to ensure that task is done well, responsibility rest with ’B’, but accountability still rest with ’A’. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can’t be escaped. It arises from responsibility.
3. **Power…………………………………**

For achieving effective delegation, a manager has to work in a system and has to perform following steps : -

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

**Delegation of authority** is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager,i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee’s role which means his responsibility and accountability is attached with the authority over to here.

### Relationship between Authority and Responsibility

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates, in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

### Differences between Authority and Responsibility

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

# Importance of Delegation

Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates. The importance of delegation can be justified by -

1. Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit. This effectivity helps a manager to prove his ability and skills in the best manner.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands. An organization functions as the authority flows from top level to bottom. This in fact shows that through delegation, the superior-subordinate relationship become meaningful. The flow of authority is from top to bottom which is a way of achieving results.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. Through delegating powers, the subordinates get a feeling of importance. They get motivated to work and this motivation provides appropriate results to a concern. Job satisfaction is an important criterion to bring stability and soundness in the relationship between superior and subordinates. Delegation also helps in breaking the monotony of the subordinates so that they can be more creative and efficient. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. Since the manager get enough time through delegation to concentrate on important issues, their decision-making gets strong and in a way they can flourish the talents which are required in a manager. Through granting powers and getting the work done, helps the manager to attain communication skills, supervision and guidance, effective motivation and the leadership traits are flourished. Therefore it is only through delegation, a manager can be tested on his traits.
5. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern’s working. With effective results, a concern can think of creating more departments and divisions flow working. This will require creation of more managers which can be fulfilled by shifting the experienced, skilled managers to these positions. This helps in both virtual as well as horizontal growth which is very important for a concern’s stability.

# Centralization and Decentralization

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

1. Reservation of decision making power at top level.
2. Reservation of operating authority with the middle level managers.
3. Reservation of operation at lower level at the directions of the top level.

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

On the other hand, **Decentralization** is a systematic delegation of authority at all [levels of management](http://www.managementstudyguide.com/management_levels.htm) and in all of the organization. In a decentralization concern, authority in retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

The degree of **centralization and decentralization** will depend upon the amount of authority delegated to the lowest level. According to Allen, “Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points.

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider is scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. While decentralization is complete only when fullest possible delegation has taken place. For example, the general manager of a company is responsible for receiving the leave application for the whole of the concern. The general manager delegates this work to the personnel manager who is now responsible for receiving the leave applicants. In this situation delegation of authority has taken place. On the other hand, on the request of the personnel manager, if the general manager delegates this power to all the departmental heads at all level, in this situation decentralization has taken place. There is a saying that “Everything that increasing the role of subordinates is decentralization and that decreases the role is centralization”. Decentralization is wider in scope and the subordinate’s responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

### Implications of Decentralization

1. There is less burden on the Chief Executive as in the case of centralization.
2. In decentralization, the subordinates get a chance to decide and act independently which develops skills and capabilities. This way the organization is able to process reserve of talents in it.
3. In decentralization, diversification and horizontal can be easily implanted.
4. In decentralization, concern diversification of activities can place effectively since there is more scope for creating new departments. Therefore, diversification growth is of a degree.
5. In decentralization structure, operations can be coordinated at divisional level which is not possible in the centralization set up.
6. In the case of decentralization structure, there is greater motivation and morale of the employees since they get more independence to act and decide.
7. In a decentralization structure, co-ordination to some extent is difficult to maintain as there are lot many department divisions and authority is delegated to maximum possible extent, i.e., to the bottom most level delegation reaches. Centralization and decentralization are the categories by which the pattern of authority relationships became clear. The degree of centralization and de-centralization can be affected by many factors like nature of operation, volume of profits, number of departments, size of a concern, etc. The larger the size of a concern, a decentralization set up is suitable in it.

**THE DIRECTING FUNCTION (Leadership; Communication; Coordination and Motivation)**

**DIRECTING** is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. [Planning](http://www.managementstudyguide.com/planning_function.htm), [organizing](http://www.managementstudyguide.com/organizing_function.htm), and controlling have got no importance if direction function does not take place.

Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, “Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned” Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.

Direction has got following characteristics:

1. **Pervasive Function -** Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.
2. **Continuous Activity -** Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human Factor -** Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. **Creative Activity -** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. **Executive Function -** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.
6. **Delegate Function -** Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people’s behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

**IMPORTANCE OF DIRECTING**

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as “*Life spark of an enterprise*”. It is also called as on actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

1. **It Initiates Actions -** Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.
2. **It Ingrates Efforts -** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.
3. **Means of Motivation -** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.
4. **It Provides Stability -** Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.
5. **Coping up with the changes -** It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptions and smooth running of an enterprise. For example, if a concern shifts from handlooms to powerlooms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.
6. **Efficient Utilization of Resources -** Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn’t take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

From the above discussion, one can justify that direction, surely, is the heart of management process. Heart plays an important role in a human body as it serves the function pumping blood to all parts of body which makes the parts function. In the similar manner, direction helps the subordinates to perform in best of their abilities and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner. According to Earnest Dale, “Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards”. Therefore, it is rightly said that direction is essence of management process.

upervisor has got an important role to play in factory management. Supervision means overseeing the subordinates at work at the factory level. The supervisor is a part of the management team and he holds the designation of first line managers. He is a person who has to perform many functions which helps in achieving productivity. Therefore, supervisor can be called as the only manager who has an important role at execution level. There are certain philosophers who call supervisors as workers. There are yet some more philosophers who call them as managers. But actually he should be called as a manager or operative manager. His primary job is to manage the workers at operative level of management.

**Elements of Directing**

**1. Communication**

**2. Motivation**

**3. Leadership**

**4. Coordination**

**Communication and Management**

**Learning Outcomes**

* Describe the components of the communication-process model.
* Recognize common missteps in communication.
* Differentiate between formal and informal communication networks.

A case study.

Mathias Mendez had recently been hired as the manager of the purchasing department of an online retailer. His appointment was announced through an e-mail to all company employees, and his department was expecting his arrival. His managers told him his first task was to try to cut costs in the department. Mathias hadn’t determined exactly what to do, but he had determined that he could reach the target cuts through a combination of a freeze on new hiring, cutting all but critical travel, reducing training, and cutting back on the use of temporary and contract workers.

He was anxious to show his superiors that he was working on the problem, so he sent an e-mail to his managers and employees that said he would be announcing cost-cutting measures soon. Unfortunately, employees interpreted this to mean there would be layoffs. Rumors soon started flying about how “Matt the Knife” had been hired to outsource the department and that everyone was going to be laid off. Morale plunged and people started using their time to polish their resumes and apply for jobs. The employees distrusted Mathias and he was cut off from all but routine communication with them.

Communication and management are closely linked. **Communication** refers to the process by which information is exchanged between two or more people (increasingly, machines are also included in communication, but we limit the discussion here to communication between people). Each of the management roles—planning, organizing, leading, and controlling—depends on effective communication. Managers must be able to receive accurate information to determine plans, and they must be able to send accurate information for the plans to be implemented. When information is accurately sent and received, everyone in an organization can be informed. As we see in the earlier example, however, when information is misinterpreted or when incorrect information spreads, communications can create significant problems in organizations.

**The Role of Communication in Management**

The role of management is to accomplish the goals of an organization. To do this, managers create a plan that defines what needs to be done, when it will be done, and how it will be done. To implement the plan, managers must convey this information to everyone in the organization. That is, they must communicate the plan to members of the organization. However, managers need to do much more than just inform people what they need to do to support the plan. They also must motivate people to support the plan, build commitment to the organization, establish rapport and collaboration, and keep everyone informed of events and actions that affect the organization. Good communication not only informs but also helps to create a culture that makes people feel like they belong to and want to support the organization. The opening example shows what can result from poor communication. Following are some of the benefits of effective communication.

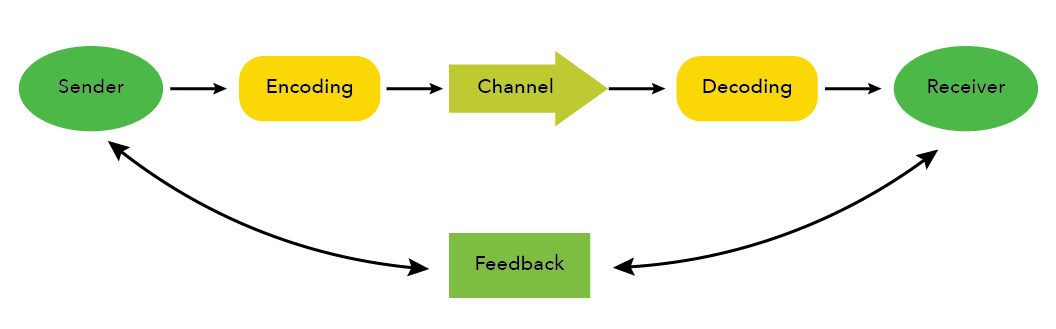
* **Provides clarity.** Confusion, uncertainty, and ambiguity make people uncomfortable and uncooperative. Making roles, responsibilities, and relationships clear gives everyone the information they need to do their jobs and to understand their contributions to the organization. Effective communication reduces the cost associated with conflicts, misunderstandings, and mistakes.
* **Builds Relationships.** A culture that promotes open communication reduces tension between hierarchical levels of employees, both professionally and socially. In a trusting and collaborative culture, people are more likely to seek help with problems and to suggest solutions and improvements. Effective communication creates a collegial culture that fosters teamwork and encourages cooperation.
* **Creates commitment.** Effective communication involves not only sending information but also receiving it. By listening to employees’ concerns, allowing them to have input on their work and their workplace, and giving consideration to their suggestions, managers can make everyone in the organization feel like they are valued contributors. When employees feel like they are valued in the organization, they will likely be more engaged and motivated. Effective communication creates support and commitment.
* **Defines expectations.** When people are uncertain about what is expected of them and how they will be evaluated, they can’t do their jobs well. Performance reviews are difficult because the employee does not know the performance standards they are expected to meet. And if corrective measures are necessary, the employee may be resentful if he can’t see how his behaviors reduced his effectiveness. When expectations and standards are clear, employees know what they need to do to get a positive review and the benefits that come with it.

These are just a few of the many benefits that come from effective communications. Managers can only reach organizational goals when the people in the organization are committed to the goals. People perform much better when they are informed and involved.

**The Communication-Process Model**

The communication process may seem simple: one person sends a message and others receive it. The process becomes more complex, however, because the information in the message must be sent and received accurately. The communication-process model describes how the *information* is sent and received.

The following diagram shows this model.



The communication-process model.

It is easiest to understand the model when one person is communicating with another person. The person initiating the communication, the **sender**, has information he wants the other person, the **receiver**, to know. However, before it can be sent, the information has to be encoded into a form that can be transmitted. In a simple case, the information is put into words spoken to the receiver. Or the information may be converted into printed text, tables, charts, or graphs given to the receiver. In a more complicated case, the information is encoded into words or images that are then converted into electronic signals sent to the receiver. The **channel** is the medium through which the information is conveyed. It could be air conveying sound waves, paper conveying text and images, or wires or magnetic fields conveying electronic signals. (We will discuss channels in more detail later in this module.) In the opening example, the management had information that Mathias had been hired and when he would start. They wanted the employees in the company to have that information so they put it in a message and sent it to employees.

The receiver reverses the process. She receives the encoded message and then decodes it. That means she converts the message back into information that can be understood. In the opening example, an employee reads the message and knows who has been hired and when he will start. Information has been transferred from managers to employees. In an interactive communication process, the receiver can send **feedback** to the sender to indicate that the message has been received and how it has been interpreted. This can start an interactive back-and-forth exchange that can assure the sender that the message has been received and understood correctly.

The two-person model can be generalized to the case of one person communicating with many others. It could be a person making a presentation to a roomful of people, a manager sending an e-mail to employees, a Facebook post to friends, or a tweet to hundreds of followers.

**Common Missteps in Communication**

Each step in the communication-process model introduces the potential for missteps to occur. In the opening scenario, two e-mail messages were described. They were both internal to the company, but they achieved much different results. What was different about the messages that caused the different outcomes?

The first misstep can occur when the information to be communicated is not encoded correctly. Consider the e-mail sent by management to announce Mathias’s appointment. Management had clear information to convey, and a simple e-mail conveyed it.

Mathias’s e-mail had a different purpose. He wanted to convey to his superiors that he was following their directions and was working on a plan to cut costs. But when he put the information into text, he didn’t encode it well. He wanted to convey that he was working on the problem but had not made any decisions. What he actually conveyed was that he was going to cut costs by whatever means necessary and soon. Because the information was not encoded accurately, the wrong information was sent.

The first step in good communications is being able to clearly and concisely convey information, whether written, spoken, graphic, or numerical. If information is not encoded properly, nothing else matters. Later on we will look at specific suggestions for how to tailor messages to take the needs of the receivers into consideration

Missteps also occur during decoding when the receiver interprets the message differently than the sender intended. In Mathias’s case, the message he sent was “I’m thinking about ways to cut costs and I will let you know when I have a plan.” But employees interpreted the message as “I’m going to do whatever I have to in order to cut costs.”

Because feedback is a message sent in the opposite direction, from the receiver to the sender, all of these problems can occur during feedback. In many cases feedback is not important and is not wanted. Much information that is communicated is intended to keep people informed, and acknowledgement or response is not expected. When management sent the notice about Mathias’s appointment it did not expect every employee to respond. Sometimes, though, feedback is important to be certain that both the sender and receiver have the same information and interpret it the same way. The initial sender must be sure that she understands the feedback provided by the sender, asks questions to clarify any misinterpretation, and responds to any questions. The last step in good communication is to be a good listener. In the following sections we will look more closely at the issues of miscommunication and ways to collect feedback.

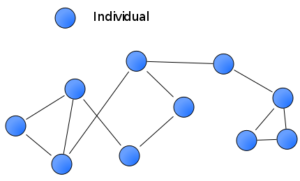
**Formal and Informal Communication Systems**

In most organizations there are both formal and informal information systems. **Formal communication systems** are the methods used to convey information necessary for conducting the business of the organization. Formal communications conform to rules and regulations prescribed by the profession or law (for example, formal reporting procedures for tracking injuries in the workplace). This is information that flows within the chain of command or within task responsibilities. The message may be procedures to provide regular progress reports to managers. It may be scheduled meetings to exchange information on the status of a project. Human resources may arrange seminars to convey new policies and procedures. The formal communication system makes sure necessary information flows through the organization and that dissemination of this information is controlled. Not everyone in an organization has access to progress reports or attends project meetings. Formal communication systems ensure that information is available to those who need it and not to others.

Not all communication in an organization is formal, and not all communication is controlled. **Informal communication systems** are outside of the formal system. Informal systems can connect almost anyone in an organization to anyone else. They skip over hierarchical levels and between departments and functions. In the opening scenario we saw how misinformation spread through the informal system can harm an organization. However, informal communication systems are not necessarily disruptive. In many organizations, the informal network is the primary way information is spread and work gets done. There are some organizations where getting a job done depends more on who you know than what you know.

There are two main types of informal communication systems: **social networks** and the **grapevine**.

A **social network** is a system of personal relationships that cross hierarchical, departmental, and organizational boundaries. A simple social network system is shown in the following diagram.



In this diagram of social networks, each circle represents an individual.

In a social network, an individual can reach out to anyone else in his network for information or assistance. Through the linking member, he can also seek help from another group. People with large social networks have access to much information, and linking individuals can spread information through an organization. Linking individuals can be very influential in an organization.

The **grapevine** is how gossip is spread through an organization. Another term for a grapevine is a rumor mill. Almost everyone engages in gossip in some manner, so it is a very effective way of spreading information. In fact, information often spreads faster through the grapevine than through formal information channels. Unfortunately, the information is not controlled, and it can be distorted or even totally fabricated. The grapevine is particularly important when formal communications are inadequate. People don’t like to be uncertain about conditions that affect them. When information is not provided by the formal system, they seek and spread information through the grapevine.

Unlike a social network, a grapevine is unstructured and transitory, although the grapevine can follow social network links. Information flows in the grapevine through chance encounters, informal meetings, and overheard conversations. Electronic communication and social media has greatly increased the speed and spread of grapevines.

**Employee Motivation**

Performance is considered to be a function of ability and motivation, thus:

* **Job performance =f(ability)(motivation)**

Ability in turn depends on education, experience and training and its improvement is a slow and long process. On the other hand motivation can be improved quickly. There are many options and an uninitiated manager may not even know where to start. As a guideline, there are broadly seven strategies for motivation.

* Positive reinforcement / [high expectations](http://www.accel-team.com/pygmalion/prophecy_06.html)
* Effective discipline and punishment
* Treating people fairly
* Satisfying employees needs
* Setting work related goals
* [Restructuring jobs](http://www.accel-team.com/work_design/index.html)
* Base [rewards on job performance](http://www.accel-team.com/motivation/employeeRewards_00.html)

These are the basic strategies, though the mix in the final 'recipe' will vary from workplace situation to situation. Essentially, there is a gap between an individuals actual state and some desired state and the manager tries to reduce this gap.

Motivation is, in effect, a means to reduce and manipulate this gap. It is inducing others in a specific way towards goals specifically stated by the motivator. Naturally, these goals as also the motivation system must conform to the corporate policy of the organization. The motivational system must be tailored to the situation and to the organization.

In one of the most elaborate studies on employee motivation, involving 31,000 men and 13,000 women, the Minneapolis Gas Company sought to determine what their potential employees desire most from a job. This study was carried out during a 20 year period from 1945 to 1965 and was quite revealing. The ratings for the various factors differed only slightly between men and women, but both groups considered security as the highest rated factor. The next three factors were;

* advancement
* type of work
* company - proud to work for

Surprisingly, factors such as pay, benefits and working conditions were given a low rating by both groups. So after all, and contrary to common belief, money is not the prime motivator.

**THEORIES OF MOTIVATION**

**Traditional theory 'X'**

This can best be ascribed to Sigmund Freud who was no lover of people, and was far from being optimistic. Theory X assumes that people are lazy; they hate work to the extent that they avoid it; they have no ambition, take no initiative and avoid taking any responsibility; all they want is security, and to get them to do any work, they must be rewarded, coerced, intimidated and punished. This is the so-called 'stick and carrot' philosophy of management. If this theory were valid, managers will have to constantly police their staff, whom they cannot trust and who will refuse to cooperate. In such an oppressive and frustrating atmosphere, both for the manager and the managed, there is ***no possibility of any achievement or any creative work***. But fortunately, as we know, this is not the case.

**Theory 'Y' -** [**Douglas McGregor**](http://www.accel-team.com/human_relations/hrels_03_mcgregor.html)

This is in sharp contrast to theory 'X'. McGregor believed that people want to learn and that work is their natural activity to the extent that they develop self-discipline and self-development. They see their reward not so much in cash payments as in the freedom to do difficult and challenging work by themselves. The managers job is to 'dovetail' the human wish for self-development into the organizations need for maximum productive efficiency. The basic objectives of both are therefore met and with imagination and sincerity, the enormous potential can be tapped.

