TEERTHANKER MAHAVEER UNIVERSITY
MORADABAD, INDIA

CENTRE FOR DISTANCE AND ONLINE EDUCATION

Accredited with NAAC A Grade

12-B Status from UGC

Programme: Bachelor of Business Administration

Course: Principles of Management

Course Code: BBACC101

Semester-I

Programme Coordinator

Dr. Satendra Arya
Associate Professor, Department of Management Studies
Center for Distance and Online Education,
Teerthanker Mahaveer University, Moradabad

Units Written by **Unit No.**

Dr. Aditya Sharma

Editor

Professor Vipin Jain
Director,
Center For Distance and Online Education,
Teerthanker Mahaveer University, Moradabad

Dr. Amit Kansal
Assistant Director,
Center for Distance and Online Education,
Teerthanker Mahaveer University, Moradabad

Edition : **2023 (Restricted Circulation)**
Published by : **Teerthenker Mahaveer University, Moradabad**

Syllabus

Course Name: Principles Of Management

Course code: BBACC101

Objective/s and Expected Outcome: The course aims at providing fundamental knowledge and exposure to the concepts, theories and practices in the field of management. It focuses on the basic roles, skills and functions of management, with special attention to managerial responsibility for effective and efficient achievement of goals.

Block I **(12 Hrs.)**

Unit I Introduction: Definition, nature, scope, importance, functions of management and manager, managerial roles and skills.

Unit II Evolution of management thoughts and Thinkers: Scientific Management, General administrative theories.

Unit III Quantitative approach, Behavioural approach, Systems approach, Contingency approach.

Block II **(12 Hrs.)**

Unit IV Planning: Nature, scope and objectives of planning, types of plans, planning process, business.

Unit V Forecasting, concept and process of MBO.

Unit VI Decision-Making: Importance, types, process, approaches and decision making conditions.

Block III **(12 Hrs.)**

Unit VII Organising: Concept, nature, types, process and significance, principles of an organization, span of control.

Unit VIII Departmentation; Delegation; centralization and Decentralization.

Unit IX Staffing: Concept, nature and importance of staffing.

Block IV **(12 Hrs.)**

Unit X Controlling: Nature, scope, control process, tools and techniques of control.

Unit Xi Modern management techniques: introduction to various latest techniques:

Unit XII Business process Re-engineering,

Unit XIII business outsourcing, benchmarking, kaizen, six sigma,

Unit XIV knowledge management, just in time management, total quality management.

UNIT 1

Management – An Introduction

Structure

1.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- What is management
- Various levels of management
- Management is art of science
- Is management universal?
- Ares of organization where management prevails

1.1 INTRODUCTION

Management is indispensable for any business concern. Collection of physical assets (material, equipment, labor and capital) will lead to nothing. For efficient and profitable functioning, all these resources need to put to work in an organized and coordinated manner. This is done by management. Management is in fact a vital function concerned with all aspects of working of an enterprise. Term *Management* in business is used in three alternative ways.

- Management as discipline
- Management as a group of people
- Management as a process.

Management as discipline: Discipline refers to a distinct field of study having well defined principles and concepts. Management is a discipline which falls in the category of social sciences which means that it is amalgamation of Science as well arts.

Management as group of people: Management is referred as a group of people which include all those personnel who perform managerial functions in the organizations. In an organization there is relationship between management and labor. So in organization we have two distinct groups of people. First category includes those personnel who perform managerial functions and second category performs non managerial functions.

Management as a process: Management is also referred as management process because management includes various activities and sub activities. Total activities of an organization are divided in two categories: Operational and managerial. In operational activities actual work is accomplished. E.g. packing, loading materials in godown. Some activities are performed to get things done. These are managerial activities. E.g. supervisor giving daily production targets to workers. These are managerial activities. Management is thus a process of getting things done from others.

To understand true nature of it we need to go through some definitions.

1.2 DEFINITIONS OF MANAGEMENT

Management is the art of getting things done through and with people in formally organized groups. It is the art of creating the environment in which people can perform and individuals could cooperate towards attaining of group goals. It is the art of removing blocks to such performance, a way of optimizing efficiency in reaching goals.

- Harold Koontz

Management may be defined as the art of securing maximum results with the minimum of effort so as to secure maximum prosperity and happiness for both, employer and employee and give the public the best possible service.

–John F Mee

Management is the distinct process consisting of planning, organizing, activating and controlling performed to determine and accomplish the objectives by use of human beings and other resources.

-G R Terry

To manage is to forecast and plan, to organize, to command, to coordinate and to control.

-Henry Fayol

Management is principally the task of planning, coordinating, motivating and controlling the efforts of others towards a specific objective.

-James L. Lundy

Management is accomplishment of the results through the efforts of other people.