Does it sound too good to be true? It could be construed, by some, that Theory 'Y' management is soft and slack. This is not true and the proof is in the 'pudding', for it has already proved its worth in the USA and elsewhere. For best results, the persons must be carefully selected to form a homogeneous group. A good leader of such a group may conveniently 'absent' from group meetings so they can discuss the matters freely and help select and 'groom' a new leader. The leader does no longer hanker after power, lets people develop freely, and may even (it is hoped) enjoy watching the development and actualization of people, as if, by themselves. Everyone, and most of all the organization, gains as a result.

[**Abraham Maslow**](http://www.accel-team.com/human_relations/hrels_02_maslow.html)

This is a refreshing change from the theory X of Freud, by a fellow psychologist, Abraham Maslow. Maslow totally rejects the dark and dingy Freudian basement and takes us out into the fresh, open, sunny and cheerful atmosphere. He is the main founder of the humanistic school or the third force which holds that all the good qualities are inherent in people, at least, at birth, although later they are gradually lost.

Maslow's central theme revolves around the meaning and significance of human work and seems to epitomize Voltaire's observation in Candide, 'work banishes the three great evils -boredom, vice and poverty'. The great sage Yajnavalkya explains in the Brihadaranyaka Upanishad that by good works a man becomes holy, by evil works evil. A mans personality is the sum total of his works and that only his works survive a man at death. This is perhaps the essence of Maslow's [hierarchy of needs theory](http://www.accel-team.com/maslow_/maslow_nds_02.html), as it is more commonly know.

Maslow's major works include the standard textbook (in collaboration with Mittlemann), Principles of Abnormal Psychology (1941), a seminal paper, 'A Theory of Human Motivation' (1943) and the book, Eupsychian Management (pronounced yew-sigh-keyan) published in 1965. Maslow's theory of human motivation is, in fact, the basis of McGregor's theory 'Y' briefly described above. The basic human needs, according to Maslow, are:

* physiological needs (Lowest) (FOOD, SHELTER, CLOTHING
* safety needs; (JOB SECURITY
* love needs; (BELONGING NEEDS)
* esteem needs; and (SELF WORTH) SELF PRIDE
* self-actualization needs (Highest) (ACHIEVING THE BEST OF ONE’S POTENTIAL)

Mans behavior is seen as dominated by his unsatisfied needs and he is a 'perpetually wanting animal', for when one need is satisfied he aspires for the next higher one. This is, therefore, seen as an ongoing activity, in which the man is totally absorbed in order to attain perfection through self-development.

The highest state of self-actualization is characterized by integrity, responsibility, magnanimity, simplicity and naturalness. Self-actualizers focus on problems external to themselves. His prescription for human salvation is simple, but not easy: 'Hard work and total commitment to doing well the job that fate or personal destiny calls you to do, or any important job that "calls for" doing'.

**Hygiene / Motivation Theory - Herzberg**

This is based on analysis of the interviews of 200 engineers and accountants in the Pittsburgh area in the USA. According to this theory, people work first and foremost in their own self-enlightened interest, for they are truly happy and mentally healthy through work accomplishment. Peoples needs are of two types:

**Animal Needs (hygiene factors)**

* Supervision
* Interpersonal relations
* Working conditions
* Salary

**Human Needs (motivators)**

* Recognition
* Work
* Responsibility
* Advancement

Unsatisfactory hygiene factors can act as de-motivators, but if satisfactory, their motivational effect is limited. The psychology of motivation is quite complex and Herzberg has exploded several myths about motivators such as:

* shorter working week;
* increasing wages;
* fringe benefits;
* sensitivity / human relations training;
* communication.

As typical examples, saying 'please' to shop-floor workers does not motivate them to work hard, and telling them about the performance of the company may even antagonize them more. Herzberg regards these also as hygiene factors, which, if satisfactory, satisfy animal needs but not human needs.

[**Chris Argyris**](http://www.accel-team.com/human_relations/hrels_06i_argyris.html)

According to Argyris, organization needs to be redesigned for a fuller utilization of the most precious resource, the workers, in particular their psychological energy. The pyramidal structure will be relegated to the background, and decisions will be taken by small groups rather than by a single boss. Satisfaction in work will be more valued than material rewards. Work should be restructured in order to enable individuals to develop to the fullest extent. At the same time work will become more meaningful and challenging through self-motivation.

[**Rensis Likert**](http://www.accel-team.com/human_relations/hrels_04_likert.html)

Likert identified four different styles of management:

* exploitative-authoritative;
* benevolent-authoritative;
* consultative;
* participative.

The participative system was found to be the most effective in that it satisfies the whole range of human needs. Major decisions are taken by groups themselves and this results in achieving high targets and excellent productivity. There is complete trust within the group and the sense of participation leads to a high degree of motivation.

**Fred Luthans**

Luthans advocates the so-called 'contingency approach' on the basis that certain practices work better than others for certain people and certain jobs. As an example, rigid, clearly defined jobs, authoritative leadership and tight controls lead in some cases to high productivity and satisfaction among workers. In some other cases just the opposite seems to work. It is necessary, therefore, to adapt the leadership style to the particular group of workers and the specific job in hand.

**Victor Vroom**

Vroom's 'expectancy theory' is an extension of the 'contingency approach'. The leadership style should be 'tailored' to the particular situation and to the particular group. In some cases it appears best for the boss to decide and in others the group arrives at a consensus. An individual should also be rewarded with what he or she perceives as important rather than what the manager perceives. For example, one individual may value a salary increase, whereas another may, instead, value promotion. This theory contributes an insight into the study of employee motivation by explaining how individual goals influence individual performance.

We have discussed above only a selection of the motivation theories and thoughts of the various proponents of the human behavior school of management. Not included here are, among others, the thoughts of:

In some of the theories and thoughts presented, however, one can see some 'glimpses' of the person and how, perhaps, he or she could be motivated. This is rewarding in itself. But, as noted earlier, practice has been ahead of theory in this field, so let us now move to the practical side of management of human behavior and motivation in the workplace.

**Leadership and Management - Relationship & Differences**

Leadership and management are the terms that are often considered synonymous. It is essential to understand that leadership is an essential part of effective management. As a crucial component of management, remarkable leadership behaviour stresses upon building an environment in which each and every employee develops and excels. Leadership is defined as the potential to influence and drive the group efforts towards the accomplishment of goals. This influence may originate from formal sources, such as that provided by acquisition of managerial position in an organization.

A manager must have traits of a leader, i.e., he must possess leadership qualities. Leaders develop and begin strategies that build and sustain competitive advantage. Organizations require robust leadership and robust management for optimal organizational efficiency.

**Differences between Leadership and Management**

Leadership differs from management in a sense that:

1. While managers lay down the structure and delegates authority and responsibility, leaders provides direction by developing the organizational vision and communicating it to the employees and inspiring them to achieve it.
2. While management includes focus on planning, organizing, staffing, directing and controlling; leadership is mainly a part of directing function of management. Leaders focus on listening, building relationships, teamwork, inspiring, motivating and persuading the followers.
3. While a leader gets his authority from his followers, a manager gets his authority by virtue of his position in the organization.
4. While managers follow the organization’s policies and procedure, the leaders follow their own instinct.
5. Management is more of science as the managers are exact, planned, standard, logical and more of mind. Leadership, on the other hand, is an art. In an organization, if the managers are required, then leaders are a must/essential.
6. While management deals with the technical dimension in an organization or the job content; leadership deals with the people aspect in an organization.
7. While management measures/evaluates people by their name, past records, present performance; leadership sees and evaluates individuals as having potential for things that can’t be measured, i.e., it deals with future and the performance of people if their potential is fully extracted.
8. If management is reactive, leadership is proactive.
9. Management is based more on written communication, while leadership is based more on verbal communication.

The organizations which are over managed and under-led do not perform upto the benchmark. **Leadership accompanied by management sets a new direction and makes efficient use of resources to achieve it**. Both leadership and management are essential for individual as well as organizational success.

**Leader versus Manager**

“Leadership and managership are two synonymous terms” is an incorrect statement. Leadership doesn’t require any managerial position to act as a leader. On the other hand, a manager can be a true manager only if he has got the traits of leader in him. By virtue of his position, manager has to provide leadership to his group. A manager has to perform all five functions to achieve goals, i.e., [Planning](https://www.managementstudyguide.com/planning_function.htm), [Organizing](https://www.managementstudyguide.com/organizing_function.htm), Staffing, [Directing](https://www.managementstudyguide.com/directing_function.htm), and Controlling. Leadership is a part of these functions. Leadership as a general term is not related to managership. A person can be a leader by virtue of qualities in him. For example: leader of a club, class, welfare association, social organization, etc. Therefore, it is true to say that, “All managers are leaders, but all leaders are not managers.”

A leader is one who influences the behavior and work of others in group efforts towards achievement of specified goals in a given situation. On the other hand, manager can be a true manager only if he has got traits of leader in him. Manager at all levels are expected to be the leaders of work groups so that subordinates willingly carry instructions and accept their guidance. A person can be a leader by virtue of all qualities in him.

Leaders and Managers can be compared on the following basis:

|  |  |  |
| --- | --- | --- |
| **Basis** | **Manager** | **Leader** |
| Origin | A person becomes a manager by virtue of his position. | A person becomes a leader on basis of his personal qualities. |
| Formal Rights | Manager has got formal rights in an organization because of his status. | Rights are not available to a leader. |
| Followers | The subordinates are the followers of managers. | The group of employees whom the leaders leads are his followers. |
| Functions | A manager performs all five functions of management. | Leader influences people to work willingly for group objectives. |
| Necessity | A manager is very essential to a concern. | A leader is required to create cordial relation between person working in and for organization. |
| Stability | It is more stable. | Leadership is temporary. |
| Mutual Relationship | All managers are leaders. | All leaders are not managers. |
| Accountability | Manager is accountable for self and subordinates behaviour and performance. | Leaders have no well defined accountability. |
| Concern | A manager’s concern is organizational goals. | A leader’s concern is group goals and member’s satisfaction. |
| Followers | People follow manager by virtue of job description. | People follow them on voluntary basis. |
| Role continuation | A manager can continue in office till he performs his duties satisfactorily in congruence with organizational goals. | A leader can maintain his position only through day to day wishes of followers. |
| Sanctions | Manager has command over allocation and distribution of sanctions. | A leader has command over different sanctions and related task records. These sanctions are essentially of informal nature. |

**Authority vs Leadership**

The authority exercised is a kind of legitimate power and people follow figures exercising it, because their positions demand so irrespective of the person holding the position. **Leaders in organizations and elsewhere may have formal authorities but they mostly rely on the informal authority that they exercise on people to influence them**. Leaders are trusted for their judgment and respected for their expertise, integrity etc and hence followed and not because they hold a certain position. For e.g. M.K. Gandhi for most part did not hold any official position to lead the Indian freedom struggle.

It is also important to understand that a formal authority and power emerging from it, might not always be able to influence people in the desired manner as; in times of crisis and difficulties people view it as coercion. On the other hand leadership tends to create followers out of free will and choice without forcing them to accept anything thrown their way. Authority rarely provides a scope for feedback, constructive criticism or opinions of the people on whom it is exercised however leaders provide ample platform to their followers to voice their thoughts and feedback.

When dealing with adults, the sole use of authority to direct and discipline them hardly works, leadership provides a better approach of sharing and involving thus building rapports with followers and creating long term relationships. Authority can hardly make people change their attitudes and behaviors with lasting effects and results however a leader inspires followers through self modeled ways and hence leadership displays greater effectiveness in addressing attitudes and behaviors of people.

Exercising authority sometimes limits the approaches to arrive at solutions for issues and problems while leadership encourages people to look beyond the obvious and think innovatively and sometimes emerge with radical solutions.

Apart from it, the biggest difference between the two as cited by Stephen R Covey is the moral authority held by leaders over the followers which is absent in the case of power from authority. Within the organizational setup when leaders also have moral authority on their subordinates by establishing a synchrony in their words and actions; the rest of the structure and processes of the organization also get aligned to it, thus creating a robust and transparent culture.

Authoritative way of working also encourages individuals to work in silos while in the organizations of today; the leaders need to have a complete picture and coordinate with other functions and departments as and when required. It is indeed difficult for mangers and leaders to move out of their circle of authority and coordinate and interact with external people. However the need of the hour and the more effective approach to leadership and management is when leaders come out of their comfort zone and move from exercising authority on a small group to leading the entire organization.

**Individuals, who do not rely on authority but lead people, are the ones who enjoy the privilege of their ideologies and thoughts practiced by later generations long after they are gone**. Even with individuals who held positions of responsibilities, the ones who actually led their people are the ones remembered and followed.

**Motivation: Meaning, Characteristics and Role | Business Management**

**Definition and Meaning of Motivation:**

‘Motivation’ is the process of inspiring people in order to intensify their desire and willingness for executing their duties effectively and for co-operating to achieve the common objectives of an enterprise.

In other words, it means to induce, instigate, incite or prompt someone to a particular course of action for getting the results expected from him.

Motivation is the actuating force that stimulates a man to put his best in the accomplishment of a task.

**In the words of E.F.L. Brech:**

“Motivation is a general inspiration process which gets the members of the team pull their weight effectively to give their loyalty to the group, to carry out properly the tasks they have accepted and generally to play an effective part in the job that the group has undertaken.”

In fact, motivation may be regarded as an integral part of the process of direction. In directing the subordinates, the manager has to try to create in them the willingness to pursue the goals of the organisation enthusiastically. In trying to do so, the manager may be said to concern himself with motivation. The term ‘motivation’ is derived from the word ‘motive’.

A motive is **“an inner state that energises, activates or moves, and that directs or induces human behaviour towards goals.”** Motives are the expression of a person’s needs and desires. In order to motivate individuals to work for the realisation of the goals and objectives of the organisation, the manager has to determine the motives or, in other words, the needs of the employees that call for their satisfaction.

So, motivation may be described as the process whereby an individual is given the opportunity to satisfy his needs by pursuing certain objectives.

Motivation is a powerful tool in the hands of a manager for inducing his subordinates to act in the desired manner by satisfying their needs and desires. It is concerned with how behaviour gets started, is energised, initiated, sustained and directed.

A successful manager knows that the issue of directions, however well-conceived, does not mean that they will be followed. He makes appropriate use of motivation to enthuse the personnel to work effectively for the attainment of the established goals.

**Factors of or Aids to Motivation:**

Effective motivation depends upon several factors or aids.

**The motivation process is determined on the basis of the factors discussed below:**

**1. Adequate Financial Incentive:**

Provisions should be made for fair and adequate remuneration of the employees of the enterprise. Remuneration must be fixed in such a way that the employees are satisfied. If they are not well paid they will not be motivated to perform their work with sincere efforts. Therefore, proper arrangements are to be made for sufficient amount of wages and salaries, bonus, various allowances, etc. in order to encourage the employees.

**2. Congenial Work Environment:**

Conducive work environment is needed for motivating the employees effectively. If favourable working conditions are not created, the process of motivation will not be fruitful. A suitable work environment means proper arrangements for ventilation and lighting, cleanliness and healthy atmosphere at the work place.

**3. Provision for Promotion:**

The employees are motivated through their promotion in future. Arrangement for promotion should be based on seniority or efficiency of the employees.

**4. Non-monetary Facilities:**

Besides financial incentives, some non-monetary facilities like the provisions for travelling, education, accommodation and medical treatment of the employees—free of cost—should be arranged for motivation.

**5. Retirement Benefits:**

Retirement benefits of the employees should be satisfactory for influencing them to work more. Arrangement of the important retirement benefits like the provisions of provident fund, pension, gratuity, etc. are to be made.

**6. Security of Job:**

The employees should be ensured about the stability of their employment. If they feel safe and secured in their jobs, they will be highly motivated.

**7. Goodwill and Possibility of Development of the Enterprise:**

The employees will be well-motivated to perform their jobs more effectively if the enterprise in which they work has a good reputation in the market and there lies the possibility of expansion, growth and prosperity in near future.

**8. Recognition of Good Work:**

The performance of good work by the employees should be recognised, accepted and praised by the upper level managers for creation of motivation among the employees.

**9. Unity among the Employees:**

Through the establishment of unity among the employees, motivation can be created. For this purpose, cordial relationship should be made among them. Equal and impartial behaviour to the employees of all levels and improvement of working relation are also necessary.

**10. Good Behaviour of the Higher Level Authority:**

Sweet behaviour of the higher authority and good relation between the employees and higher authority are needed for motivating the employees properly and adequately.

**Characteristics of Motivation:**

**The salient features or characteristics of motivation are as follows:**

**1. Human Aspect:**

Motivation is concerned exclusively with the human side of an enterprise. It means a process of stimulating human beings to make action for getting desired results. It creates will to work in the individuals.

If a manager can enthuse, initiate and build up loyalty of the employees towards the achievement of the enterprise objectives with their willing co-operation, the sum total of all these will amount to motivation. Thus, motivation is a behavioural concept that directs human behaviour towards certain goals.

**2. Psychological Concept:**

Motivation is a psychological concept which generates feelings of certain needs within an individual. Human needs are nothing but feelings in the mind of a person that he lacks certain things. Such internal feelings affect the behaviour of the person.

The workers, even with extraordinary abilities, will not be able to perform as desired unless they are effectively motivated. Effective performance on the part of the workers can be said to be the end result of their abilities backed by proper motivation. Thus,

Performance = Motivation x Abilities.

**3. Need-Satisfying Activity:**

Motivation is related to satisfying human needs. It can be effective only upon an accurate analysis of the workers’ needs for the satisfaction of which they can be induced to work in the desired manner. A worker will perform the desired activity only so long as he sees his action as a means of continued fulfillment of his cherished needs.

All motivated behaviour on the part of human beings is directed towards satisfaction or fulfillment of needs.

**4. Motivation is Total not Part:**

A worker cannot be motivated in parts. Each individual in the organisation is a self-contained and inseparable unit and all his needs are inter-related. These affect his behaviour in different ways. To be successful, motivation must take a worker as an indivisible unit and seek to appeal to all his urges and aspirations.

**5. Financial and Non-Financial:**

Motivation may assume several forms depending upon the needs, emotions, and sentiments of the workers. Broadly speaking, it can be classified as financial and non-financial. Financial motivation may be created by way of increasing wages, allowances, bonus, prizes, and other perquisites; while non-financial motivation may take the form of praise, recognition, providing greater responsibility or increased participation in decision-making, etc.

**6. Constant Process:**

Human needs are infinite. As very aptly put by Abraham H. Maslow, “Man is a wanting animal—as soon as one of his needs is satisfied, another appears in its place. This process is unending…” This means motivation cannot be a time-bound process. It is continuous.

**Role or Importance of Motivation:**

Motivation is one of the most important factors determining organisational efficiency and effectiveness. All organisational facilities will go waste in the lack of motivated people to utilise these facilities effectively. Every superior in the organisation must motivate his subordinates to create in them the will to work.

**The role or importance and significance of motivation may be summed up as follows:**

**1. Removal of Apathy:**

It is the considered view that the workers as a rule do not exert adequate energy for the accomplishment of a task assigned to them. This is because they are somehow dissatisfied with work, work situation or with the management authority. Motivation removes this apathy of the workers for peak performance.

**2. Combining ‘Will to work’ with ‘Capacity for work’:**

The will to work differs from the capacity for work. A man may have the capacity for doing a work having physical strength, technical skill, sufficient intelligence and mental alertness; but he may not have the mentality to apply them in full to his work. Motivation removes this psychological barrier and combines the will to work with the capacity for work of the workers.

**3. Securing Full Support and Energy of the Workers:**

The vital mark of a successful manager is his capacity to ensure full support and co-operation of the workers with their energy, ability and enthusiasm. “You can buy a man’s time, you can buy a man’s physical presence at a given place, but you cannot buy his enthusiasm, initiative or loyalty and his capacity, will and energy without motivation.” The vital mark of a successful manager is, thus, associated with motivation.

**4. Understanding the Employees’ Needs:**

Motivation makes the managers understand and realise the needs of the employees and gives satisfaction to them accordingly. If there is this understanding, and motivation works behind it, the managers are sure to receive needed co-operation of the employees for the profitability of the enterprise.

**5. Maximum Utilisation of the Resources:**

Motivation inspires the workers to make the best possible use of different factors of production. They work whole-heartedly to apply their abilities in minimising waste and cost. This will enable the enterprise to utilise its human, physical and financial resources to the maximum.

**6. Increase in Efficiency and Output:**

Motivation is an effective instrument in the hands of the managers to maximise efficiency of operations and output of the enterprise. Motivated employees put higher performance as compared to other employees.

A happy and contended work force ensures improved efficiency and higher output. Increase in labour productivity results in higher wages for the workers and increased profits for the enterprise. The high performance is a must for an organisation being successful and this performance comes through motivation.

**7. Low Employee Turnover and Absenteeism:**

Motivated employees stay in the organisation and their absenteeism is quite low. High labour turnover and absenteeism create many problems in the organisation. Existence of attractive financial and non-financial incentives helps to retain the employees. They are not easily tempted away by offers from the competitors. With reduced labour turnover, it becomes possible for the enterprise to plan its activities on a long-term basis.

**8. Acceptance of Organisational Changes:**

Organisations are integral parts of the society. The changes taking place in the society, i.e. changes in technology, knowledge, value system, etc., require an organisation to incorporate those changes to cope up with the requirement of the time.

When these changes are introduced in the organisation, there is a tendency to resist changes by the employees. However, if they are properly motivated, they will accept, introduce and implement these changes and keep the organisation on the right track of progress.

**9. Better Industrial Relations:**

Existence of attractive motivational schemes promotes closer identification between the enterprise and its workers. They merge their individual interests with the organisational objectives. There arises a sense of belonging and mutual co-operation at all levels. Motivation will foster team spirit among the workers. This will reduce labour unrest and create better relations between the managers and workers.

**10. Facilitating Other Functions of Management:**

The successful accomplishment of different functions such as planning, organising, directing, coordinating and controlling— all are inter-linked with motivation. Motivation is the right force that can make planning successful, organisation sound, direction forceful, co-ordination tight and control effective.

From the above discussion, it is clear that motivation is of great importance to business activities as it is a vital part of management process. No tangible result of best performance is possible without motivation.

Motivation is a goal-oriented characteristic that helps a person achieve his objectives. It pushes an individual to work hard at achieving his or her goals. An executive must have the right leadership traits to influence motivation. However, there is no specific blueprint for motivation.

As a leader, one should keep an open perspective on human nature. Knowing different needs of subordinates will certainly make the decision-making process easier.

Both an employee as well as manager must possess leadership and motivational traits. An effective leader must have a thorough knowledge of motivational factors for others. He must understand the basic needs of employees, peers and his superiors. Leadership is used as a means of motivating others.

Given below are important guidelines that outline the basic view of motivation:

* Harmonize and match the subordinate needs with the organizational needs. As a leader, the executive must ensure that the business has the same morals and ethics that he seeks in his employees. He should make sure that his subordinates are encouraged and trained in a manner that meets the needs of the business.
* Appreciation and rewards are key motivators that influence a person to achieve a desired goal. Rewarding good/ exceptional behavior with a small token of appreciation, certificate or letter can be a great motivator. If a certificate is awarded to a person, it should mention the particular act or the quality for which the individual is being rewarded.
* Being a role model is also a key motivator that influences people in reaching their goals. A leader should set a good example to ensure his people to grow and achieve their goals effectively.
* Encouraging individuals to get involved in planning and important issues resolution procedure not only motivates them, but also teaches the intricacies of these key decision-making factors. Moreover, it will help everyone to get better understanding of their role in the organization. The communication will be unambiguous and will certainly attract acknowledgement and appreciation from the leader.
* Developing moral and team spirit certainly has a key impact on the well-being of an organization. The metal or emotional state of a person constitutes his or her moral fabric. A leader’s actions and decisions affect the morale of his subordinates. Hence, he should always be aware of his decisions and activities. Team spirit is the soul of the organization. The leader should always make sure his subordinates enjoy performing their duties as a team and make themselves a part of the organization’s plans.
* A leader should step into the shoes of the subordinates and view things from subordinate’s angle. He should empathize with them during difficult times. Empathizing with their personal problems makes them stronger-mentally and emotionally.
* A meaningful and challenging job accomplished inculcates a sense of achievement among employees. The executive must make their employees feel they are performing an important work that is necessary for the organization’s well-being and success. This motivational aspect drives them to fulfill goals.

Remember, “**To become an efficient leader, you must be self-motivated**”. You must know your identity, your needs and you must have a strong urge to do anything to achieve your goals. Once you are self-motivated, only then you can motivate others to achieve their goals and to harmonize their personal goals with the common goals of the organization.

**Coordination and Supervision.**

**Role of a supervisor**

A supervisor plays multidisciplinary role at one time like -

1. **As a Planner -** A supervisor has to plan the daily work schedules in the factory. At the same time he has to divide the work to various workers according to their abilities.
2. **As a Manager -** It is righty said that a supervisor is a part of the management team of an enterprise. He is, in fact, an operative manager.
3. **As a Guide and Leader -** A factory supervisor leads the workers by guiding them the way of perform their daily tasks. In fact, he plays a role of an inspirer by telling them.
4. **As a Mediator -** A Supervisor is called a linking pin between management and workers. He is the spokesperson of management as well as worker.
5. **As an Inspector -** An important role of supervisor is to enforce discipline in the factory. For this, the work includes checking progress of work against the time schedule, recording the work performances at regular intervals and reporting the deviations if any from those. He can also frame rules and regulations which have to be followed by workers during their work.
6. **As a Counselor -** A supervisor plays the role of a counselor to the worker’s problem. He has to perform this role in order to build good relations and co-operation from workers. This can be done not only by listening to the grievances but also handling the grievances and satisfying the workers.

Therefore, we can say that effective and efficient supervision helps in serving better work performance, building good human relations, creating a congenial and co-operative environment. This all helps in increasing productivity.

**CONTROLLING AS A FUNCTION OF MANAGEMENT**

The controlling process involves:

1. Establishing standards to measure performance
2. Measuring actual performance (the work that has been accomplished)
3. Comparing performance with the PLANNED PERFORMANCE(the standard – goals and objectives in the plan)
4. Taking corrective action

**Controlling process of management**

The controlling process is simply a set of steps a manager uses to determine whether organizational goals have been met. Let's explore each step of the process and apply examples to demonstrate its function for management. Let's use the example of TQM Auto Repair Shop to understand the controlling process.

**Establishing Standards to Measure Performance**

This involves making decisions about the goals an organization wants to focus on during a period of time. These can be financial, [customer satisfaction](http://study.com/academy/lesson/what-is-customer-satisfaction-definition-examples-quiz.html), production or [employee performance](http://study.com/academy/lesson/what-is-employee-performance-lesson-quiz.html)-related goals.

**Measuring Actual Performance**

This involves creating measuring tools to collect data. The tool should be able to report on performance as it relates to the standards set, or 'measures,' developed in the first step of the controlling process. These tools can be a balance sheet, a sales report, data collected from a customer satisfaction survey or even an employee performance appraisal.

**Comparing Performance with the Standard**

This involves comparing 'actual' performance to performance standards based on data collected in the second step of the controlling process. Using the measuring tools created in the second step, managers are able to compare current performance and productivity to the standards set. A manager may want to compare sales performance from last year to this year by comparing the actual sales from the previous year to the sales of the current year. This comparison tells a manager whether the sales team is below, meeting or exceeding goals. These are called **variances**, or differences between what was expected and what actually occurred.

**Taking Corrective Action**

This involves determining whether changes need to be made, what changes need to be made and devising a plan for making changes. Managers will use comparisons to determine what needs to be investigated. If sales are lower than expected, managers will look at various things.

Perhaps the salespeople are not making as many client calls as they did last year. In this case, corrective action may be taken against the employees for non-performance. A manager may look at the work itself. Maybe there are too many clients and not enough staff. In this case, a manager may have to hire more staff. The price of the product or service may be too high, and it may affect demand. In this case, a manager may have to look at ways to add value to a product or service or lower prices.

**Controlling Process in Action**

Let's look at examples of the controlling process in action. Say you are the manager of TQM Auto Repair Shop and you recently set goals for your business. First, you must establish **standards**, or a set of 'requirements' for this business. You are working on the first step, **establishing standards to measure performance**.

You want to make $100,000 more this year than you did last year so you can replace older equipment in the repair shop. Raising the price of repairs can do this. This is a **financial goal**.

It is important not to take customers for granted. A goal to increase customer satisfaction from 84% last year to 90% this year is set. Customer service satisfaction must increase by six percent this year. This is a **customer service-related** goal.

If You set a goal to increase the quota, or a goal set for production, for the amount of cars each mechanic must repair each week. This is a **production goal**.

With all of the new goals you have set for the repair shop over the past week, employees may not be able to keep up with the workload. To ensure the goals are met, you must devise a way to measure the productivity and performance of his employees. This measurement is compared with the goals he set above, or the preset standards. Once he evaluates the information, you can provide feedback to each employee. This will help them make improvements to their work. This is an [**employee performance appraisal**](http://study.com/academy/lesson/employee-performance-appraisal-methods-process-examples.html).

You developed the standards for what you would like to accomplish in the above step. Now,you need to develop a way of determining whether the goals are being met. You create a new pricing guide, a customer satisfaction survey, a sales quota system and an employee evaluation system. You are working on the second step, **measuring actual performance**.

You need to present the new pricing guide to employees. You explain your plan for raising much-needed revenue to each employee so the employee understands the reason for the price increase. It is important to include employees in setting goals. If your employees understand the reason for the price increase, they will be more likely to buy-in to the goal.

You also go ahead to introduce a customer satisfaction survey. Each customer will fill out a survey form where they will rate their experience based on many factors like:

* Timeliness of repairs
* Quality of work
* Price
* Friendliness of mechanics
* Ease of payment

You will also need to develop a way to measure how many cars are being repaired by each mechanic on a weekly basis to be sure that the amount of repairs done weekly, monthly and in a year add up to the desired goal of increasing revenue by $100,000 set forth above. So you introduce the mechanics to a repair quota system. Each mechanic must fix ten engines, patch five tires and replace 15 windshield wipers each week. That means that each mechanic must bring in about $280.00 in revenue each week to reach the goal. Once broken down for the mechanics, the goal is realistic and attainable.

The toughest challenge for you will be to introduce the employee appraisal system.

You could use a system that involves the employee setting goals for themselves and you setting goals for the employees. After chatting with each employee, you are able to determine the criteria for acceptable performance. You will include the sales quota system from above, dependability, reliability, motivation and absenteeism in the appraisal. You will need to sit down with each employee to explain the process. If employees have input in setting goals for themselves, they are much more likely to achieve the goals.

As time goes by, you need to monitor the process to be sure it is working. At this time, you are **comparing actual/current performance with the set standard**. You will find it necessary to review your repair receipts and income statements each month to be sure you are on target for the financial goal of increasing revenue by $100,000.

**Characteristics of controlling Function.**

* Control is a continuous process
* Control is a management process
* Control is embedded in each level of organizational hierarchy
* Control is forward looking
* Control is closely linked with planning
* Control is a tool for achieving organizational activities
* Control is an end process
* Control compares actual performance with planned performance\*
* Control point out the error in the execution process
* Control helps in minimizing cost
* Control helps in achieving standard
* Control saves the time

**Elements of Controlling**

The four basic elements in a control system:

1. the characteristic or condition to be controlled
2. the sensor
3. the comparator
4. the activator

The first element is the *characteristic* or condition of the operating system which is to be measured. We select a specific characteristic because a correlation exists between it and how the [**system**](https://en.wikipedia.org/wiki/System) **i**s performing. The characteristic can be the output of the system during any stage of processing or it may be a condition that is the result of the system. For example, it may be the heat energy produced by the furnace or the temperature in the room which has changed because of the heat generated by the furnace. In an elementary school system, the hours a teacher works or the gain in knowledge demonstrated by the students on a national examination are examples of characteristics that may be selected for measurement, or control.

The second element of control, the *sensor*, is a means for measuring the characteristic or condition. For example, in a home heating system this device would be the thermostat, and in a quality-control system this measurement might be performed by a visual inspection of the product.

The third element of control, the [comparator](https://en.wikipedia.org/wiki/Comparator), determines the need for correction by comparing what is occurring with what has been planned. Some deviation from the plan is usual and expected, but when variations are beyond those considered acceptable, corrective action is required. It involves a sort of preventative action which indicates that good control is being achieved.

The fourth element of control, the activator, is the corrective action taken to return the system to its expected output. The actual person, device, or method used to direct corrective inputs into the operating system may take a variety of forms. It may be a hydraulic controller positioned by a solenoid or electric motor in response to an electronic error signal, an employee directed to rework the parts that failed to pass quality inspection, or a school principal who decides to buy additional books to provide for an increased number of students. As long as a plan is performed within allowable limits, corrective action is not necessary; however, this seldom occurs in practice

[Information](https://en.wikipedia.org/wiki/Information) is the medium of control, because the flow of sensory data and later the flow of corrective information allow a characteristic or condition of the system to be controlled. To illustrate how information flow facilitates control, let us review the elements of control in the context of information

**Kinds of Controls**

Control may be grouped according to three general classifications]

1. the nature of the information flow designed into the system (open- or closed-loop control)
2. the kind of components included in the design (man or machine control systems)
3. the relationship of control to the decision process (organizational or operational control).

**Open- and closed-loop control**

A street-lighting system controlled by a timing device is an example of an open-loop system. At a certain time each evening, a mechanical device closes the circuit and energy flows through the electric lines to light the lamps. Note, however, that the timing mechanism is an independent unit and is not measuring the objective function of the lighting system. If the lights should be needed on a dark, stormy day the timing device would not recognize this need and therefore would not activate energy inputs. Corrective properties may sometimes be built into the controller (for example, to modify the time the lights are turned on as the days grow shorter or longer), but this would not close the loop. In another instance, the sensing, comparison, or adjustment may be made through action taken by an individual who is not part of the system. For example, the lights may be turned on by someone who happens to pass by and recognizes the need for additional light.

If control is exercised as a result of the operation rather than because of outside or predetermined arrangements, it is a closed-loop system. The home thermostat is the classic example of a control device in a closed-loop system. When the room temperature drops below the desired point, the control mechanism closes the circuit to start the furnace and the temperature rises. The furnace-activating circuit is turned off as the temperature reaches the preselected level. The significant difference between this type of system and an open-loop system is that the control device is an element of the system it serves and measures the performance of the system. In other words, all four control elements are integral to the specific system.

An essential part of a closed-loop system is feedback; that is, the output of the system is measured continually through the item controlled, and the input is modified to reduce any difference or error toward zero. Many of the patterns of information flow in organizations are found to have the nature of closed loops, which use feedback. The reason for such a condition is apparent when one recognizes that any system, if it is to achieve a predetermined goal, must have available to it at all times an indication of its degree of attainment. In general, every goal-seeking system employs feedback

**Human and machine control**

The elements of control are easy to identify in machine systems. For example, the characteristic to be controlled might be some variable like speed or temperature, and the sensing device could be a speedometer or a thermometer. An expectation of precision exists because the characteristic is quantifiable and the standard and the normal variation to be expected can be described in exact terms. In automatic machine systems, inputs of information are used in a process of continual adjustment to achieve output specifications. When even a small variation from the standard occurs, the correction process begins. The automatic system is highly structured, designed to accept certain kinds of input and produce specific output, and programmed to regulate the transformation of inputs within a narrow range of variation.

For an illustration of mechanical control: as the load on a steam engine increases and the engine starts to slow down, the regulator reacts by opening a valve that releases additional inputs of steam energy. This new input returns the engine to the desired number of revolutions per minute. This type of mechanical control is crude in comparison to the more sophisticated electronic control systems in everyday use. Consider the complex missile-guidance systems that measure the actual course according to predetermined mathematical calculations and make almost instantaneous corrections to direct the missile to its target.

Machine systems can be complex because of the sophisticated technology, whereas control of people is complex because the elements of control are difficult to determine. In human control systems, the relationship between objectives and associated characteristics is often vague; the measurement of the characteristic may be extremely subjective; the expected standard is difficult to define; and the amount of new inputs required is impossible to quantify. To illustrate, let us refer once more to a formalized social system in which deviant behavior is controlled through a process of observed violation of the existing law (sensing), court hearings and trials (comparison with standard), incarceration when the accused is found guilty (correction), and release from custody after rehabilitation of the individual has occurred

The speed limit established for freeway driving is one standard of performance that is quantifiable, but even in this instance, the degree of permissible variation and the amount of the actual variation are often a subject of disagreement between the patrolman and the suspected violator. The complexity of our society is reflected in many of our laws and regulations, which establish the general standards for economic, political, and social operations. A citizen may not know or understand the law and consequently would not know whether or not he was guilty of a violation.

Most organized systems are some combination of man and machine; some elements of control may be performed by machine whereas others are accomplished by man. In addition, some standards may be precisely structured whereas others may be little more than general guidelines with wide variations expected in output. Man must act as the controller when measurement is subjective and judgment is required. Machines such as computers are incapable of making exceptions from the specified control criteria regardless of how much a particular case might warrant special consideration. A pilot acts in conjunction with computers and automatic pilots to fly large jets. In the event of unexpected weather changes, or possible collision with another plane, he must intercede and assume direct control.

**Organizational and operational control**

The concept of organizational control is implicit in the bureaucratic theory of [Max Weber](https://en.wikipedia.org/wiki/Max_Weber). Associated with this theory are such concepts as "[span of control](https://en.wikipedia.org/wiki/Span_of_control)", "closeness of supervision", and "hierarchical authority". Weber's view tends to include all levels or types of organizational control as being the same. More recently, writers have tended to differentiate the control process between that which emphasizes the nature of the organizational or systems design and that which deals with daily operations. To illustrate the difference, we "evaluate" the performance of a system to see how effective and efficient the design proved to be or to discover why it failed. In contrast, we operate and "control" the system with respect to the daily inputs of material, [information](https://en.wikipedia.org/wiki/Information), and [energy](https://en.wikipedia.org/wiki/Energy). In both instances, the elements of feedback are present, but organizational control tends to review and evaluate the nature and arrangement of components in the system, whereas operational control tends to adjust the daily inputs.

The direction for organizational control comes from the goals and strategic plans of the organization. General plans are translated into specific performance measures such as share of the [market](https://en.wikipedia.org/wiki/Market_%28economics%29), [earnings](https://en.wikipedia.org/wiki/Earnings), [return on investment](https://en.wikipedia.org/wiki/Return_on_investment), and [budgets](https://en.wikipedia.org/wiki/Budget). The process of organizational control is to review and evaluate the performance of the system against these established norms. Rewards for meeting or exceeding standards may range from special recognition to [salary](https://en.wikipedia.org/wiki/Salary) increases or [promotions](https://en.wikipedia.org/wiki/Promotion_%28marketing%29). On the other hand, a failure to meet expectations may signal the need to reorganize or redesign.