-Lawrence Appley

This is thus clear from above definitions that process of management is

- Production oriented
- Decision oriented
- People oriented
- Function oriented

1.3 LEVELS OF MANAGEMENT

Before delving further into the subject, we should have a brief idea about the general structure of an organization. The organization is broadly divided into three levels.

- Top Level
- Middle Level
- Lower level

People at different levels perform different functions. The number of layers of management varies according to size of the enterprise. In a large organization, there may be more than one layer of management at each level whereas in small organization, only one layer would be sufficient.

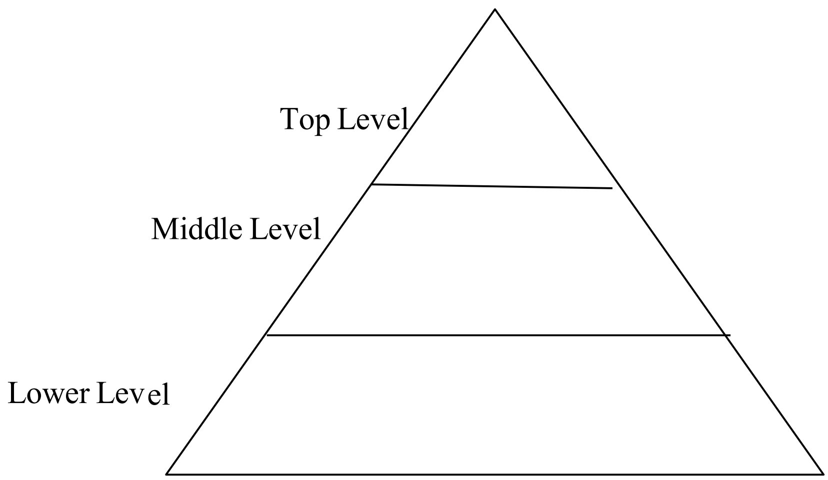


Fig 1.1 Levels of management

Top level management: This is the highest level of management. It comprises of board of directors and managing director or chief executive officer of the company.

- People at this level enjoy maximum authority in the organization.
- They are responsible for policy formulation and broad objectives.
- Decisions taken at this level have maximum influence on the enterprise.
- People at this level maintain links of enterprise with external environment to a great extent.

Middle level management: This is the middle level of management. Branch managers and departmental heads are grouped in this category.

- People at this level are responsible for executing the plans in accordance with policies designed by top management.
- They make the plans for the sub units of the organization abiding by the limits of policy and objectives set by top level.
- They are link between lower management and top management.
- They are responsible for hiring, motivating, training and performance appraisal of managers at lower level.

Lower level management: This level includes supervisors. It is also called supervisory management.

- Direction and controlling are the major functions of lower level.
- They look after the production and related activities.

- They take care of all issues related to workers i.e. directing, guiding, motivating and performance checking etc.
- They communicate worker level issues and problems to higher levels and higher levels goals and policies to workers.
-

Check your Progress I

Note: Use the space given below for your answers

1) What is *management*?'

____
____
____
____
____

2) Describe management as a discipline.

____
____
____
____

3) What do you mean by _lower level' of management?

____

____

____

____

1.3 FEATURES OF MANAGEMENT

Main features of management can be listed as under:

Common goals: Management involves setting up of common goal for whole enterprise. To achieve this common goal, objectives are set at all levels and in all departments. E.g. if a company wants to achieve maximum sale of refrigerators in two years time, goals and objectives are set to production department to manufacture required units, HR people shall be responsible to hire and train manpower required, marketing department shall take care of demand forecasting, advertising and consumer preference for product design. The logistic department shall be arranging for distribution, warehouses and transportation of refrigerators. Sales people shall be setting up sales targets for each region and each salesman to achieve selling of desired number of units to get maximum sales in market. Department of finance shall be raising and distributing fund to all working for this project. Management is thus all about goal and objective setting and channelizing people and resources to achieve these in a given framework of time.

Organized activities: Management is all about organized activities. Activities are organized after goal and objectives are set. Organized activities may take variety of forms depending upon the type and structure of the organization.

Integration of resources: Essence of management is to integrate all physical resources (capital, material, equipment and labor) so as to enable the organization achieve the common goals. As we know that it is people who actually achieve goals by using physical resources, they are the most important resource and are needed to be taken care of. Integration can be of two types:

- Internal Integration: Linking objectives of the organization to the external environment (society, consumers, suppliers, govt., investors etc.)
- External Integration: Proper management of operations within the organization.

People orientation: The idea of working through people is interpreted in terms of assigning activities to subordinates. Organizing the activities lead to creation of superior – subordinate relationship. Assigning and re-assigning the activities in the organization, most of the work is accomplished by people especially at operational level. Due to this great involvement of people, most of the activities of management are people oriented.