In **organizational control**, the approach used in the program of review and evaluation depends on the reason for the evaluation — *that is, is it because the system is not effective (accomplishing its objectives)? Is the system failing to achieve an expected standard of efficiency? Is the evaluation being conducted because of a breakdown or failure in operations? Is it merely a periodic audit-and-review process?*

When a system has failed or is in great difficulty, special diagnostic techniques may be required to isolate the trouble areas and to identify the causes of the difficulty. It is appropriate to investigate areas that have been troublesome before or areas where some measure of performance can be quickly identified. For example, if an organization's output backlog builds rapidly, it is logical to check first to see if the problem is due to such readily obtainable measures as increased demand or to a drop in available man hours. When a more detailed analysis is necessary, a systematic procedure should be followed

In contrast to organizational control, **operational control** serves to regulate the day-to-day output relative to [schedules](https://en.wikipedia.org/wiki/Schedule_%28workplace%29), [specifications](https://en.wikipedia.org/wiki/Specification), and [costs](https://en.wikipedia.org/wiki/Cost). *Is the output of product or service the proper* [*quality*](https://en.wikipedia.org/wiki/Quality_%28business%29) *and is it available as scheduled? Are inventories of raw materials, goods-in-process, and finished products being purchased and produced in the desired quantities? Are the costs associated with the transformation process in line with cost estimates? Is the information needed in the transformation process available in the right form and at the right time? Is the energy resource being utilized efficiently?*

The most difficult task of management concerns monitoring the behavior of individuals, comparing performance to some standard, and providing rewards or punishment as indicated. Sometimes this control over people relates entirely to their output. For example, a [manager](https://en.wikipedia.org/wiki/Management) might not be concerned with the behavior of a salesman as long as sales were as high as expected. In other instances, close supervision of the [salesman](https://en.wikipedia.org/wiki/Salesman) might be appropriate if achieving [customer](https://en.wikipedia.org/wiki/Customer) satisfaction were one of the sales organization's main [objectives](https://en.wikipedia.org/wiki/Goal).

The larger the unit, the more likely that the control characteristic will be related to some output goal. It also follows that if it is difficult or impossible to identify the actual output of individuals, it is better to measure the performance of the entire group. This means that individuals' levels of motivation and the measurement of their performance become subjective judgments made by the [supervisor](https://en.wikipedia.org/wiki/Supervisor). Controlling output also suggests the difficulty of controlling individuals' performance and relating this to the total system's objectives.

**Possible barriers/Problems with Control**

The perfect plan could be outlined if every possible variation of input could be anticipated and if the system would operate as predicted. This kind of planning is neither realistic, economical, nor feasible for most business systems. If it were feasible, planning requirements would be so complex that the system would be out of date before it could be operated. Therefore, we design control into systems. This requires more thought in the systems design but allows more flexibility of operations and makes it possible to operate a system using unpredictable components and undetermined input. Still, the design and effective operation of control are not without problems.

The objective of the system is to perform some specified function. The objective of organizational control is to see that the specified function is achieved. The objective of operational control is to ensure that variations in daily output are maintained within prescribed limits.

It is one thing to design a system that contains all of the elements of control, and quite another to make it operate true to the best objectives of design. Operating "in control" or "with plan" does not guarantee optimum performance. For example, the plan may not make the best use of the inputs of materials, energy, or information — in other words, the system may not be designed to operate efficiently. Some of the more typical problems relating to control include the difficulty of measurement, the problem of timing information flow, and the setting of proper standards.

When objectives are not limited to quantitative output, the measurement of system effectiveness is difficult to make and subsequently perplexing to evaluate. Many of the characteristics pertaining to output do not lend themselves to quantitative measurement. This is true particularly when inputs of human energy cannot be related directly to output. The same situation applies to machines and other equipment associated with human involvement, when output is not in specific units. In evaluating man-machine or human-oriented systems, psychological and sociological factors obviously do not easily translate into quantifiable terms. *For example, how does mental fatigue affect the quality or quantity of output? And, if it does, is mental fatigue a function of the lack of a challenging assignment or the fear of a potential injury?*

Subjective inputs may be transferred into numerical data, but there is always the danger of an incorrect appraisal and transfer, and the danger that the analyst may assume undue confidence in such data after they have been quantified. Let us suppose, for example, that the decisions made by an executive are rated from 1 to 10, 10 being the perfect decision. After determining the ranking for each decision, adding these, and dividing by the total number of decisions made, the average ranking would indicate a particular executive's score in his decision-making role. On the basis of this score, judgments — which could be quite erroneous — might be made about his decision-making effectiveness. One executive with a ranking of 6.75 might be considered more effective than another who had a ranking of 6.25, and yet the two managers may have made decisions under different circumstances and conditions. External factors over which neither executive had any control may have influenced the difference in "effectiveness"

Quantifying human behavior, despite its extreme difficulty, subjectivity, and imprecision in relation to measuring physical characteristics is the most prevalent and important measurement made in large systems. The behavior of individuals ultimately dictates the success or failure of every man-made system.

**Information flow**

Oscillation and Feedback

Another problem of control relates to the improper timing of information introduced into the feedback channel. Improper timing can occur in both computerized and human control systems, either by mistakes in measurement or in judgment. The more rapid the system's response to an error signal, the more likely it is that the system could over adjust; yet the need for prompt action is important because any delay in providing corrective input could also be crucial. A system generating feedback inconsistent with current need will tend to fluctuate and will not adjust in the desired manner.

The most serious [problem](https://en.wikipedia.org/wiki/Problem) in information flow arises when the delay in [feedback](https://en.wikipedia.org/wiki/Feedback) is exactly one-half cycle, for then the corrective action is superimposed on a variation from norm which, at that moment, is in the same direction as that of the correction. This causes the system to overcorrect, and then if the reverse adjustment is made out of cycle, to correct too much in the other direction, and so on until the system fluctuates ("oscillates") out of control. This phenomenon is illustrated in Figure 1. “Oscillation and Feedback”. If, at Point A, the trend below standard is recognized and new inputs are added, but not until Point B, the system will overreact and go beyond the allowable limits. Again, if this is recognized at Point C, but inputs are not withdrawn until Point D, it will cause the system to drop below the lower limit of allowable variation.

One solution to this problem rests in anticipation, which involves measuring not only the change but also the rate of change. The correction is outlined as a factor of the type and rate of the error. The difficulty also might be overcome by reducing the time lag between the measurement of the output and the adjustment to input. If a trend can be indicated, a time lead can be introduced to compensate for the time lag, bringing about consistency between the need for correction and the type and magnitude of the indicated action. It is usually more effective for an organization to maintain continuous measurement of its performance and to make small adjustments in operations constantly (this assumes a highly sensitive control system). Information feedback, consequently, should be timely and correct to be effective. That is, the information should provide an accurate indication of the status of the system.

**Setting standards**

Setting the proper standards or control limits is a problem in many systems. Parents are confronted with this dilemma in expressing what they expect of their children, and business managers face the same issue in establishing standards that will be acceptable to employees. Some theorists have proposed that workers be allowed to set their own standards, on the assumption that when people establish their own goals, they are more apt to accept and achieve them.

Standards should be as precise as possible and communicated to all persons concerned. Moreover, communication alone is not sufficient; understanding is necessary. In human systems, standards tend to be poorly defined and the allowable range of deviation from standard also indefinite. For example, how many hours each day should a professor be expected to be available for student consultation? Or, what kind of behavior should be expected by students in the classroom? Discretion and personal judgment play a large part in such systems, to determine whether corrective action should be taken.

Perhaps the most difficult problem in human systems is the unresponsiveness of individuals to indicated correction. This may take the form of opposition and subversion to control, or it may be related to the lack of defined [responsibility](https://en.wikipedia.org/wiki/Moral_responsibility) or [authority](https://en.wikipedia.org/wiki/Authority) to take action. [Leadership](https://en.wikipedia.org/wiki/Leadership) and positive motivation then become vital ingredients in achieving the proper response to input requirements.

Most control problems relate to design; thus the solution to these problems must start at that point. Automatic control systems, provided that human intervention is possible to handle exceptions, offer the greatest promise. There is a danger, however, that we may measure characteristics that do not represent effective performance (as in the case of the speaker who requested that all of the people who could not hear what he was saying should raise their hands), or that improper [information](https://en.wikipedia.org/wiki/Information) may be communicated.

**Types and Levels of Control**

Controls allow you to align the pieces with the big picture.

Recognizing that organizational controls can be categorized in many ways, it is helpful at this point to distinguish between two sets of controls: (1) strategic controls and (2) management controls, sometimes called operating controls.

**Two Levels of Control: Strategic and Operational**

Imagine that you are the captain of a ship. The strategic controls make sure that your ship is going in the right direction; management and operating controls make sure that the ship is in good condition before, during, and after the voyage. With that analogy in mind, strategic control is concerned with tracking the strategy as it is being implemented, detecting any problem areas or potential problem areas suggesting that the strategy is incorrect, and making any necessary adjustments. Strategic controls allow you to step back and look at the big picture and make sure all the pieces of the picture are correctly aligned.

Ordinarily, a significant time span occurs between initial implementation of a strategy and achievement of its intended results. For instance, if you wanted to captain your ship from San Diego to Seattle you might need a crew, supplies, fuel, and so on. You might also need to wait until the weather lets you make the trip safely! Similarly, in larger organizations, during the time you are putting the strategy into place, numerous projects are undertaken, investments are made, and actions are undertaken to implement the new strategy. Meanwhile, the environmental situation and the firm’s internal situation are developing and evolving. The economy could be booming or perhaps falling into recession. Strategic controls are necessary to steer the firm through these events. They must provide some means of correcting direction on the basis of intermediate performance and new information.

Operational control, in contrast to strategic control, is concerned with executing the strategy. Where operational controls are imposed, they function within the framework established by the strategy. Normally these goals, objectives, and standards are established for major subsystems within the organization, such as business units, projects, products, functions, and responsibility centers. Typical operational control measures include return on investment, net profit, cost, and product quality. These control measures are essentially summations of finer-grained control measures. Corrective action based on operating controls may have implications for strategic controls when they involve changes in the strategy.

**Types of Control**

It is also valuable to understand that, within the strategic and operational levels of control, there are several types of control. The first two types can be mapped across two dimensions: level of proactivity and outcome versus behavioral. The following table summarizes these along with examples of what such controls might look like.

**Proactivity Control**

Proactivity can be defined as the monitoring of problems in a way that provides their timely prevention, rather than after the fact reaction. In management, this is known as feedforward control; it addresses what can we do ahead of time to help our plan succeed. The essence of feedforward control is to see the problems coming in time to do something about them. For instance, feedforward controls include preventive maintenance on machinery and equipment and due diligence on investments.

Table 15.1 Types and Examples of Control

| **Control Proactivity** | **Behavioral control** | **Outcome control** |
| --- | --- | --- |
| Feedforward control | Organizational culture | Market demand or economic forecasts |
| Concurrent control | Hands-on management supervision during a project | The real-time speed of a production line |
| Feedback control | Qualitative measures of customer satisfaction | Financial measures such as profitability, sales growth |

**Concurrent Controls**

The process of monitoring and adjusting ongoing activities and processes is known as concurrent control. Such controls are not necessarily proactive, but they can prevent problems from becoming worse. For this reason, we often describe concurrent control as real-time control because it deals with the present. An example of concurrent control might be adjusting the water temperature of the water while taking a shower.

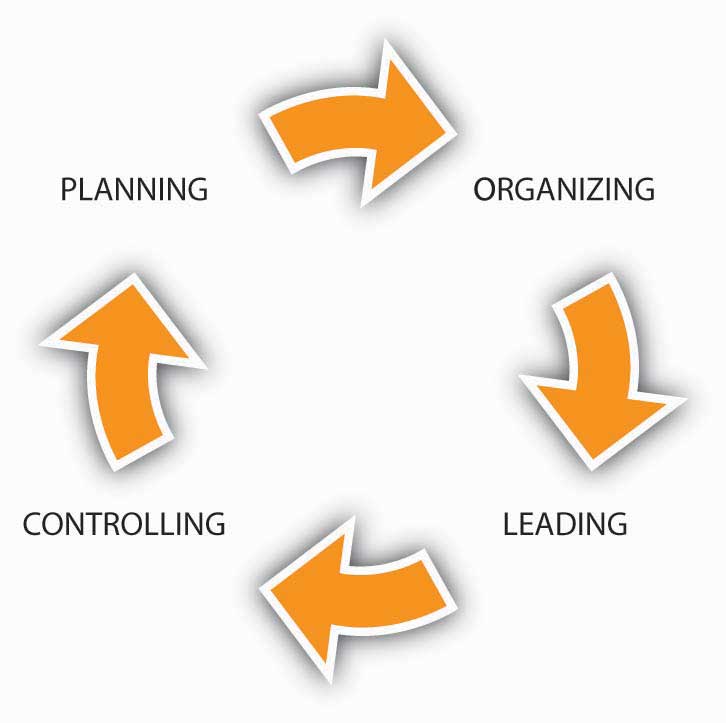
**Feedback Controls**

Finally, feedback controls involve gathering information about a completed activity, evaluating that information, and taking steps to improve the similar activities in the future. This is the least proactive of controls and is generally a basis for reactions. Feedback controls permit managers to use information on past performance to bring future performance in line with planned objectives.

**Control as a Feedback Loop**

In this latter sense, all these types of control function as a feedback mechanism to help leaders and managers make adjustments in the strategy, as perhaps is reflected by changes in the planning, organizing, and leading components. This feedback loop is characterized in the following figure.

Figure 15.4 Controls as Part of a Feedback Loop



Why might it be helpful for you to think of controls as part of a feedback loop in the P-O-L-C process? Well, if you are the entrepreneur who is writing the business plan for a completely new business, then you would likely start with the planning component and work your way to controlling—that is, spell out how you are going to tell whether the new venture is on track. However, more often, you will be stepping into an organization that is already operating, and this means that a plan is already in place. With the plan in place, it may be then up to you to figure out the organizing, leading, or control challenges facing the organization.

**Outcome and Behavioral Controls**

Controls also differ depending on what is monitored, outcomes or behaviors. Outcome controls are generally preferable when just one or two performance measures (say, return on investment or return on assets) are good gauges of a business’s health. Outcome controls are effective when there’s little external interference between managerial decision making on the one hand and business performance on the other. It also helps if little or no coordination with other business units exists.

Behavioral controls involve the direct evaluation of managerial and employee decision making, not of the results of managerial decisions. Behavioral controls tie rewards to a broader range of criteria, such as those identified in the Balanced Scorecard. Behavioral controls and commensurate rewards are typically more appropriate when there are many external and internal factors that can affect the relationship between a manager’s decisions and organizational performance. They’re also appropriate when managers must coordinate resources and capabilities across different business units.

**Financial and Nonfinancial Controls**

Finally, across the different types of controls in terms of level of proactivity and outcome versus behavioral, it is important to recognize that controls can take on one of two predominant forms: financial and nonfinancial controls. Financial control involves the management of a firm’s costs and expenses to control them in relation to budgeted amounts. Thus, management determines which aspects of its financial condition, such as assets, sales, or profitability, are most important, tries to forecast them through budgets, and then compares actual performance to budgeted performance. At a strategic level, total sales and indicators of profitability would be relevant strategic controls.

Without effective financial controls, the firm’s performance can deteriorate. PSINet, for example, grew rapidly into a global network providing Internet services to 100,000 business accounts in 27 countries. However, expensive debt instruments such as junk bonds were used to fuel the firm’s rapid expansion. According to a member of the firm’s board of directors, PSINet spent most of its borrowed money “without the financial controls that should have been in place. With a capital structure unable to support its rapidly growing and financially uncontrolled operations, PSINet and 24 of its U.S. subsidiaries eventually filed for bankruptcy. While we often think of financial controls as a form of outcome control, they can also be used as a behavioral control. For instance, if managers must request approval for expenditures over a budgeted amount, then the financial control also provides a behavioral control mechanism as well.

Increasing numbers of organizations have been measuring customer loyalty, referrals, employee satisfaction, and other such performance areas that are not financial. In contrast to financial controls, nonfinancial controls track aspects of the organization that aren’t immediately financial in nature but are expected to lead to positive performance outcomes. The theory behind such nonfinancial controls is that they should provide managers with a glimpse of the organization’s progress well before financial outcomes can be measured. And this theory does have some practical support. For instance, GE has found that highly satisfied customers are the best predictor of future sales in many of its businesses, so it regularly tracks customer satisfaction.

**Environment Factors that Influences Organizational Decision Making**

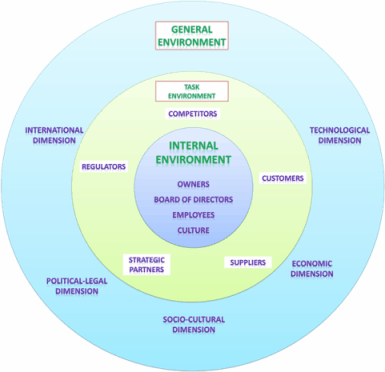
Organizational/ Managerial environment denotes internal and external environmental factors influencing organizational activates and decision making. Every organization, whether business or non-business, has its environment. The organizational environment is always dynamic and ever-changing.

Changes today are so frequent and every change brings so many challenges that managers and leaders of the organization need to be vigilant about the environmental changes. The environment of an organization consists of its surroundings – anything that affects its operations, favorably or unfavorably. Environment embraces such abstract things as an organization’s image and such remote visible issues as economic conditions of the country and political situations.

The environmental forces abstracts and visible need careful analysis. The systematic and adequate analysis produces the information necessary for making judgments about what strategy to pursue. Managers cannot make appropriate and sound strategy simply based on their guesses and instincts. They must use relevant information that directly flows from the analysis of their organization’s environment.

**Types of Organizational/Managerial Environment**

By the word “environment” we understand the surroundings or conditions in which a particular activity is carried on. And we know that organization is a social entity that has a hierarchical structure where all necessary items are put together and they act within it to reach the collective goal. Organizations or more specific business organizations, and their activates are always being affected by the environment. In an organization, every action of the management body is influenced by the environment.



Organizations have an external and internal environment;

1. Internal environment / Micro environment.
2. External environment / Macro Environment.
   1. General environment.
   2. Industry environment.

An organization’s operations are affected by both types of environments. Therefore, the managers need to make an in-depth analysis of the elements of the environments so that they can develop in themselves an understanding of the internal and external situations of the organization. Based on their understanding, they will be better able to establish the required objectives for their organization and formulate appropriate strategies to achieve those objectives.

**Internal Environment of Organization**

Forces or conditions or surroundings within the boundary of the organization are the elements of the internal environment of the organization. The internal environment generally consists of those elements that exist within or inside the organization such as physical resources, financial resources, [human resources](https://iedunote.com/human-resource-management), information resources, technological resources, organization’s goodwill, corporate culture and the like.

The internal environment includes everything within the boundaries of the organization. Some of these are tangible, such as the physical facilities, the plant capacity technology, proprietary technology or know-how; some are intangible, such as information processing and communication capabilities, reward and task structure, performance expectations, power structure management capability and dynamics of the organization’s culture.

Based on those resources, the organization can create and deliver value to the customer. This value is fundamental to defining the organization’s purpose, and the premise on which it seeks to be profitable.

Are we adding value by research and development or by customer service, or by prompt delivery or by cutting any intermediary which reduces the customers’ costs?

Organizations build capabilities over a long time. They consistently invest in some areas so that they can build strong competitive businesses based on the uniqueness they have created.

The manager’s response to the external environment would depend upon the availability and the configuration of resource deployment within the organization.

The deployment of resources is a key managerial responsibility.

Top management is vested with the responsibility of allocating resources between the ongoing operations/activities and also with future operations which are of strategic nature, that is they might yield returns in some future time which require resources now to be nurtured and have some associated risks. The top management has to balance the conflicting demands of both as resources are always finite.

For example, General Electric is an aggressive innovator and marketer who has been ruthless in its approach to changing proactively as well as reactively to sustain its competitive positions in the respective industries. This implies that over the years General Electric has invested in developing those capabilities, systems, and processes that enable it to respond.

Elements of internal environment are;

1. Owners and Shareholders.
2. Board of Directors.
3. Employees.
4. Organizational Culture.
5. Resources of the Organization.
6. Organization’s image/goodwill.

The internal environment consists mainly of the organization’s owners, the board of directors, employees and culture.

1. **Owners and Shareholders**

Owners are people who invested in the company and have property rights and claims on the organization. Owners can be an individual or group of persons who started the company; or who bought a share of the company in the share market.

They have the right to change the company’s policy at any time.

Owners of an organization may be an individual in the case of sole proprietorship business, partners in a partnership firm, shareholders or stockholders in a limited company or members in a cooperative society. In public enterprises, the government of the country is the owner.

Whoever the owners, they are an integral part of the organization’s internal environment. Owners play an important role in influencing the affairs of the business. [This is the reason why managers should take more care of the owners of their organizations](https://iedunote.com/stakeholder-analysis).

1. **Board of Directors**

The board of directors is the governing body of the company who is elected by stockholders, and they are given the responsibility for overseeing a firm’s top managers such as the general manager.

1. **Employees**

Employees or the workforce, the most important element of an organization’s internal environment, which performs the tasks of the administration. Individual employees and also the labor unions they join are important parts of the internal environment.

If managed properly they can positively change the organization’s policy. But ill-management of the workforce could lead to a catastrophic situation for the company.

1. **Organizational Culture**

Organizational culture is the collective behavior of members of an organization and the values, visions, beliefs, habits that they attach to their actions.

An [organization’s culture plays a major role in shaping its success](https://iedunote.com/organizational-culture) because the culture is an important determinant of how well their organization will perform.

As the foundation of the organization’s internal environment, it plays a major role in shaping managerial behavior.

An organization’s culture is viewed as the foundation of its internal environment. Organizational culture (or corporate culture) significantly influences employee behavior.

Culture is important to every employee including managers who work in the organization.

A strong culture helps a firm achieve its goals better than a firm having a weak culture. Culture in an organization develops and ‘blossoms’ over many years, starting from the practices of the founder(s).

Since culture is an important internal environmental concern for an organization, managers need to understand its influence on organizational activities.

1. **Resources of the Organization**

An organization s resources can be discussed under five broad heads: physical resources, human resources; financial resources, informational resources, and technological resources. Physical resources include land and buildings, warehouses, all kinds of materials, equipment and machinery. Examples are office buildings, computers, furniture, fans, and air conditioners. [Human resources include all employees of the organization from the top level to the lowest level of the organization](https://iedunote.com/human-resource-management). Examples are teachers in a university, marketing executives in a manufacturing company, and manual workers in a factory.

Financial resources include capital used for financing the operations of the organization including working capital. Examples are investment by owners, profits, reserve funds, and revenues received out of a sale. Informational resources encompass ‘usable data needed to make effective decisions. Examples are sales forecasts, price lists from suppliers, market-related data, employee profile, and production reports.

1. **Organization’s image/goodwill**

The reputation of an organization is a very valuable intangible asset. High reputation or goodwill develops a favorable image of the organization in the minds of the public (so to say, in the minds of the customers).

‘No- reputation’ cannot create any positive image. A negative image destroys the organization’s efforts to attract customers in a competitive world.

The internal environment of an organization consists of the conditions and forces that exist within the organization.

Internal environment {sometimes called micro-environment) portrays an organization’s ‘in-house’ situations.

An organization has full control over these situations. Unlike the external environment, firms can directly control the internal environment.

Internal environment includes various internal factors of the organization such as resources, owners/shareholders, a board of directors, employees and trade union, goodwill, and corporate culture. These factors are detailed out below.

**External Environment of Organization – Factors Outside of Organization’s Scope**

**P-E-S-T-E-L ENVIRONMENT HAS TO BE MANAGED AFTER UNDERTAKING A**

**S-W-O-T ANALYSIS**

|  |  |  |  |
| --- | --- | --- | --- |
| **INTERNAL ENV.** | | **EXTERNAL ENV. (PESTEL)** | |
| **S** | **W** | **O** | **T** |
|  |  |  |  |

Factors outside or organization are the elements of the external environment. The organization has no control over how the external environment elements will shape up.

The external environment embraces all general environmental factors and an organization’s specific industry-related factors. The general environmental factors include those factors that are common ir\ nature and generally affect all organizations.

Because of their general nature, an individual organization alone may not be able to substantially control their influence on its business operations.

Managers have to continuously read signals from the external environment to spot emerging opportunities and threats. The external environment presents opportunities for growth leadership, and market dominance, it also poses the threat of obsolescence for products, technology, and markets.

While one section of an organization faces opportunities, another faces threats from a similar environment, perhaps because there is differentiation in their respective resources, capabilities and entrenched positions within the industry.

For example, the burgeoning mobile telephone market in India provides enormous opportunities for different types of organizations from handset manufacturers, content developers, application developers, mobile signal tower manufacturers, to service providers.

At the same time, it poses a threat to the fixed-line telephone business which for a long time, has been the monopoly of public sector enterprises.

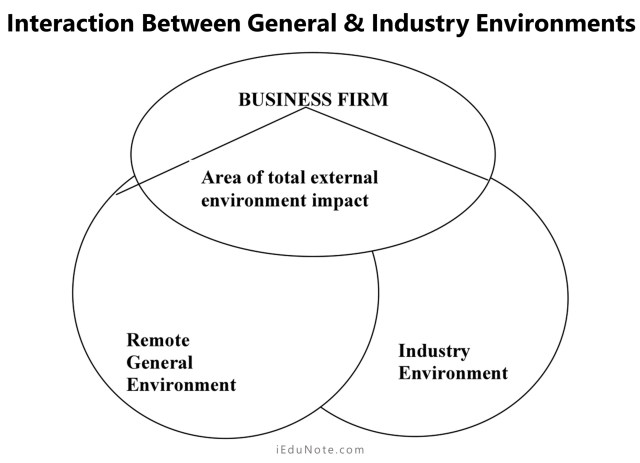
The increasing demand for telecommunication services in India post-deregulation was an enormous opportunity for early entrants to enter the telecom services business and compete for revenue with state-owned organizations.

At the same time, the growing demand for mobile services led to an expansion of industrial capacity, price wars, lowering of call tariffs, acquisitions, and declining industry profits.

India has one of the lowest call rates in the world. As the industry matured and consolidation took place, the old players had to alter their business models and strategies.

The external environment can be subdivided into 2 layers;

1. General Environment.
2. Task / Industry Environment.



**General Environment of Organization – Common Factors that All company in the Economy Faces**

The general environment usually includes political, economic, sociocultural, technological, legal, environmental (natural) and demographic factors in a particular country or region. The general environment consists of factors that may have an immediate direct effect on operations but influences the activities of the firm. The factors of the general environment are broad and non-specific whereas the dimensions of the task environment are composed of the specific organization.

The external environment consists of an organization’s external factors that affect its businesses indirectly. The organization has no or little control over these factors; that means, the external environment is generally non-controllable. However, there may be exceptions. The external environmental factors reside outside the organization, which can lead to opportunities or threats.

For the convenience of analysis, we can divide the external environment into two groups: (a) general environment (or remote environment), and (b) industry environment (some call it ‘immediate operating environment’, ‘task environment or‘specific environment’).

The general environment consists of those factors in the external environment that indirectly affect the business operations of firms.

The major factors that constitute the general environment include political situations, economic conditions, social and cultural factors, technological advancements, legal/regulatory factors, natural environment, and demographics in a particular country or region. The industry environment consists of those factors in the external environment that exist in the industry in which the organizations operate their business. The industry environmental factors are generally more controllable by a firm than the general environmental factors.

Industry environment comprises those factors in the external environment that exists in tie concerned industry of a firm in which it is operating its business. For example, US Pharma is operating its business in the pharmaceutical industry. Therefore, all factors that are likely to affect the business operations of Incepta Pharmaceuticals Limited would be included in the ‘industry environment’ of the company.

There are mainly 6 factors in the industry environment such as suppliers, buyers & customers, competitors & new entrants, substitute products, regulators, and strategic partners.

It may be noted that some industry environmental factors such as competitors and substitute products may-exist even outside the concerned industry. For example, a leasing company may emerge as a competitor of the companies in the banking industry in terms of attracting deposits and providing loans to business houses. Regarding the industry environment, the important issue to appreciate is that they reside in the immediate competitive situations of a firm.

Also, they are very specific in the sense that they can be easily identified. For these reasons, they are often regarded as ‘specific environment’ or ‘task environment’. The strategy-makers must understand the challenges and complexities of both the general environmental factors and the industry environmental factors. They need to appreciate that the general environmental factors are largely non-controllable because of their distantly located external nature.

When strategists take into cognizance of both the general (remote) and industry (operating) environments, they are likely to become more proactive in strategic planning. In the following discussions, you will find a broad description of the general environment.

**Elements of the General External Environment**

The general environment includes the; distant factors in-the external environment that is general or common in nature. Its impact on the operations of the firm, its competitors and customers make its analysis imperative. We can use the PESTLE model for the identification and analysis of the factors in the general environment. PESTLE Model covers political, economic, sociocultural, technological, legal, and environmental (natural).

1. Political factors.
2. Economic factors.
3. Sociocultural factors.
4. Economical factors.
5. Legal factors.
6. (Natural) Environmental factors.

Along with these, we can add additional factors that suit the current modern business atmosphere. Demographic factors. International factors.

1. **Political Legal Factors**

The political factors of the general environment refer to the business-government relationship and the overall political situation of a country.

A good business-government relationship is essential to the economy and most importantly for the business.

The government of a country intervenes in the national economy through setting policies/rules for business In our country, we see many such policies – import policy, export policy, taxation policy, investment policy, drug policy, competition policy, consumer protection policy, etc.

Sometimes, the government pursues a nationalization policy for state ownership of a business.

Some countries, such as India, pursue state-driven mercantilism to reduce imports and increase exports. Some countries; have liberalized their economy and shifted from centrally managed economy to a capitalist economy or welfare economy.

In many 3rd world countries, the successive governments are emphasizing more on privatization rather than on state ownership. As global competition has increased, the government has also liberalized its trade policies to be in line with the WTO agreements.

Another important issue is political stability that affects the operations of business firms substantially. Evert decision about investment is highly affected by political stability.

We have seen in several countries in Asia, Africa, Latin America, how political instability has in the past affected investment and trading in the country.

In many 3rd world countries also, political instability or political/ disturbances substantially affected businesses.

Besides, government agencies and pressure groups (special interest groups) are also exercising influences on business operations of firms that have a political character.

Managers must be able to understand the implications of the activities of these agencies and groups. Government agencies include different ministries, the office of the Controller of Imports and Exports, Board of Investment, National Board of Revenue, etc.

Pressure groups include Consumers Association of Bangladesh, various Chambers of Commerce and Industry, Employers’ Associations, Environmental Protection Movement and the like.

Since the pressure groups put restraints on the business managers, managers should have clear ideas about the actions of these groups.

1. **Economic Factors**

The economic factor of an organization is the overall status if the economic system in which the organization operates. The important economic factors for business are inflation, interest rates, and unemployment.

These factors of the economy always affect the demand for products. During inflation, the company pays more for its resources and to cover the higher costs for it, they raise commodity prices.

When interest rates are high, customers are less willing to borrow money and the company itself must pay more when it borrows. When unemployment is high, the company can be very selective about who it hires, but customers’ buying power is low as fewer people are working.

A country’s economic conditions affect market attractiveness. The performance of business organizations is affected by the health of a nation’s economy.

Several economic variables are relevant in determining business opportunities.

Examples of economic factors include the trend in economic growth, income levels of population, inflation rate, tax rates for individuals and business organizations, etc.

There is thus a need to analyze the economic environment prudently by the business firms.

The economic environment comprises a distinct variable with which management must be concerned. The economy of a country can be in a situation of boom or recession or depression or recovery or it may be in a state of fluctuation.

Managers/strategy-makers must have the ability to predict the state of the economy. the»s warrants the necessity of studying the economic environment to identify changes, trends and their strategic implications.

Business organizations operate their businesses in markets consisting of people.

These people are likely to become customers when they have purchasing power. And purchasing power depends on income, prices, savings, debt and availability of credit.

Therefore, business organizations must pay attention to the income and consumption patterns of the customers.

However, all the economic variables in the economy must be treated holistically for the clear envisioning of the entire economy and the market

1. **Socio-Cultural Factors**

Customs, mores, values and demographic characteristics of the society in which the organization operates are what made up the socio-cultural factors of the general environment.

The socio-cultural dimension must be well studied by a manager. It indicates the product, services, and standards of conduct that society is likely to value and appreciate. The standard of business conduct varies from culture to culture and so does the taste and necessity of products and services.

Socio-cultural forces include culture, lifestyle changes, social mobility, attitudes towards technology, and people’s values, opinion, beliefs, etc.

A society’s values and altitudes form the cornerstone of society. They often drive other conditions and changes. The hand for many products changes with the changes in social attitudes.

Socio-cultural factors differ across countries.

In many countries, worker diversity is now a common phenomenon.

We find in first world countries the increasing life span of population, trend towards fewer children, movement of population from rural areas to urban areas, increasing rate of female education, entry of more and more women into the mainstream workforce, etc.

All these have a primary effect on a country’s social character and health.

Therefore, managers of business organizations need to study and predict the impact of social and cultural changes on the future of business operations in terms of meeting consumer needs and  
interests.

Business firms must offer products in the society that correspond to their values and attitudes.

1. **Technological Factors**

It denotes to the methods available for converting resources into products or services. Managers must be careful about the technological factor. Investment decisions must be accurate in new technologies and they must be adaptable to them.

Technological factors include information technology, the Internet, biotechnology, global transfer of technology and so forth. None can deny the fact that the pace of change in these technological dimensions is extremely fast.

Technological changes substantially affect a firm’s operations in many ways. The advancement of industrialization in any Country depends mostly on the technological environment. Technology has major impacts on product development, manufacturing efficiencies, and potential competition.

The business organizations facing problems with changing technology are always in more difficulties than those organizations that have stable technologies.

The effects of technological changes occur primarily through new products, processes, and materials. An entire industry may be transformed or revitalized due to the use of new technology.

Strategy formulation is linked to technological changes. An intelligent response to the ever-increasing technological advances should be entrepreneurial rather than reactive.

Strategic managers need to monitor developments in technology for their particular industry when formulating a strategy. A quick and thorough study of technological changes; helps managers achieve a higher market share because of the early adoption of new technology.

A firm must be aware of technological changes to avoid obsolescence arid promote innovation. It means that strategy managers of an organization must be adept in – technological forecasting. Technological forecasting can

1. **Legal Factors**

The legal environment consists of laws and regulatory frameworks in a country. Many laws regulate the business operations of enterprises such as the Factories Act, Industrial Relations Ordinance, the Contract Act, and the Company law, just to name a few.

Business laws primarily protect companies from unfair competition and also protect consumers from unfair business practices.

Business laws also protect society at large. The laws regarding a merger, acquisitions, industry regulation, employment conditions, unionization, workmen’s compensation and the like affect a firm’s strategy. Even globalization has caused significant repercussions in the legal environment.

Thus, the business managers must have thorough knowledge about the major laws that protect business enterprises, consumers and society.

And the overall situation of law implementation and justices in a country indicates that there is a favorable situation in business in a country.

1. **Environmental / Natural Factors**

Strategy-makers need to analyze the trends in the natural environment of the country where it is operating its business.

The most pertinent issues in the natural environment that strategy-makers should consider include the availability of raw materials and other inputs, changes in the cost of energy, levels of environmental pollution, and the changing role of government ‘in environmental protection.

Changes in physical/natural environment, such as global warming, will heavily affect our daily lives and the functioning of our organizations with a variety of consequences.

1. **Demographic Factors**

The demographic environment is concerned with a country’s population.

Specifically, it is related to the population’s size, age structure, geographic distribution, ethnic mix, and income distribution.

With over 7 billion population the demographic changes are evident all over the world. In some countries there is negative population growth and’in some countries, couples are averaging fewer than two children. In general, the average age is increasing.

In many countries, rural-urban migration is rampant. These trends suggest numerous opportunities for firms to develop products and services to meet the needs of diversified groups of people in society.

Strategy-makers must make an analysis of the demographic issues, especially, size and growth rate of population, age distribution, ethnic mix, educational level, household patterns, and inter-regional movements.

1. **International Factors**

Virtually every organization is affected by international factors. It refers to the degree to which an organization is involved in or affected by businesses in other countries.

Global society concept has brought all the nation together and modern network of communication and transportation technology, almost every part of the world is connected.

General external environmental factors are interrelated with organizational success.

Therefore, strategy-makers need to analyze all of them in an interrelated fashion to understand and visualize the ‘whole of the environment.

**Industry/Task Environment of Organization – Industry Factors that are Vital for Business Functions**

A business firm’s strategy is affected by the structural characteristics of the industry, it is thus considered essential for a firm to make an elaborate analysis of the industry in which the firm operates its business.

Based on Michael Porter’s research results, Van industry structure consists of suppliers, buyers, direct competitors, new entrants, and substitutes. The strategy-makers of a firm need to be concerned with the impact of the industry structure on the firm’s strategy.

Once the external environmental analysis has been completed, they should embark upon industry analysis. Industry analysis helps them have clear information about what is happening in the industry in which their companies are operating their businesses.

Since the industry contains competition, its analysis brings to light the complexities of the competition and the consequent challenges facing the industry.