Leadership: Leadership consists of influencing, guiding and directing the behavior of people (subordinates) towards set objectives. Leadership is thus involved at every level of management. Leadership is directly exercised more at lower levels than at higher levels because at lower levels management has to directly deal with more people than at higher levels.

Decision Making: Decision making is vital to management. At every level of management, decision making is involved. Decision making includes setting up of objectives and choosing the best alternative among the available ones. Extent, quality and significance of decision making vary according to level of the management. Unlike leadership, importance of decision making increases at higher levels than at lower levels. Management further involves other related elements namely planning, organizing, directing and controlling of human effort.

Continuity: Management is a continuous process. As business is dynamic, new goals and objectives are set regularly. Problems are needed to be handled on daily basis. Thus management process is implied all the time.

Universality: Management is pervasive in all types of organizations be it a club, hospital, manufacturing unit, school, college, service unit, political party, home and even managing things in personal life (time, study , sports etc.).No area of life is devoid of management.

1.5 MANAGEMENT VS. ADMINISTRATION

There has been terminological conflict between the term Management and Administration. Over a period of time three approaches to this conflict have evolved:

- Management and Administration are different functions.
- Management is generic term and administration is a part of management.
- Both management and administration are same.

Management and administration are different: This approach has been developed by classical thinkers including Sheldon, Spriegal, Milward, Lansberg, Tead and Florence. The general view is that administration is about policy formulation whereas management is about policy execution. Therefore these are two different activities. Spreigal opined, ―Administration is that phase of a business enterprise that concerns itself with the overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives. Management on the other hand is an executive function which is primarily concerned with carrying out broad policies laid down by the administration.‖

Based on these postulates, these authors have given following differences between management and administration:

Area of difference	**Administration**	**Management**
Definition	Administration is that phase of a business enterprise that concerns itself with the overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives.	Management on the other hand is an executive function which is primarily concerned with carrying out broad policies laid down by the administration
Thrust area	Policy formulation , Objective determination	Policy execution for achieving objective
Scope	Broad and Conceptual	Narrow and Operational
Influencing factors	Mostly external	Mostly internal
Skills required	Conceptual and human skills	Technical and Human skills
Level	Top level	Middle and lower level
Applicability	Applicable to non business concern viz colleges, clubs, schools, hospitals	Applicable to business concern which operates for profit maximization

Tab.1.1 Difference between management and administration

Management is a generic term and administration is a part of management: This view was given by Brech. He regards and administration as –Management is a generic name for the total process of executive control in industry or commerce. It is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise, in the fulfillment of a given purpose or task. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which it is laid down and communicated and the process of activities regulated and checked against plans.‖

Thus going by this view administration function is reduced to be a subordinate function to overall management functions. This approach stands opposite to previous approach which describes management as a part of administration.

Management and administration are same: This approach is most modern and popular is given by contemporary thinkers who consider both of these terms same and equal. According to Henry Fayol, ―All undertakings require planning, organization, command, coordination and control, and in order to function properly, all must observe the same general principles. We are no longer confronted with several administrative sciences but with one which can be applied equally well to public and private affairs.‖ McFarland also proposed that it is difficult to make distinction between management and administration; both are similar to each other.

Lepawsky made an interesting observation' ―The British conception seems to be the general European usage in which management is given a broader meaning than administration. In American usage, administration includes management and organization.‖

This approach makes it clear that there is no difference between two terms. It is only the coverage of activities. Everyone performs both managerial functions.

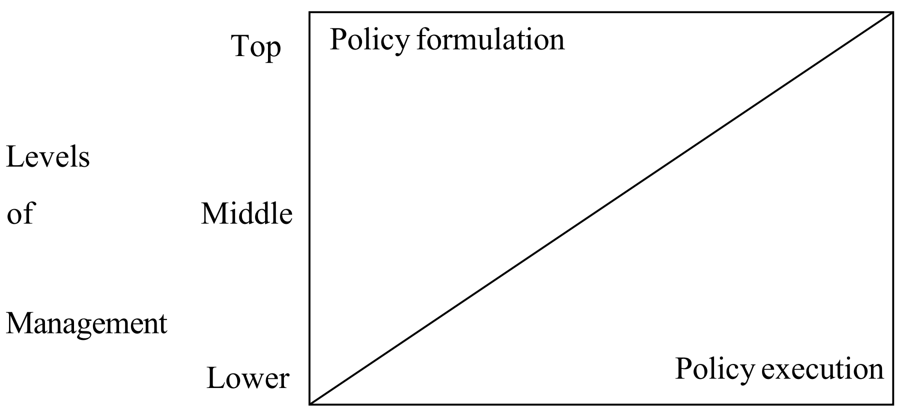


Fig 1.2 Management functions

The content of policy formulation is higher at higher levels; it is lower at lower levels while execution is opposite. It is higher at lower levels and lower at higher levels. It is therefore Unimportant whether policy formulation function is called administration of management.

Check your Progress II

Note: Use the space given below for your answers

1) Describe *Integrative Nature* of management?'

____

____

____

____

____

2) How do management functions differ at different levels .

___

3) Differentiate between management and administration.

___

1.6 NATURE OF MANAGEMENT

Multidisciplinary: Although management has evolved as separate subject, it continues to be amalgamation of various disciplines especially from social sciences. It freely draws ideas from psychology, sociology, anthropology, economics, ecology, statistics, operations research, political science and history. Integration of knowledge of various disciplines is the major contribution of management and management is nothing but this integrated discipline.

It is a process which is about systemic operation of functions like planning, organizing, staffing, directing and controlling.

It is a social process. Pervasiveness of human element in every activity of management makes it a social process.

It is a dynamic process. Like other disciplines, management too has framed certain principles. However these principles are flexible in nature and change with the changes in the environment in which the organization exists. Due to continue research and changes in the environment, old principles are getting replaced by newer ones. Thus, management is dynamic in nature.

Relative principles: Management has framed certain principles but these are not absolute. These are modified as per needs of every organization. Every organization exists in a different set of social, governmental and demographical variables. Therefore management principles offer flexibility and are not rigid.

Goal orientation: Business without goals is without direction. Management is about setting goals and objectives for people at every level and achieving these in given time framework.

Management is Science or Art? Management is both science as well as art .This controversial point is discussed later in this chapter.

Management is about team work: it is believed in management that teams not individuals that are building blocks of the organization. Also many objectives which can not be attained as individuals are easily achieved by teams.

Management is pervasive in nature: It is needed at all levels - top, middle and lower. The difference lies in nature of work, extent of authority and area of operation.

Universality of management: Management is a universal phenomenon. But its principles are not universally applicable and are modified depending upon the requirement of organization. This concept is also discussed later in the chapter.

Management is Integrative in nature: It integrates all resources and activities to achieve common goals.

Management as profession: Management has evolved as a specialized body of knowledge and is practiced as full fledged profession.

1.7 MANAGEMENT IS SCIENCE OR ART?

Controversy regarding the nature of management, whether it is a science or an art is very common. Although science and art are clearly distinct fields, it is difficult to put management in exactly in either of the categories. Science is a systematized body of knowledge accumulated and accepted with reference to the understanding of general truths concerning a particular phenomenon, subject or object of the study. Art on the other hand is the systematic application of skill or knowledge in effecting the accomplishments of results. The function of art is to effect change while accomplishing results through deliberate efforts. It is practice based and perfection in it is acquired after continuous practice over long period of time.

Management as Art: Following features align management with art.

1. The process of management involve the use of know how and skills like any other art such as music, painting etc.
2. The process of management aims to achieve certain results akin to different field of arts.
3. Creativity is important in management. Every situation is unique and needs to be handled differently. Only creative minds can do best under challenging circumstances. Thus management is also creative like art.

4. Management is personalized and there is no standardized best way of doing things. Every person in management profession has individual approach and technique of solving problems.

5. Like an artist, management always tries to attain higher and higher goals in order to reach the state of absolute perfection. This efficiency and effectiveness is acquired through regular practice.

Management as Science: Following features of management align it with science:

1. Like science, management is a systematized body of knowledge built up by management thinkers and practitioners over period of time. It is a body of systematized knowledge accumulated and accepted with reference to the understanding of general truths concerning management. Principles of management are based on scientific studies conducted by thinkers like Fayol and Mayo.

2. Principles of management have been developed after continued observations by thinkers and practitioners. This is exactly what is done in science.

3. Scientific principles represent basic truths and can be applied in all situations at all times. This characteristic is called universal application. In field of management too there are certain fundamental principles of management which can be universally applied. Taylor said‘ –the fundamental principles of management are applicable to all human activities from our simplest individual acts to the working of our great corporate.‖

4. Scientific principles establish cause and effect relationship between various factors. This hold true for management also. E.g. poor planning and plant layout lead to poor productivity.

5. Knowledge becomes science only when it can be verified. Principles of management have been put to several tests and are found to be valid.e.g. Principle of unity of command states that a subordinate put under one boss will show better results than a subordinate who has more than one boss.

Management as social science: Management as pure science has certain limitations.

1. Pure science consists of fundamental truths but management does not. The principles of management can not be considered as fundamental truths. Many a times, they may fail to get desired results

2. Unlike science, the principles of management are not universal in application.

3. Unlike science it deals with non constant and unpredictable variable which is human behavior.

4. In management certainty about results can not be predicted.

The reason for this –inexactness‖ is that management deals with human beings who have minds and emotions and whose behavior can not be predicted. Management can be therefore be named as soft science or behavioral science and it falls in the category of social sciences like sociology, anthropology, psychology and political science.