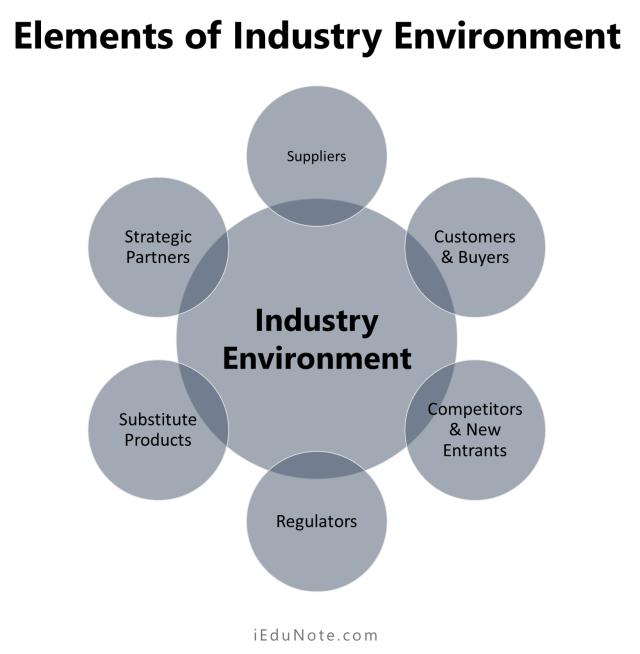
The industry environmental factors, on the other hand, are those factors in the external environment that specifically reside in a particular industry and affect competition such as suppliers, customers, competitors, and substitute products

The task environment consists of factors that directly affect and are affected by the organization’s operations. These factors include suppliers, customers, competitors, regulators and so on.

A manager can identify environmental factors of specific interest rather than having to deal with a more abstract dimension of the general environment.

**Elements of the industry or task environment**

As a manager or entrepreneur, you should be able to identify the various elements of the industry environment so that you can take appropriate steps to respond to them effectively in order to survive in the industry.



1. Suppliers.
2. Customers & Buyers.
3. Competitors & New Entrants.
4. Regulators.
5. Substitute Products.
6. Strategic Partners.

The different elements of the task environment may be discussed as under:

1. **Suppliers**

Suppliers are the providers of production or service materials. Dealing with suppliers is an important task of management.

A good relationship between the organization and the suppliers is important for an organization to keep a steady following of quality input materials.

Suppliers are sources of resources such as raw materials, components, equipment, financial support, services, and office Supplies.

To ensure the long-term survival and growth of a company, it is essential to develop a dependable relationship between a business-firm and its suppliers. Concerning its competitive position with suppliers, a company should address the following questions;

* + Are the suppliers’ prices competitive?
  + Do suppliers offer attractive quantity discounts?
  + How costly are their shipping charges?
  + Are vendors competitive in terms of production standards?
  + Are suppliers’abilities, reputation, and services competitive?
  + Are suppliers reciprocally dependent on the firm?

1. **Customers & Buyers**

“Satisfaction of customer”- the primary goal of every organization. The customer is who pays money for the organization’s product or services. They are the peoples who hand them the profit that the companies are targeting.

Managers should pay close attention to the customers’ dimension of the task environment because its customers purchase that keeps a company alive and sound.

Strategy managers must understand the [composition of the company’s customers](https://iedunote.com/5-adopters-innovators-adopters-majority-laggards).

With this end in view, they need to develop an exhaustive customer profile of both the present and potential customers. Managers will be in a better position to pragmatically plan the firm’s strategic operations, anticipate changes in the size of the markets and anticipate demand patterns.

While constructing a customer profile, managers need to use information regarding geographic -location of customers,’ demographic characteristics of buyers, psychographic issues and buyer behavior.

1. **Competitors & New Entrants.**

Policies of the organization are often influenced by the competitors.

Competitive marketplace companies are always trying to stay and go further ahead of their competitors. In the current world economy, competition and competitors in all respects have increased tremendously.

A firm needs to analyze the competitive intensity in the industry. It needs to understand the competitive position in the industry to improve its chance of designing winning strategies.

Many companies develop a ‘competitor profile’ to more accurately forecast their short-and-long-term growth and profit? potentials.

A competitor profile may include such variables as market share, product line, the effectiveness of sales distribution, price competitiveness, advertising and promotion effectiveness, location, and age of the facility, production capacity, raw material costs, financial position, etc.

The positive effect of this is that the customers always have options and the overall quality of products goes high.

The new entrants are the upcoming competitors of the firm. They are potential competitors because when they enter the industry with similar types of products, the competitive intensity increases.

1. **Regulators**

Regulators are units in the task environment that have the authority to control, regulate or influence an organization’s policies and practices.

Government agencies are the main player in the environment and interest groups are created by its members to attempt to influence organizations as well as the government. Trade unions and the chamber of commerce are common examples of an interest group.

1. **Substitute Products**

The producers of substitute products are indirect competitors.

Substitute products serve the same categories of customers. They can meet the similar needs of customers, and therefore, emerge, as threats.

For example, when the detergent powder is capable of meeting customer needs in a much better way or even in the same way as the laundry soap does, the detergent powder becomes a strong indirect competitor of laundry soap.

1. **Strategic Partners**

They are the organization and individuals with whom the organization is to an agreement or understanding for the benefit of the organization. These strategic partners in some way influence the organization’s activities in various ways.

The industry environment is the competitive environment of a business organization. Industry environment substantially affects a firm’s business operations, because it is the ‘immediate’ external environment of the firm, which is also known as ‘immediate operating environment.’

Every firm operates its business in an industry and therefore its activities are directly affected by any change in the industry and therefore its activities are directly affected by any changes in the industry environment.

Changes in the genera! the environment can have a direct impact on any of the factors in the industry environment.

An organization has greater control over the industry’s environmental factors than the general environmental factors.

One point is to be noted that although the industry environment affects all the firms in the industry, in reality, all firms are not affected equally.

**Influence of Internal and Environment on Business**

Business managers must understand the various facets of the impacts of the external environment.

They need to recognize that the external environment has many aspects that can have a significant impact on the operations of a firm. They need to undertake an analysis of the environment regularly.

This is particularly important for the reason that developments/changes in the remote environment influence the business organizations. They also need to understand the influences of changes in the industry environment.

Managers are benefited in several ways when they have a deep understanding and appreciation of the impact of environmental factors on business:

* Knowledge of the environment helps managers identify the direction to which they should proceed. They will travel along with a distinct way of changing direction, whenever necessary. Without an understanding of the environment, managers are like a bicycle without a handlebar – no way of maneuvering while riding on a street.
* Managers can isolate those factors, especially in the external environment, which are of specific interest to the organization.
* Managers can take preparation to deal with a predicted crisis in any of the factors in the environment. They can develop crisis plans for overcoming crises that affect an organization.
* The key to achieving organizational effectiveness is understanding of the environment in which the firm operates its  
  No knowledge or inadequate knowledge is very likely to lead managers to ineffectiveness because of ‘running on the wrong road for reaching the goals.

**Conclusion**

The environment irrespective of its external or internal nature, a manager must have a clear understanding of them.

Normally, you would not go for a walk in the rain without an umbrella, because you understand the environment and you know when it rains you can get wet.

Similarly, if a manager does not know and understand the environment of the organization, he or she will definitively get wet or dry and the organization also in today’s fast and hyper-moving organizational environment.

**Management (Professional) Ethics:**

**(MORALITY) = RIGHT AND WRONG = MORAL VALUES**

‘Management Ethics’ is related to social responsiveness of a firm. It is “the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. It is a standard of behaviour that guides individual managers in their works”. MANAGEMENT ETHICS, THEREFORE, CAN BE SAID TO BE the set of moral principles that governs the actions of a manager and his or her group in a business set up. Business ethics, therefore, is application of ethical principles to business relationships and activities. When managers assume social/official responsibility, it is believed they will do it ethically, that is, they know what is right and wrong.

**Types of Management Behaviour in the context of Ethics:**

**Three types of possible management behaviors or conducts are identified by Archie B. Carroll:**

**1. Immoral management:**

It implies lack of ethical practices followed by managers. Managers want to maximise profits even if it is at the cost of legal standards or concern for employees.

**2. Moral management**:

According to moral management ethics, managers aim to maximise profits within the confines of ethical values and principles. They conform to professional and legal standards of conduct. The guiding principle in moral management ethics is “Is this action, decision, or behaviour fair to us and all parties involved?”

**3. Amoral management:**

This type of management ethics lies between moral and immoral management ethics. Managers respond to personal and legal ethics only if they are required to do so; otherwise there is lack of ethical perception and awareness.

**Guidelines for Ethical Behaviour:**

**Though every individual and group has a set of ethical values, the following guidelines are prescribed by James O’Toole in this regard:**

**1. Obey the law:**

Obeying legal practices of the country is conforming to ethical values.

**2. Tell the truth:**

disclosing fair accounting results to concerned parties and telling the truth is ethical behaviour of managers.

**3. Respect for people:** Ethics requires managers to respect people who contact them.

**4. The golden rule:**

The golden business principle is ‘Treat others as you would want to be treated’. This will always result in ethical behaviour.

**5. Above all, do no harm:**

Even if law does not prohibit use of chemicals in producing certain products, managers should avoid them if they are environment pollutants.

**6. Practice participation – not paternalism:**

Managers should not decide on their own what is good or bad for the stakeholders. They should assess their needs, analyse them in the light of business needs and integrate the two by allowing the stakeholders to participate in the decision­-making processes.

**7. Act when you have responsibility:**

Actions which cannot be delegated and have to be taken by managers only (given their competence and skill) must be responsibly taken by them for the benefit of the organisation and the stakeholders.

**There are three approaches to management ethics: Approaches to Management Ethics:**

**1. Utilitarian approach:**

In this approach, managers analyse the effects of decisions on people affected by these decisions. The action rather than the motive behind the action is the focus of this approach. Positive and negative results are weighed and managerial actions are justified if positive effects outweigh the negative effects. Pollution standards and analysing the impact of pollution on society is management ethics code under utilitarian approach.

**2. Moral rights approach:**

In this approach, managers follow ethical code which takes care of fundamental and moral rights of human beings; the right to speech, right to life and safety, right to express feelings etc. In the context of business organisations, managers disclose information in the annual reports necessary for welfare of the people concerned. The nature, timing and validity of information is taken into account while reporting information in the annual reports.

**3. Social justice approach:**

According to this approach, managers’ actions are fair, impartial and equitable to all individuals and groups. Employees are not distinguished on the basis of caste, religion, race or gender though distinction on the basis of abilities or production is justified. For example, all employees, males or females with same skills should be treated at par but it is justified to treat employees who produce more differently from those who produce less.

**Importance of Ethics:**

**Business ethics is important for the following reasons:**

1. Business organisations are economic and social institutions that serve customers’ needs by supplying them right goods at the right place, time and price. This is possible if the institutions engage in ethical practices.

2. Business/ management ethics help in long-run survival of the firms. Unethical practices like paying low wages to workers, providing poor working conditions, lack of health and safety measures for employees, selling smuggled or adulterated goods, tax evasion etc. can increase short-run profits but endanger their long-run survival. It is important, therefore, for firms to suffer short-term losses but fulfill ethical social obligations to secure their long-term future.

3. Business houses operate in the social environment and use resources provided by the society. They are, therefore, morally and socially committed to look after the interests of society by adopting ethical business practices.

4. Ethical business activities improve company’s image and give it edge over competitors to promote sales and profits.

5. Legal framework of a country also enforces ethical practices. Under Consumer Protection Act, for example, consumers can complain against unethical business practices. Labour laws protect the interests of workers against unethical practices. Legal framework of the country, therefore, promotes ethical business behaviour. Business houses want to avoid Government intervention and, therefore, follow ethical practices.

**Barriers to Management Ethics:**

**James A. Waters describe three “organisational blocks” of management ethics:**

**1. Chain of command:**

If employees know that superiors are not following ethical behaviour, they hesitate in reporting the matter up the hierarchy for the fear of being misunderstood and penalized. The chain of command is, thus, a barrier to reporting unethical activities of superiors.

**2. Group membership:**

Informal groups lead to group code of ethics. Group members are strongly bonded by their loyalty and respect for each other and unethical behaviour of any member of the group is generally ignored by the rest.

**3. Ambiguous priorities:**

When policies are unclear and ambiguous, employees’ behaviour cannot be guided in a unified direction. It is difficult to understand what is ethical and what is unethical.

**Solutions to Barriers:**

**The following measures can improve the climate for ethical behaviour:**

1. Organisational objectives and policies should be clear so that every member works towards these goals ethically.

2. The behaviour of top managers is followed by others in the organisation. Ethical actions of top managers promote ethical behaviour throughout the organisation.

3. Imposing penalties and threats for not conforming to ethical behaviour can reduce unethical activities in the organisation. Formal procedures of lodging complaints help subordinates report unethical behaviour of superiors to the concerned committees.

4. Educational institutions also offer courses and training in business ethics to develop conscientious managers who observe ethical behaviour.

**Moral Values:**

Values are a set of principles that people cherish. They enhance the quality of individual and collective life. They involve personal and community discipline and sacrifice of immediate gratification needs. Quality of life is a product of physical, social, environmental, mental and spiritual health and wholeness. Values refer to intrinsic worth or goodness.

They are the beliefs that guide an individual’s actions. They represent a person’s belief about what is right or wrong. Values lay standards against which behaviour is judged. They determine the overall personality of an individual and the organization he is working for. His family, peer group, educational institutions, environment and the work place develop values in him. Values apply to individuals and institutions, both business and non-business.

**Values and Behaviour:**

Values remain embedded in our minds since childhood. As children, we are taught what is good, bad, right or wrong by parents, educational institutions and social groups. These values become part of our behaviour and personality when we grow up and are transmitted to future generations, thus, creating a healthy society.

In the business world, every person, whether manager or non-manager, whose behaviour is value-based shapes the culture of the organisation. Organisation is a group of people responsible for its formation, survival and growth. How good an organisation is depends upon how good are the people managing it.

Good people are those whose actions and behaviour are based on a sound value system and ethical principles. Value system is a combination of all values that an individual should have. Values lay foundation for organisational success.

They develop the attitudes, perceptions and motives that shape the behaviour of people working in the organisation. This develops a sound organisation culture that promotes image of the organisation in the society. Values in individuals develop a value-based organisation, society, nation and the world as a whole.

**Values in Business Management:**

There are many ways in which the basic human values – truth, righteousness, peace, love and non-violence can be practiced in the day-to-day conduct of business. There are different aspects of management such as marketing, finance, industrial relations, etc., but the most important aspect is “man-management.” Each country has its own historical and cultural background and Indian managers should not mechanically copy practices from abroad but should keep in mind the Indian milieu and our national ethos.

**Values of Managers:**

Management is a systematic way of doing work in any field. Its task is to make people capable of joint performance, to make their weaknesses irrelevant and convert them into strengths. It strikes harmony in working equilibrium, in thoughts and actions, goals and achievements, plans and performance, products and markets.

Lack of management will cause disorder, confusion, wastage, delay, destruction and even depression. Successful management means managing men, money and material in the best possible way according to circumstances and environment. Most enterprises today face conflicts, tensions, low efficiency and productivity, absence of motivation, lack of work culture, etc. This is perhaps due to the reason that managers are moving away from the concept of values and ethics. The lure for maximizing profits is deviating them from the value-based managerial behaviour. There is need for managers to develop and commit to value based ethics that will help them to naturally attain the goals of profits, survival and growth, yet achieve the ultimate satisfaction which comes from knowing that one has played their role of adding value to the community.

**They need to develop the following values:**

**1. Optimum utilization of resources:**

The first lesson in the management science is to choose wisely and utilize optimally the scarce resources to succeed in business venture.

**2. Attitude towards work:**

Managers have to develop visionary perspective in their work. They have to develop a sense of larger vision in their work for the common good.

**3. Work commitment:**

Managers have to work with dedication. Dedicated work means ‘work for the sake of work’. Though results are important, performance should not always be based on expected benefits. They should focus on the quality of performance. The best means for effective work performance is to become the work itself. Attaining the state of nishkama karma is the right attitude to work because it prevents ego and the mind from thinking about future gains or losses.

Managers should renounce egoism and promote team work, dignity, sharing, co­operation, harmony, trust, sacrificing lower needs for higher goals, seeing others in you and yourself in others etc. The work must be done with detachment. De-personified intelligence is best suited for those who sincerely believe in the supremacy of organisational goals as compared to narrow personal success and achievement.

**Value based managers do the following to discharge their duties well:**

a. Cultivate sound philosophy of life.

b. Identify with inner core of self-sufficiency.

c. Strive for excellence through ‘Work is Worship’.

d. Build internal integrated force to face contrary impulses and emotions.

e. Pursue ethico-moral righteousness.

**4. Vision:**

Managers must have a long-term vision. The visionary manager must be practical, dynamic and capable of translating dreams into reality. This dynamism and strength of a true leader flows from an inspired and spontaneous motivation to help others.

**Vision includes the following:**

(a) Forming a vision and planning the strategy to realize such vision.

(b) Cultivating the art of leadership.

(c) Establishing institutional excellence and building an innovative organization.

(d) Developing human resources.

(e) Team building and teamwork.

(f) Delegation, motivation and communication.

(g) Reviewing performance and taking corrective steps whenever called for.

**The management gurus like Lord Krishna, Swami Vivekananda and Peter F. Drucker assert that managers should develop the following values:**

1. Move from the state of inertia to the state of righteous action.

2. Move from the state of faithlessness to the state of faith and self-confidence.

3. Their actions should benefit not only them but the society at large.

4. Move from unethical actions to ethical actions.

5. Move from untruth to truth.

6. ‘No doer of good ever ends in misery’. Good actions always produce good results and evil actions produce evil results.

It is important to note that Ethics is difficult to define in a precise way. In a general sense, ethics is the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong. Ethics sets standards as to what is good or bad in conduct and decision making.

Ethics deals with internal values that are a part of cor-porate culture and shapes decisions concerning social responsibility with respect to the external environment. An ethical issue is present in a situation when the actions of a person or organization may harm or benefit others.

**Effective Implementation of Business Ethics IN AN ORGANIZAATION – the fundamental instruments.**

* 1. **Corporate policies**

As part of more comprehensive [compliance and ethics programs](http://en.wikipedia.org/wiki/Compliance_and_ethics_program), many companies have formulated internal policies pertaining to the ethical conduct of employees. These can range from broad, highly generalized language (typically called a corporate ethics statement) to detailed policies, containing specific behavioural requirements (typically called corporate ethics codes).

They are generally meant to identify the company's expectations of workers and to offer guidance on handling some of the more common ethical problems that might arise in the course of doing business. It is hoped that having such a policy will lead to greater ethical awareness, consistency in application, and the avoidance of ethical disasters.

* 1. **Seminars**

An increasing number of companies also require employees to attend seminars regarding business conduct, which often include discussion of the company's policies, specific case studies, and legal requirements. Some companies even require their employees to sign agreements stating that they will abide by the company's rules of conduct.

* 1. **Designed Environment**

Many companies are assessing the environmental factors that can lead employees to engage in unethical conduct. A competitive business environment may call for unethical behaviour. Lying has become expected in fields such as trading

* 1. **A united philosophy**

Not everyone supports corporate policies that govern ethical conduct. Some claim that ethical problems are better dealt with by depending upon employees to use their own judgment.

Others believe that corporate ethics policies are primarily rooted in utilitarian concerns, and that they are mainly to limit the company's legal liability, or to curry public favour by giving the appearance of being a good corporate citizen. Ideally, the company will avoid a lawsuit because its employees will follow the rules. Should a lawsuit occur, the company can claim that the problem would not have arisen if the employee had only followed the code properly.

* 1. **Congruence between code of ethics and actual practice**

Sometimes there is disconnection between the company's code of ethics and the company's actual practices. Thus, whether or not such conduct is explicitly sanctioned by management, at worst, this makes the policy duplicitous, and, at best, it is merely a marketing tool.

* 1. **Ethics compliance officers**

NB:The foundation for ethical behaviour goes well beyond corporate culture and the policies of any given company, for it also depends greatly upon an individual's early moral training, the other institutions that affect an individual, the competitive business environment the company is in and, indeed, society as a whole.

[collectivism](http://en.wikipedia.org/wiki/Collectivism); [free will](http://en.wikipedia.org/wiki/Free_will) among participants in the [marketplace](http://en.wikipedia.org/wiki/Marketplace); the role of [self interest](http://en.wikipedia.org/wiki/Selfishness); [invisible hand](http://en.wikipedia.org/wiki/Invisible_hand) theories; the requirements of [social justice](http://en.wikipedia.org/wiki/Social_justice); and [natural rights](http://en.wikipedia.org/wiki/Natural_rights), especially [property rights](http://en.wikipedia.org/wiki/Property_rights), in relation to the business enterprise.

Business ethics is also related to [political economy](http://en.wikipedia.org/wiki/Political_economy), which is [economic analysis](http://en.wikipedia.org/w/index.php?title=Economic_analysis&action=edit&redlink=1) from political and [historical](http://en.wikipedia.org/wiki/Economic_history) perspectives. Political economy deals with the distributive consequences of economic actions. It asks who gains and who loses from [economic activity](http://en.wikipedia.org/wiki/Economic_activity), and is the resultant [distribution](http://en.wikipedia.org/wiki/Distribution_of_wealth) fair or just, which are central ethical issues.

**PRINCIPLES OF DESIRABLE ETHICAL BEHAVIOUR BY INDIVIDUALS AND ORGANIZATIONS.**

There must be a strong ETHICS AND corporate governance STRUCTURE AND ENVIRONMENT to control the unethical issues, behavior and activities. In such an environment:

* **Bribery**. Accepting bribe create a conflict of interest between the person receiving bribe and his organization. And this conflict would result in unethical practices.
* **Coercion** – abuse of authority/power - forcing a person to do things which are against his personal believes. E.g. blocking a promotion, loss of job or blackmailing should be avoided.
* **Insider Trading -**  misuse of official position. leaking out certain confidential data to outsiders or other insiders for personal financial gain. Which effect the reputation and performance of company.
* **Conflicts of Interest** - when Private interests overshadow employer’s
* **Unfair Discrimination -** Unfair treatment or given privileges to persons on the base of race, age, sex, nationality or religion. Treat all persons equally.
* **false returns on expenditures and statements -** getting undeserved benefits and incentives.
* **Accumulation of profits by illegal means** - undertaking various unethical and unconstitutional activities to maximize its profits e.g. hoarding of goods, black marketing, speculation etc.

**CHARACTERISTICS OF ETHICALORGANIZATONS**

* organizations are based on the principle of fairness.• All stakeholders are treated equally without any discrimination.• Benefit of stakeholders given precedence over own interest.
* There is clear communication in ethical organizations.• What is to be done, how it is to be done is clearly stated.
* Minumum bureaucracy. And high control helps in implementing business ethics easily.
* High Compliance with applicable laws.
* Leadership; leaders demonstrate ethical practices in any situation. The true test of this leadership is in the decision-making process when there is a choice between what is ethically responsible and what will result in profit or gain. Leaders who can consciously choose the path that is ethically correct, as opposed to one that is purely financially driven, have successfully created an ethical culture in the business. When the culture is solid at the top of the organization, it trickles down to all areas and employees.
* Values; An ethical business has a core value statement that describes its mission and by which it lives. It communicates this mission to every employee within the structure and ensures that it is followed. The ethical business will institute a code of conduct that supports its mission. This code of conduct is the guideline for each employee to follow as he carries out the company's mission.
* **Integrity;** The ethical business adheres to laws and regulations at the local, state and federal levels. It treats its employees fairly, communicating with them honestly and openly. It demonstrates fair dealings with customers and vendors including competitive pricing, timely payments and the highest quality standards in the manufacture of its products.
* **Respect**

demonstrates respect for its employees by valuing opinions and treating each employee as an equal. The business shows respect for its customers by listening to feedback and assessing needs. An ethical business respects its vendors, paying on time and utilizing fair buying practices. And an ethical business respects its community by being environmentally responsible, showing concern and giving back as it sees fit.

* **Loyalty**

Solid relationships are the cornerstone of an ethical business. Loyal relationships are mutually beneficial and both parties reap benefits. Employees who work for a loyal employer want to maintain the relationship and will work harder toward that end. Vendors and customers will remain loyal to a business that is reliable and dependable in all situations. An ethical business stays loyal to its partnerships even in challenging times. The result is a stronger relationship when emerging from the challenge.

* **Concern** An ethical business has concern for anyone and anything impacted by the business. This includes customers, employees, vendors and the public. Every decision made by the business is based on the effect it may have on any one of these groups of people, or the environment surrounding it.

**Ten Steps to Designing a Comprehensive and sustainable Ethics Program**

**1.  DIAGNOSIS & EVALUATION. Develop and administer (preferably with an an independent agency ) a company-wide survey to provide a foundation for the design of the program. Focus on;**

* Organizational Values – What do employees, especially mangers, perceive as the stated and operational values of the organization based on [formal documents](http://josephsoninstitute.org/business/blog/2010/11/including-the-six-pillars-of-character-in-your-company%E2%80%99s-ethics-code/), formal and informal training, reward systems
* Organizational Conduct – What is the perception about the congruence of stated and operational values and the prevalence or frequency of questionable, improper or illegal conduct?
* Personal Values – What are the personal attitudes, opinions and beliefs of individuals, especially managers, and how compatible are these with the stated or operational values?
* Personal Conduct – How consistent is the personal conduct of individuals within the organization, especially managers, with their own values and those of the organization?

**2.  STRATEGY DEVELOPMENT. Assign a small committee with the confidence of TOP leadership the task of developing a strategy embracing the issues raised below.**

* Goals for Change – What changes are [desirable](http://josephsoninstitute.org/business/blog/2010/11/including-the-six-pillars-of-character-in-your-company%E2%80%99s-ethics-code/) and necessary in the operational values and behavior of the organization and individuals?
* Stakes – Clarify the stakes; what are the potential risks and rewards relating to the desired changes?
* Commitment – How committed is the leadership of the organization to accomplishing these changes?
* Time Frame – What is the time frame in which meaningful changes must be accomplished?
* Resources – What resources, expertise, credibility, personal and financial are needed to accomplish the goals in the required time?

**3.  STANDARDS OF CONDUCT. Review and as necessary modify the company’s standards of conduct to assure relevancy, clarity, comprehensiveness. The code should be anchored to and each provision should reflect the company’s values.**

* Articulate organizational values
* Provide guidelines for dealing with potential value conflicts
* Standards for specific functional contexts
* Mechanisms for dealing with improper conduct

**4.  RECRUITING & HIRING. Integrate value and behavioral goals into recruiting and hiring process so new employees are:**

* Disposed to honor those goals
* Clear as to the expectations of the organization

**5.  EDUCATION & TRAINING. Educate new and veteran employees about organizational values and standards of conduct, principled reasoning and ethical decision making to:**

* Provide an understanding of the nature and reasons for the organization’s values and rules
* Provide an Opportunity to question and challenge values for sincerity/practicality
* Teach ethical decision making skills related to commonly encountered issues
* The more specific and customized the training, the more effective it is likely to be

**6. INTEGRATE STANDARDS INTO STAFF EVALUATION & PROMOTION**

Integrate value and behavioral goals into:

* Performance review process
* Employee counseling
* Promotion decisions

**7.  SUPPORT SYSTEMS. Establish mechanisms for allowing employees to get additional instruction, clarification and guidance on how to deal with issues concerning organizational values and standards of conduct E.G ethics mannuals, policy, service charter, etc**

**8.  establish DISSENT/FEEDBACK CHANNELS**

* Process for reporting misconduct without fear of retaliation
* Information learned through complaints and investigations should be fed back to managers and integrated into annual training programs and follow-up audits

**9.  AUDITING & MEASUREMENT.**

* **Establish ongoing mechanism to audit actual behaviors to assure adherence to values**
* Isolate cases that require action or discipline
* Deter improper conduct by creating likelihood that it will be discovered and appropriately sanctioned

**10. COMMUNICATIONS REINFORCEMENT.**

* **Various methods of organizational communications should reinforce both commitment to ethical principles and the core values of the organization, hence regular briefings, seminars, bulletins, etc**

**International Business Ethics.**

International business ethics did not emerge until the late 1990s when international developments of that decade.in the context of ethical business values arose:

**International Business Ethical Values.**

* The search for universal values as a basis for international commercial behaviour.
* Comparison of business ethical traditions in different countries. Also on the basis of their respective GDP and [Corruption rankings].
* Comparison of business ethical traditions from various religious perspectives.
* Ethical issues arising out of international business transactions; e.g., [bioprospecting](http://en.wikipedia.org/wiki/Bioprospecting) and [biopiracy](http://en.wikipedia.org/wiki/Biopiracy) in the pharmaceutical industry; the [fair trade](http://en.wikipedia.org/wiki/Fair_trade) movement; [transfer pricing](http://en.wikipedia.org/wiki/Transfer_pricing).
* Issues such as [globalization](http://en.wikipedia.org/wiki/Globalization) and [cultural imperialism](http://en.wikipedia.org/wiki/Cultural_imperialism).
* Varying global standards—e.g., the use of [child labor](http://en.wikipedia.org/wiki/Child_labor).
* The way in which multinationals take advantage of international differences, such as outsourcing production (e.g. clothes) and services (e.g. call centres) to low-wage countries.
* The permissibility of international commerce with pariah states.
* **Economic systems – political economy and political philosophy and the ethical implications**

|  |
| --- |
| **Social Responsibility of Management and Ethics**  The social responsibility of business and Managers) refers to such decisions and activities of a business firm which provide for the welfare of the society as a whole along with the earning of profit for the firm. The business firm functions and acts in such a way that it will accomplish social gains (social output) along with the traditional economic gains (economic output) in which the business firm is interested.  **Meaning of Social Responsibility**  Adolfe Berle has defined "social responsibility" as the management's responsiveness to public consensus." According to Prof. Andrews, "by social responsibility, we mean the intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable and leads in the direction of positive contribution to human betterment variously as the latter may be defined." According to Keith Davis, "social responsibility" refers to "the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest."  Howard Bowen is of the view that "the social responsibilities are obligations to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society."  An analysis of the above definitions of social responsibility reveals the following. Social responsibility refers to ***"the objective concern of business firm for the welfare of the society and it involves following by the management of such policies, making of such decisions or following of such lines of action which are desirable in terms of objectives and values of our society."*** Further, decisions are taken by the business for reasons at least partially beyond the firm's direct economic or technical interest.  The theme or philosophy of social responsibility is that;  (i) A business firm should not ignore the welfare of the society,  (ii) Policies and decisions of the business enterprise, should focus on values of society,  (iii) Earning profit by honoring values of society and finally assist the promotion of welfare of the society.  **Traditional Economic Gains and Social Responsibilities**  The difference between traditional business decision-making and social responsibility is that while the traditional decision-makers are concerned primarily with economic and technical values, social responsibility extends thinking to social values as well. Further, the traditional decision-maker thinks in terms of the narrow interest of a single enterprise or a person, whereas social responsibility envisages thinking in terms of the entire society. The traditional business decisions are confined primarily to narrow economic and technical gains while decisions based on considerations of social responsibilities go beyond them. Keith Davis has stated that decisions relating to social responsibilities are taken for reasons at least partially beyond the firm's direct economic or technical interest. Thus, we find that the objectives of business and social responsibilities, are not contrary to each other. It is not objectives of business vs. social responsibilities but "objectives of business and social responsibilities."  **Factors or Reasons for increased Social Consciousness among Businessmen and organizations.**  In recent years, there has been an increased social consciousness among businessmen. The  **1.** Formerly, a business considered that the maximisation of profit for the owner should be the sole objective of the business. But, today a businessman cannot strictly adhere to the only one objective of earning maximum profit for himself. No doubt, profits should be earned by the business firm for its survival and growth, to attract funds for investment and also to judge the success of the business enterprise. But, a business may tend to maximise profit without any consideration for the interests of consumers and employees. Thus, it may try to exploit society. Business earns profit with the help of society and if the business has no consideration or concern for society which helps it to earn profit, the very existence of the business may be threatened. Hence, businessmen are today conscious of their responsibility to the society.  **2.** Now in most countries, democratic governments are functioning. Under this system of government, the policies of the government are decided by Parliament consisting of the members elected by the people. Naturally, Parliament, which represent people, aims at protecting the interests of society by various legislative enactments which regulate the activities of the business enterprises and prevent them from indulging in anti-social business practices.  **3.** Further, in these days, different types of cooperative societies have come into existence for the purpose of protecting the interests of consumers from the exploitation by unscrupulous businessmen. The establishment of cooperatives act as a countervailing force against private business concerns. This factor also has influenced businessmen to think in terms of their responsibility to the society.  **4.** A social movement called "consumerism" has come into existence with the aim of protecting the interests of consumers against producers and traders. This factor also has made businessmen realise their responsibilities to society.  **5.** Realisation on the part of businessmen that they cannot survive for long if they do not act in a responsible manner and if they do not supply quality goods at reasonable rate is also another factor which has made business alive to their social obligations.  **6.** The government has armed itself with powers to take over any business enterprise which deliberately neglects its responsibility to the society. This fear of "take-over by government" has also made businessmen think in terms of their social obligations. ;  **7.** The development of professional management class has resulted in a divorce between ownership and management. These professional managers exercise independent control over the business enterprises and adopt a new and enlightened management approach for managing their business concerns.  **8.** The development of well-organised labour unions has increased the bargaining position of employees considerably and because of this, there is less scope for employees to exploit the employees. Hence, development of trade unions also is one of the reasons for increased social consciousness among businessmen.  **9**. Recognition of the importance of human factor in creating an atmosphere would help in safeguarding businessmen's interests in the long run and also the realisation of the fact by the employers that the workers should not be treated as herds of sheep and cattle to be hired and fired at will are also factors that influence businessmen's outlook. |

**ETHICS AND CSR**

**Corporate social responsibility** (**CSR**, also called **corporate conscience**, **corporate citizenship** or **sustainable responsible business/ Responsible Business**)[[1]](http://en.wikipedia.org/wiki/Corporate_social_responsibility#cite_note-1) is a form of [corporate](http://en.wikipedia.org/wiki/Corporate) [self-regulation](http://en.wikipedia.org/wiki/Self-policing) integrated into all the functional operations of an enterprise. Modern businesses have a CSR policy which functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, as well as ethical standards and expectations By the social and economic environment which consists of [stakeholders](http://en.wikipedia.org/wiki/Stakeholder_(corporate)) including consumers, employees, investors, communities, etc.

**Corporate Social Responsibility - Stakeholders**   
  
internal and external [stakeholders](http://www.shopping.com/stakeholders/products?CLT=SCH&linkin_id=8058742&subTrackingID=%5bUSERID%5d).

Internal stakeholders are shareholders, employees and management.

External [stakeholders](http://www.shopping.com/stakeholders/products?CLT=SCH&linkin_id=8058742&subTrackingID=%5bUSERID%5d) include consumers, suppliers, creditor’s competitors and community.

Shareholders are important to the business, because they have a primary stake in the business. Organization's responsibilities towards the shareholders are:  
  
To provide professional management, fair returns on their investment, disclose relevant information, protect shareholders assets, be accurate/candid in assessing future growth/profitability, avoid insider trading etc, all of which have ethical implications.

Employees play the fundamental role of enabling an organization achieve its mission, goals and objectives. The organizations responsibility towards employees is therefore critical to include improving working terms and conditions, health and safety maintenance, maintaining open and honest communications, welcoming suggestions/complaints, providing equal opportunity for all without discrimination whatsoever, career and personal development, high involvement, respect their dignity and basic human needs, etc.

Management plays a key role in balancing the multiple claims of [stakeholders](http://www.shopping.com/stakeholders/products?CLT=SCH&linkin_id=8058742&subTrackingID=%5bUSERID%5d).   
Therefore the responsibility of management involves maintaining healthy relationships among the [stakeholders](http://www.shopping.com/stakeholders/products?CLT=SCH&linkin_id=8058742&subTrackingID=%5bUSERID%5d).

The consumer/customer is driving reason why an organization exists. The organizations responsibilities towards consumers include offering quality goods, providing prompt services, treating customers fairly, honestly and reliably, fair prices,, hono warranties and commitments and give value for money I n terms of quality and quantity etc.

Good relations with suppliers will determine the profitability of the company. hence The company must treat its suppliers with respect. Suppliers / Creditors must be paid promptly, avoid unrealistic price bargains and delivery terms, make partnership relationships, etc

Companies must also follow ethical competitive practices.

Finally, the responsibilities of the organization towards the community are, respecting human rights, improving environmental safety and economic well being, hence avoid environment abuse, give back through charity, cultural activities etc

NB: All the corporate social responsibility concerns, policies, programs and activities have ethical implications!!!!!

**INTERNATIONAL MANAGEMENT**

As companies globalize, it is important to understand the political and economic environments in which the global business work, and to manage the business across cultural and political boundaries. These needs can only be addressed through a strategic approach where managers and organizations seek to be knowledgeable, skilled and the cultivation of the right attitudes and perceptions, all of which must cut across cultural and physical world boundaries. This way, such managers and organizations would develop the essential competencies to manage effectively locally and abroad, particularly where international/multinational/global organizations are involved.

Hence, IM consists of management of business operations for an organization that conducts business in more than one country. International management requires knowledge and skills above and beyond normal business expertise, such as familiarity with the business regulations of the nations in which the organization operates, understanding of local customs and laws, and the capability to conduct transactions that may involve multiple currencies. Indeed, as trade barriers recede and businesses in developed economies increasingly pursue market opportunities abroad, competency and effectiveness in international management are paramount skills at many companies. The issues involved in international management span the whole gamut of those concerning management in general, but there are several areas of special interest, including:

* international finance and currency matters
* cross-cultural communication and understanding (including [**international marketing**](https://www.referenceforbusiness.com/encyclopedia/Int-Jun/International-Marketing.html) implications)
* foreign legal requirements and accounting practices
* [**global strategy**](https://www.referenceforbusiness.com/encyclopedia/For-Gol/Global-Strategy.html)
* [**international competition**](https://www.referenceforbusiness.com/encyclopedia/Inc-Int/International-Competition.html)

To ignore such issues in an international business is to open the door to risks like inappropriate (and hence ineffective) marketing approaches, poor **labor-management relations,** adverse currency fluctuations, and other problems. Conversely, companies that are able to successfully manage these issues have greater potential to extend their marketing reach, increase market share, improve efficiency and profitability, decrease costs, and enjoy other competitive advantages.

Accompanying all of these changes was an increase in need for international management for people (managers especially) who understand the **business and cultural issues** involved, well enough to manage and grow an international business effectively. Among those issues are:

* Business Structure
* Competition
* Political and economic environments
* Finance and business issues such as contracts, taxation, intellectual property, and risk
* Employment and leadership
* Cultural norms and values
* Technology

**BUSINESS STRUCTURE**

An international manager has the task of reopening business in a radically different environment. He or she must determine the overall structure of the business and its workflow. In a functional-based business (i.e., the new location needs to be able to perform standardized tasks that comply with overall corporate practices), skilled labor and ability to perform these tasks is key.