Management is Science as well as Art: It is clear that management has elements of both science as well as arts. It uses both scientific knowledge and art to manage an organization. It is thus both, science as well as art because science and art are complementary to each other and exist together, management too has got features of both science as well art. Although management can not be termed as pure science, it is still a mixture of art and science. Teele has rightly said, –Management is a mixture of art and science. The present ratio is 90% art and 10% science.‖

1.8 UNIVERSALITY OF MANAGEMENT

Another area of controversy about management is whether management process and functions are universal or not. The area of management has global command and acceptability. The concept of universality of management implies that transfer of managerial knowledge can be undertaken by

1. Managers from an industrially developed country to developing country.
2. By people coming from a developing country to study and work in industrially advanced country and returning back to their own country.
3. Through training and development programmes for managers in a developing country.

However opinions about the universal applicability of management are not uniform. Some thinkers suggest that management principles and processes have universal application and managerial principles can be applied to every business organization in every country. These thinkers include Henry Fayol, Taylor, Lundy, Allen, Farland , Koontz and O' Donnell.

Others including Woodward, Dale, Drucker and Oberg do not believe in universality of management.

Arguments for Universality: Following arguments suggest that management is universal in nature.

Universality of management process: It is suggested that management as a process is universal. Fundamental functions of management process i.e. planning, organizing, staffing, directing and controlling are universal for all organizations. It is only the intensity of a function may differ depending upon the variables affecting management practices. This is principle of universality of management that implies that any theory or principle about a particular managerial function will apply to all managers irrespective of their level in the organization, culture or country.

Management Fundamentals and Techniques are different: A clear distinction between management fundamentals and techniques is necessary because it is the techniques which vary according to the need of a situation, not fundamentals. Management fundamentals are basic principles and theories while management techniques are tools for performing managerial functions. Techniques may vary from country to country but fundamentals remain the same. It has been found that variables like interpersonal relationships of management and workers, management and suppliers, management and customers, community, competition and government vary from country to country. Therefore these factors affect the application of techniques, rather than management fundamentals and theories.

Management Fundamentals and Practices are different: Principle of universality states that management fundamental are same everywhere, only practices differ. This is so because management is science as well as art. And both are complementary to each other. Art of management makes use of organizational knowledge (as science) but its practice is subject to variations under different conditions. Koontz and O‘ Donnell have given the example of an automobile. Fundamentals of manufacturing an auto mobile are same every where, but it needs modifications as per consumer preference and terrain of a country. This is true for management too. Its practices may vary from country to country but fundamentals remain same.

Management Skills and Principles are Transferable: it has been discussed earlier too that management skills and principles are transferable from person to person, from organization to organization and from country to country. The transfer of skill s and principles is possible only because management has universal applicability. Managers can be developed through education and training. This knowledge acquisition is possible for anyone and is not related to a particular country, creed or caste. This again is possible only if management is universal in nature.

Arguments against Universality: Thinkers, who consider that management is not universal in nature, cite following points:

Difference in Culture: Some authors opine that cultural backgrounds of managers have strong influence on their working and that management philosophy is culture bound which is further influenced by external environment. Applicability of management principles is limited to to a particular culture. Managers from traditional, religious and culturally biased societies do not have scientific temperament which is displayed by managers from liberal social background. The differences in cultural background limit the universality of management.

Difference in Philosophy: The organizations are of different types. It can be a church, college, university, hospital or manufacturing unit. So every organization can not have same philosophy. Philosophy may vary for different organizations in the same sector. One organization may believe in making quick profits while the other may aim for long term gain. Philosophy of an organization will exert influence on its productivity, structure, communication pattern and delegation of authority.

Difference in Objectives: The objectives of an enterprise determine the type of management required. Drucker feels that skills, competence and experience of a management can not be transferred and applied to all business organization and running of other institutes. Business organizations exist for economic ends and management consists of skills and techniques for attaining these ends. Profit consistency and security and welfare of the business as the main business objectives of a business and non business organization may vary a great deal. Here management can transfer only analytical and administrative type of skills, ability and experience. Transferability of management is determined by extent of difference between two types of industries. Farther a manager moves in terms of organization and industry characteristics, the longer is the learning period and lower is the extent of transferability. Thus the same person may not prove to be a good administrator in different organizations.

Conclusion: It can be concluded from above discussion that every organization needs management. Managerial functions like planning, organizing, staffing and controlling are performed to different extents in all organizations. Objective of different enterprises are different but types of situations to be dealt with them are same. Managers shift from company to company because they have general managerial skills and principles of, management work are similar. It can thus be concluded that basic principles and functions of management are universal in nature and can be applied in any organization in every country.

Check your Progress III

Note: Use the space given below for your answers

1) Is management social science?Jusify.

____
____
____
____
____

2) Give three arguments to support that management is universal in nature.