Technological infrastructure could be a crucial factor. For an area-based business, location is key, and detailed knowledge of the country and its culture is critical. Products may have to be adapted to the host market.

A global-based structure may have a varied set of product lines, each of which can be made and marketed across locations. These approaches can be mixed, but choosing the structure of the business should support the firm's primary goals.

Many businesses start by first establishing the new office or facility as an "export division" that falls under the umbrella of Operations or Marketing—which may eventually become an "International Division." How this new entity best fits within the parent organization's overall structure depends on the purpose for the new location and how much the parent company plans to grow the business.

Other options include opening a wholly-owned subsidiary or an overseas joint venture, contracting from an international company (IC) to manufacture products to specification, or purchasing supplies and/or materials from an IC manufacturer.

Other considerations include the additional costs of [globalization](https://www.referenceforbusiness.com/knowledge/Globalization.html), such as international freight, insurance, packing (up to 12 percent of manufacturing prices), sales terms, import duties, broker's fees, inventory costs, and international travel.

**COMPETITION**

Competition in the global marketplace continues to grow, particularly between the United States, the European Union, and Asian nations. For this reason, companies need to evaluate the competitive landscape of the host country. First, it is helpful to understand that the nature of competition varies by region and industry. Some nations support an atmosphere of pure competition; for example, there may be any number of sellers, each with relatively small market share, with competition based solely on price. Others may be more monopolistic. Understanding the type of environment in which a firm will participate in its host country ensures the use of appropriate business practices.

More specific threats to companies comes from existing competitors, new competitors who may also enter the market, and the bargaining power of suppliers and buyers in the host country or region. Also, some countries' business environments make entering the marketplace harder than others. For example, foreign businesses find it hard to compete with industry in Japan, where groups of firms are connected financially and rarely do business outside of that group (called "keiretsu").

When investigating the competitive climate, it is also helpful to understand the power wielded by many of the world's transnational corporations (TNCs). Many of the world's top TNCs earn more in revenues each year than most nations, as shown in Table 2. While this does not mean other companies cannot compete with the products and services offered by these companies, it helps to know that these TNCs are involved in establishing direction, lobbying industry, and other activities that have direct impact on the laws and regulations that affect entire industries and how smaller companies can conduct international business.

Finally, understanding of international anti-trust laws and when they are enforced is critical to assessing the risks to an international business. The United States is the toughest nation in regard to anti-trust, even trying to enforce laws outside the country. The European Union is lax on enforcing anti-trust laws, but does use them as a means to levy fines on cartels. In Japan, enforcement of anti-trust legislation, which was enacted only under great pressure from outside the country, is weak at best, and usually nonexistent. Learning how "fair competition" is viewed in foreign business environments better prepares a manager to protect his or her own business.

**ENVIRONMENTAL FACTORS**

Both the economic and political environments of countries and regions have great impact on the managing of international operations. A few of the economic factors that impact international business are:

* Host nation's economy: free-market vs. centrally planned, or mixed.
* Gross Domestic Product (GDP), Gross National Product (GNP), and per capita income—all are gauges to consumer buying power.
* Spending patterns of host population.
* Variation in degree of development or industrialization.
* Infrastructure and technology available to business.
* Differences in available education and health care.

Some economies are less hospitable to job creation than others. For example, in Western Europe high minimum wages, healthy unemployment benefits, and employment protection laws are significant barriers to companies hoping to produce job growth in this part of the world. This and other issues also have an impact on finding employees to help staff and manage international operations.

The political environment plays a large role in determining how international companies will be able to manage business operations. Examples of political forces affecting international corporations include:

* Governments, political parties, and ideological beliefs (communism, capitalism, socialism, liberal, conservative, etc.).
* Nature of government-business relationships.
* Laws and attitude toward business.
* Tariffs and quotas.
* Currency controls (limits on the amount of money entering or leaving a country).

All businesses must abide by the laws, regulations, and bureaucracy in the host nation, including the United States and other [capitalist](https://www.referenceforbusiness.com/knowledge/Capitalism.html) countries. Examples of the obstacles an international corporation may encounter include complying with government restrictions on regulated professions and industries such as law, medicine, banking, insurance, transportation, and utilities. State and local governments may also require specific licenses for business and restrict foreign use of buildings. For all of these, proper compliance takes knowledge, time to learn, and expense.

While all of the above factors have significant impact on multi-national corporations, perhaps the most important factor for an international manager is awareness of the degree of risk associated with various political forces in the host region. In addition to weighing the stability of the established government in the region in which it conducts business, governments can seize property owned by foreigners within its borders. This is known as expropriation in cases where the government follows up with quick, adequate compensation for former owners of the property. However, some governments may confiscate property, meaning former owners do not receive proper compensation.

**CONTRACTS**

When parties representing different nations enter into a contract, dispute resolution becomes especially complicated. The United Nations (UN) Convention on Contracts for the International Sale of Goods (CISG) established legal rules for international sales contracts, including rights and obligations for both buyer and seller. Unless the parties to the contract expressly exclude the CISG, it applies to all contracts signed by companies from the countries that ratified the Convention. In the European Union (EU), the Rome Convention (1991) also applies to contracts formed between EU residents. Outside of these two agreements, companies must rely on private solutions and arbitration (which is used with increasing frequency).

**INTELLECTUAL PROPERTY**

Intellectual property, for instance, is well protected in the United States, with patents, trademarks, and copyrights. But when companies engage in business with other countries, they take risks. For example, product counterfeiting, common in Asia, costs industries more than $200 billion worldwide, according to the U.S. Department of Commerce. Other risks to business included trade secrets and industrial espionage. Most often, competitive information is obtained from inside the company, from published business materials, customers, competitor employees, and sometimes through direct observation. Each nation has its own laws to protect intellectual property, but which products those laws protect differs as well. The UN's World Intellectual Property Organization (WIPO) was created to administer international property treaties, as was TRIPS, a World Trade Organization (WTO) agency.

The United States adopted its Foreign Corruption Practices Act (FCPA), which unfortunately acts as a barrier to United States companies. The FCPA was not adopted in Europe, or elsewhere, and compliance with the FCPA means American exporters lose business. Most importantly, international managers need to be aware [piracy](https://www.referenceforbusiness.com/knowledge/Piracy.html) and counterfeiting, particularly in certain markets, and take steps to protect proprietary corporate information.

**LIABILITY**

Product liability is a much bigger issue in the United States than in other countries. For example, the United States is the only country that conducts jury trials or pays punitive damages in cases of product liability. There was a principle of strict liability adopted in Europe, but company defense is strong and some countries cap damages.

The United States places many burdens upon its own companies, which impacts how well American companies can conduct business internationally and what it costs them to do so. Like the FCPA, boycott legislation often applies only to the United States. These become significant obstacles to international competition when other countries do not follow suit.

**FINANCE**

Financial management of international corporations is particularly challenging, as countries change in value in terms of each other based on currency exchange rates. Companies must comply with financial laws and regulations in the host country. International managers need to:

* Understand how fluctuations in currency value change international business transactions.
* Learn about financial tools such as derivatives, hedges, payment timing, exposure netting, price adjustments, balance sheet neutralizing, and swaps, and how they affect business performance.
* Meet, network, and cooperate with counterparts in other organizations to protect and/or benefit the organization.
* Learn when and how to pay exporters in forms other than money; buyers frequently prefer payment rendered in the form of goods or services (countertrade).
* Differentiate between two types of currency: hard, [convertible currency](https://www.referenceforbusiness.com/knowledge/Convertibility.html) is accepted around the world at uniform rates; soft, nonconvertible currency is rarely of value outside the host country.
* Use international finance centers as a resource—these accumulate expertise and information to conduct financial transaction for international company units most profitably and at the lowest cost.

**EMPLOYMENT AND LABOR FORCES**

Investigation of the available labor force should be performed before a company chooses to expand its business to a given region. Managers should determine whether there are enough people of the right skill level for a company to run the business effectively, and whether or not they will want to work for a foreign employer.

When staffing international operations, managers must be able to fill positions from a pool of labor with the right education and skill to maintain and grow the business. Hiring options include choosing from the parent company, choosing people from the host country, or hiring from a local subsidiary. Refugees are often pulled into operations. However, they may lack the skills, health, or education to work. Guest workers may also provide labor, and are particularly helpful in times of rapid growth—when native workers are not willing or able to fill all positions and they do not feel displaced. However, even in times of growth, bringing in large numbers of guest workers (foreigners) often causes [friction](https://www.referenceforbusiness.com/knowledge/Friction.html) with citizens of the host country.

Proper planning also helps a company to recognize other forces that cannot be controlled (but must be managed) and plan accordingly. Managers of international operations need to understand the effects of price and wage controls, labor laws, and currency exchange in the host country. In Europe, the government plays a very active role in legislating wages and working conditions, particularly in Germany and France. In Japan, unions align more with specific companies than with industry, so union members have a stake in how well the company does and how much money it makes. They often work with company management.

Understanding cultural issues is critical to international management in general, but culture plays a particularly important role in building a labor force outside the United States. Though U.S. businesses have come to see women as part of the employment pool, women are less accepted as part of the work-force in many other countries.

Another consideration is race, which is still a source of conflict and [discrimination](https://www.referenceforbusiness.com/knowledge/Discrimination.html) in many areas, as is social status. Religious, tribal, racial, and other cultural factors have an impact, not just on employment, but on how an international company will be viewed by the host culture (and how many people will buy products made by the company). However, if managers are well informed and handle cultural issues properly, people from different cultures, speaking different languages, and possessing various abilities and levels of experience can strengthen the overall management of an international company.

Many corporations have particular difficulty finding qualified executives to effectively manage international companies. Successful leaders of international companies need to understand motivation, leadership, communication, conflict, and other behavioral issues that arise in cross-national and [cross-cultural](https://www.referenceforbusiness.com/knowledge/Cross_cultural.html) context. The ability to address these issues depends on an understanding of the host culture's values. Other skills cited as keys to successful international management include:

* Technical competence.
* Ability to speak, or willingness to learn, the host language.
* Tolerance for [ambiguity](https://www.referenceforbusiness.com/knowledge/Ambiguity.html) and ability to manage uncertainty.
* Nonjudgmental attitude.
* Ability to emotionally connect with people from diverse cultures and backgrounds, and to understand differing viewpoints.
* Personal integrity.
* Strong commitment to personal and company standards.
* Inquisitive mindset/continuous learning.

Managers of international operations need to be adaptable and have a high tolerance for change and ambiguity. They are most successful when given autonomy and discretion in the workplace. Overall business savvy on the part of executives helps to ensure an international company will run well.

Thorough understanding of both the company and industry is important, along with an ability to leverage that understanding when planning, organizing, and implementing ideas. On a more practical level, international managers need to be able to manage accounting and auditing, business plans, policies and procedures, information systems, and corporate culture—all of which vary based on the infrastructure and culture of the host country.

**CULTURAL ISSUES**

Defined as the body of beliefs, norms, and values shared by a group of people, culture presents the biggest challenge to businesses working internationally. It is a key factor in how all other areas of business work together. As stated by [Geert Hofstede](https://www.referenceforbusiness.com/knowledge/Geert_Hofstede.html), "Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster." Managers of international operations should be aware of the importance of context in various countries. Context indicates the level in which communication occurs outside of verbal discussion. High-context communication depends heavily on gestures, body language, and other nonverbal cues. Much of what is communicated is implicit, or unspoken, and assumed to be understood through other cues. Low-context communication is explicit and precise, relying little on nonverbal embellishment for meaning. Many of these, and other cultural practices, is learned through socialization.

Culture influences management practices as well, including [negotiation](https://www.referenceforbusiness.com/knowledge/Negotiation.html) tactics, decision making, and rewards and recognition programs. For example, when conducting business, members of some cultures sit right down to business after shaking hands. In other countries, it is considered rude to mention business at all until after both parties have spent a significant amount of time establishing a relationship. Other management soft skills, such as motivation, making decisions, and rewarding employees, depend on cultural factors as well.

**TECHNOLOGY**

Technology is an important factor that can vary significantly, depending on the purpose of foreign investment and how important it is for technology to be standardized across business divisions. While some business leaders may choose to expand internationally to take advantage of cheaper labor or manufacturing costs, particularly in developing nations, they may also need to plan for "intermediate and appropriate technology."

The production processes used may vary from advanced to primitive, depending on the economic, cultural, and political variables of the host nation. Some governments urge investors to consider intermediate technology rather than the highly-automated equipment and processes of industrialized countries, in part because less advanced countries lack the infrastructure to support such technology. Companies may respond by searching for an appropriate technology that matches a country's resources, or it may choose to invest elsewhere.

Technology has also contributed significantly to the spread of globalization and international expansion. Advances in technology enable international businesses to conduct international financial transactions, purchase products, analyze data rapidly, make capital improvements, and streamline communications, transportation, and distribution channels.

The summaries above are brief introductions to broad issues to which entire semesters are devoted in business programs. International management requires a broad knowledge base in many areas, as well as an ability to adapt to working conditions in which the only constants are change and a devotion to continuous learning.

Most critical to international management is the desire and ability to work well with people of various cultures, interests, degrees of education, and intelligence—from employees to colleagues to government officials, with home country and host country, and across national and industrial borders

**Managerial Functions in International Management**  
The standard functions of Management usually take on a very different flavor when we put them in an international context, for the reasons explained above. For instance:

**Planning**

The first stage of international planning is to decide how to do business globally: whether to export, to enter into licensing agreements or joint ventures, or to operate as a multinational corporation with facilities in a foreign country.

To develop forecasts, goals, and plans for international activities, the manager must monitor environments very closely. Key factors include political instability, currency instability, competition from governments, pressures from governments, patent and trademark protection, and intense competitionFor a manager to be effective, he or she has to have a plan. They simply cannot come into work every day and determine what needs to be done that day. Rather, they need to have a plan for managing and growing their department or company over time. In an international setting, planning takes on a different feel because the manager has to take into account all the different aspects present in an international environment. They have to understand aspects such as:

* How taxes are handled in a foreign country and how that impacts their business
* The employment or staffing requirements and laws per country
* The amounts of money that can be put into and taken out of the company, based on laws present in that country
* Regulatory issues that would impact what the company can do should they want to expand

As you can see, these are not much different than what we would experience locally, but they need to be understood from the aspect of the international country you are in. For example, many countries have [foreign direct investment](https://study.com/academy/lesson/what-is-foreign-direct-investment-definition-advantages-disadvantages.html) laws - laws that regulate, among other things, how much profit can be taken out of the company and sent back to the corporate office in the home country. If you are operating within just one country, for instance Kenya, this would not be an issue, but in international settings, it's a very real issue.

**Organizing**

Picture this. You walk into a room, and it's your job to get everyone seated before a lecture is to begin. Now picture that each one of the people in the room speaks a language other than your language. You have to organize and get them into their seats before the speaker comes out. Can you imagine how difficult it would be?

This is the primary challenge when looking at organizations from an international perspective. People might interpret what you are saying differently because they do not fully understand you due to language barriers. Now take this example and multiply it by having to run an organization in Europe. You would have to organize individuals who do not speak your language but who also do not speak each other's language. The challenges here are fairly apparent, and it's something a manager has to learn to overcome to work in a foreign setting.

Remember, we are not talking about only the languages but also how the translation is interpreted. International firms should be sure that their plans fit the culture of the host country. Typically, U.S. firms feel that long‐term plans should be three to five years in length; but in some cultures, this time period is too short. Many countries must plan with the assistance of governmental agencies. And working through bureaucratic structures, policies, and procedures is often time‐consuming.

International businesses must be organized so that they can adapt to cultural and environmental differences. No longer can organizations just put “carbon copies” or clones of themselves in foreign countries. An international firm must be organized so that it can be responsive to foreign customers, employees, and suppliers. An entire firm may even be organized as one giant worldwide company that has several divisions. Above all, the new organization must establish a very open communication system where problems, ideas, and grievances can quickly be heard and addressed at all levels of management. Without this, employees will not get involved, and their insights and ideas are crucial to the success of the business.

As an organization extends its operations internationally, it needs to adapt its structure. When the organization increases its international focus, it goes through the following three phases of structural change:

1. **Pre‐international stage.** Companies with a product or service that incorporates the latest technology, is unique, or is superior may consider themselves ready for the international arena. The first strategy used to introduce a product to a foreign market is to find a way to export the product. At this phase, the firm adds an export manager as part of the marketing department and finds foreign partners.
2. **International division stage.** Pressure may mount through the enforcement of host country laws, trade restrictions, and competition, placing a company at a cost disadvantage. When a company decides to defend and expand its foreign market position by establishing marketing or production operations in one or more host countries, it establishes a separate international division. In turn, foreign operations begin, and a vice president, reporting directly to the president or CEO, oversees the operations.
3. **Global structure stage.** A company is ready to move away from an international division phase when it meets the following criteria:

* The international market is as important to the company as the domestic market.
* Senior officials in the company possess both foreign and domestic experience.
* International sales represent 25 to 35 percent of total sales.
* The technology used in the domestic division has far outstripped that of the international division.

As foreign operations become more important to the bottom line, decision making becomes more centralized at corporate headquarters. A functional product group, geographic approach, or a combination of these approaches should be adopted. The firm unifies international activities with worldwide decisions at world headquarters.

**Staffing**

Because obtaining a good staff is so critical to the success of any business, the hiring and development of employees must be done very carefully. Management must be familiar with the country's national labor laws. Next, it must decide how many managers and personnel to hire from the local labor force and whether to transfer home‐based personnel.

For example, U.S. firms are better off hiring local talent and using only a few key expatriates in most cases, because the costs of assigning U.S.–based employees to positions overseas can be quite expensive. Simply, *expatriates* (people who live and work in another country) are expensive propositions even when things go well. Adding up all the extras—higher pay, airfare for family members, moving expenses, housing allowances, education benefits for the kids, company car, taxes, and home leave—means that the first year abroad often costs the multinational company many times the expatriate's base salary. The total bill for an average overseas stay of four years can easily top $1 million per expatriate. In any case, managers need to closely examine how to select and prepare expatriates.

**Directing**

Cultural differences make the directing function more difficult for the international manager. Employee attitudes toward work and problem solving differ by country. Language barriers also create communication difficulties. To minimize problems arising from cultural differences, organizations are training managers in cross‐cultural management. Cross‐cultural management trains managers to interact with several cultures and to value diversity.

In addition, the style of leadership that is acceptable to employees varies from nation to nation. In countries like France and Germany, informal relations with employees are discouraged. In Sweden and Japan, however, informal relations with employees are strongly encouraged, and a very participative leadership style is used. Incentive systems also vary tremendously. The type of incentives used in the U.S. may not work in Europe or Japan, where stable employment and benefits are more important than bonuses.

**Controlling**

Geographic dispersion and distance, language barriers, and legal restrictions complicate the controlling function. Meetings, reporting, and inspections are typically part of the international control system.

Controlling poses special challenges if a company engages in multinational business because of the far‐flung scope of operations and the differing influences of diverse environments. Controlling operations is nonetheless a crucial function for multinational managers. In many countries, bonuses, pensions, holidays, and vacation days are legally mandated and considered by many employees as rights. Particularly powerful unions exist in many parts of the world, and their demands restrict managers' freedom to operate.

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