____
____
____
____

3) How can management be compared to Art??

____

____

____

____

1.9 SCOPE OF MANAGEMENT

Management is a pervasive function. Its scope is very large. Scope can be divided into Operational aspects and functional aspects.

Following are operational aspects of management.

1. Marketing management
2. Sales Management
3. Logistics/ Transport Management
4. Personnel Management
5. Financial Management
6. Purchase Management
7. Production Management
8. Material Management
9. Maintenance Management
10. Research and Development management
11. Office management

Marketing Management: Marketing management refers to planning, organizing, directing and controlling the activities of the persons working in the marketing division of a business enterprise with the aim of achieving the organizational objectives. It also involves identifying and assessing the consumer needs so as to able to design a new product or service and offering it to end users by satisfying their needs with a stress on profitability that ensures proper utilization of resources.

Sales Management: sales management is involved in making the products available to customers, assessing their needs and preferences, demand forecasting and most importantly maximizing sale of products while creating new customers and retaining old ones. It also involves in service, maintenance and complaint handling of consumers. Customer Relationship Management (CRM) is an important function of Sales.

Logistics or Transport Management: It deals with movement of goods inside and outside the organization. It includes raw material, spare parts, machinery and equipments and finished goods. Taking care of distributers, assessing warehouses needs and maintenance and packing of goods are main function logistics management.

Personnel Management: It is the branch of management that deals with the effective control and use of manpower. Effective management of human resources is one of the most crucial factors associated with the success of an enterprise. Personnel management includes both managerial and operative functions.

Managerial functions include manpower planning, job analysis, job design, directing and controlling the employees.

Operating functions are hiring (procurement of desired manpower), training and development of employees, designing compensation structure which is adequate and equitable, providing good working conditions and taking care of welfare aspect of employees.

Financial Management: This branch is concerned with management of funds in the organization. The major functions of financial management include estimation of capital requirements, raising money for the enterprise at minimum cost, ensuring a fair return to the investors, coordinating the operations of different departments, preparation, analysis and interpretation of financial statements, laying down a proper dividend policy and negotiation for outside funding.

Purchase Management: this area of management is responsible for all purchasing work. It includes purchase of raw material, spare parts, store items, stationery, machinery and equipments etc. this is done by inviting tenders for raw material, placing orders, entering in purchase agreements with suppliers.

Production Management: Production Management is the area where raw material is transformed into finished goods which are then sold to consumer. These goods can be for end users or industrial users. Plant location, plant layout, production policy, type of production, plant facilities, material handling, production planning and control, repair and maintenance, research and development, simplification and standardization, time and motion studies ,quality control and value analysis are the major thrust areas.

Material Management: A vital area of every business concern, material management include functions like reducing cost of production by purchasing right type of material, in right quantity, at right time , from right supplier and optimum use of resources available to maximize output. This department usually exists in those organizations where manufacturing takes place at very large scale.

Maintenance Management: this department is concerned with regular, scientific and proper maintenance and repair of machinery, plant and equipment , building and all other property of a business enterprise. Maintenance helps in prevention of early breakdown of machinery avoiding shut down in production cycle. It helps smooth function and long life of fixed assets in concern.

Research and Development Department: The importance of this area has increased manifold these days due to open economies, tough competition and ever changing consumer preferences. All R & D activity in production and marketing area is taken care of by this department.

Office Management: Office management is the technique of planning, coordinating and controlling office activities with a view to achieve common business objectives. Major function of office management is to organize the office work in such a way that it helps the management in attaining its goals. It works as service department for other departments. H. H. Wylie sates, ―Office management is the manipulation and control of men, methods, machines and material to achieve the best possible results – results of highest possible quality with the expenditure of least possible effect and expense in the shortest practicable time and in manner acceptable to the top management‖.

Functional areas of management: These include planning, organizing, staffing, directing and controlling. These are discussed in later chapters.

1.6 Let Us Sum Up

Management is the art of getting things done through others.. to carry on work effectively vital organ of an enterprise, management is essential. Management is social science with the characteristics of both, science as well as art. The terms _management‘ and _administration‘ are used interchangeably. Management is multidisciplinary and universal in nature. Many practices of management are applicable to each and every organization whether an NGO, university, NGO, hospital or profit making corporate unit. The scope of management is fast. Almost every department in the organization reflects presence of management.

1.7 Key Words

- Management
- Administration
- Social Science
- Management as an ART
- Universality of management
- Levels of management
- Management and culture
- Management scope

2.8 Short Answer Questions.

1. Define management.
2. Distinguish between management and administration.
3. Describe multidisciplinary approach of management.
4. Is management Science or Art?

Long Answer Questions

1. What is management? Discuss its characteristics.
2. What is the concept of universality of management? Give arguments for and against this concept.
3. Discuss the scope of the management.
4. Explain in detail the term *Nature of Management.*

2.9 Suggested Readings

- Bhushan, Y.K. (1998) *Fundamentals of Organization & Management* ,Sultan Chand & Sons, New Delhi

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kal;yani Publishers, New Delhi

Activity

―A manager plans, organizes, staffs, directs and control.‖ Discuss .

____
____
____
____
____
____-

Activity 2

‗Management is both art and science'. Comment.

____
____
____
____
____
-

UNIT 2

Functions of Management

Structure

2.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Importance of management
- Functions of management
- Managerial role
- Skills for effective managers
- Challenges before management

2.1 INTRODUCTION

By now we have understood that management is a process that integrates human and non human resources in such a way that organizational objectives are achieved. Due to involvement of men at large scale it is a social process. Management is largely dependent on how various functions are performed by people at different managerial levels. In this UNIT we shall discuss importance and functions of management. We shall also study role of managers and what are essential skills for effective managerial style.

2.2 IMPORTANCE OF MANAGEMENT

- Integration of resources: Management plays a vital role in running the business. It integrates all resources for profit maximization. Its importance can be understood from following points.
- Achievement of organizational objectives: Firstly management sets the organizational objectives by studying the internal and external environment. Then it integrates all the resources available and provides the direction and motivation to people to attain the set objectives. Management converts disorganized resources into useful enterprise.
- Talent Management: Management tries to hire best available experts from industry and for enhancing efficiency of the organization. To create a work environment which offers good salary structure and challenging work is also the responsibility of management. This type of work culture helps to attract and retain the best talented people in the industry.
- Optimization of resources: Word _optimization‘ means to make best use of. Management attempts to make best use of available material and human resources. It aims to maximize productivity and minimize wastage. During this process organization is driven towards both effectiveness and efficacy.
- Lowering cost: During these days of high inflation and increasing competition, it is very important to manufacture quality good at lowest cost to enable the survival of the enterprise. Management helps achieve this objective by better planning, sound organization and effective control. These functions help the organization to reduce existing costs (related to production and other costs) and enable it to face cut throat competition.
- Increasing profits: profits can be maximized either by increasing revenues or by lowering cost. Sales revenue is dependent on external environmental conditions, therefore not fully under control of organization. But lowering cost is totally controlled by management. This automatically increases profit margins which helps in future growth and development of enterprise.

- Improving performance: management process strives to achieve better performance of the organization through attaining organizational effectiveness and efficiency (discussed later).
- Sound organization: Management establishes a sound organization by setting up a network of effective authority, responsibility and relationships (who is accountable to whom, who is answerable to whom, who can give instructions to whom, who the superior is and who is subordinate. It analyses jobs and provide clarifications regarding duties and responsibilities of each job, so that overlapping of functions can be avoided.
- Future planning: Aim of management is not to live in today. It thinks of the future of the enterprise; its expansion and growth, diversification, internationalization of business or even retrenchment. For this purpose, vision and mission are created and goals are set accordingly. Then plans are made to achieve these. Planning is of two types, short term (up to 1-3 years) long term (for more than three years).
- Survival of organization: An enterprise operates in ever changing environments. Management helps the enterprise to undergo changes and adapts it to survive the change. Changes mostly include customer preferences, competition, new product design and technological advancements.
- Social benefits: management does not focus only on profit maximization, but it also renders services to society. It raises the standard of living of people by provides quality products to customers at reasonable rates. It may extend benefits of hospital, school, cooperative markets and housing to its employees. It develops infrastructure around plant location and provides employment to many people.
- Innovation: Management encourages knowledge creation in the enterprise. It leads to innovation. Innovation helps the organization to enhance its technology or products and provide better products/ services to customers. It helps the smooth sailing of the organization during change.

2.3 FUNCTIONS OF MANAGEMENT

All the vital functions in an enterprise are performed by management. A comprehensive classification of managerial functions includes the following:

a) Planning

b) Organizing
c) Staffing
d) Directing
e) Coordination
f) Control

Planning: It is the basic managerial function which involves thinking before doing. All other functions of management are undertaken after planning. Hart has defined planning as, ―The determination in advance of a line of action by which certain results are to be achieved.‖ The primary object of planning is to achieve better results. It involves the selection of organizational objectives and developing policies, procedures, programmes, budgets and strategies. Planning is a continuous process and it takes place oat all levels of management. Plans are of different types: short range plans, medium range plans, long range plans, standing plans, strategic plans, administrative plans, operational plans etc.

A planning process consists of various steps: a) gathering information b) setting objectives c) developing planning premises d) examining alternative courses of action e) evaluating action patterns f) Implementation of plan.

Organizing: To achieve organizational objectives, its resources (human and material) need to be arranged in certain order. This is called organizing. It refers to various functional aspects like: What tasks are to be done, who will do these tasks? How to group the tasks? Who shall be reporting to whom? Managerial, level at which decisions are to be taken? Thus it involves decisions about division of work, allocation of authority and responsibility along with coordination of tasks. It is by organizing, the various work activities are defined, classified, arranged and coordinated. Extent of organizing is more in bigger organization.

Staffing: as all tasks are accomplished by human beings with the help of non living resources, positions are created for them in the organization. They are then recruited, selected and trained to perform designated tasks and talented people are encouraged to work with organization for longer time; an activity named as talent retention. Koontz and O‘ Donnel define staffing as , ―staffing is filling and keeping filled, positions in the organization structure through defining work force requirements, appraising, selecting, compensating and training.‖ The staffing process involves the following steps:

a) Manpower planning (assessing present and future inventory of manpower available and required).
b) Recruitment, selection, training
c) Placement and induction of man power
d) Development, promotion, transfer and performance appraisal
e) Compensation management
f) Motivation, incentives and extra benefits
g) Maintain job satisfaction and quality of work life
h) Dealing with separations including retirements, resignations, suspension and dismissal.

The scale of operation of each function of staffing is so massive and complex (as it deals with humans and their behavior) that it has become a distinct and specialized branch of management; human resource management.

Directing: Also called management in action directing is concerned with carrying out the desired plans. It initiates organized and planned action and ensures effective performance by subordinates towards the accomplishment of group activities. It is a continuous function and is performed at all levels of management. It consists of following main activities.

1. Leadership
2. Communication
3. Motivation
4. Supervision

1. Leadership is the ability to build confidence and zeal among people and create an urge in them to be led. To be a successful leader a manager must possess the qualities of foresight, drive, initiative, self confidence and personal integrity. Different situations may demand different types of leadership. It can be autocratic, democratic or free rein leadership.

2. Communication is the art of expressing your thoughts and conveying these to others. It can be vocal or written or simply gestures. It is a two way process as it involves conveying the information, its understanding by the recipient and feedback. In an organization communication becomes the means by which the behavior of subordinates is modifies and change is effected in their actions. Communication has many types. It can be formal (when it follows the formal channels in organizational structure), informal (casual talk that does not follow formal set up), downward (when communication is from higher levels of management to lower levels e.g.

orders, policies etc), upwards (when ideas/ feedback is conveyed from lower levels of management to higher levels). It can take place at the same level among colleagues.

Communication is very important for various functions like decision making, planning and control.

3. Motivation is a psychological process which creates an urge in the minds of subordinates to do certain things. It is an essential function of management. Its importance can be realized from the fact that performance of a worker depends upon his ability and motivation. To motivate, pursued and inspire their subordinates, managers provide personal incentives. These incentives can be monetary or non monetary in nature and include increase in remuneration, commission, better working conditions, job security and higher status. Every organization usually has a motivation system in place. A sound motivational system should be productive, competitive, comprehensive and flexible. It must consider psychological, social, safety, ego and financial needs of employees.

4. Supervision is next important part of directing. Giving instructions to workers is not sufficient. Constant check needs to be done to ensure that they are working in the right direction. Supervision serves this function. It includes the job of overseeing the subordinates at work to ensure maximum utilization of resources to get the required and directed work done and to correct the subordinates whenever they go wrong. Most of the supervision work is carried out by first line of management. Sound organizational set up, effective delegation, humane approach, effective communication and management by exception make supervision effective.

Coordination: Coordination is must to channelize the activities of various individuals in the organization for the achievement of common goals. All departments are allotted their targets and it is expected that every department works at its own without interfering in work of other departments. The management looks after the work of every department to ensure that work is being done rightly or not. If not, corrective action is taken. Coordination creates team spirit among employees and helps to achieve targets collectively. It is the orderly arrangement of group efforts to provide unity of action to achieve common goals.

Coordination can be of four types.

1. Vertical (between different levels of management)
2. Horizontal (between different departments at the same level of management)
3. Internal (between different sections of same concern)

4. External (with persons outside the organization)

Control: Planning of various activities does not ensure automatic implementation of policies. It is through control that management gets its policies implemented and enables it to take corrective action if deviations are found and the performance is not in accordance with pre set standards. In a management process, planning is said to be the beginning and control is the end. Planning and control are two functions of management which are complementary to each other. Control is not possible without planning and planning is meaning less without control. Planning is looking ahead while control is looking back.

Control is the line function. Executives at different levels continuously assess the performance of their subordinates. An effective control system must confirm to the nature of activity, report deviations promptly, reflect organizational structure, assure corrective action and should be economical and cost effective.

Check your Progress I

Note: Use the space given below for your answers

1) How can management help lowering cost?

____

____

____

____

____

2) Explain *directing* function of management.

____

____

____

3) What is coordination?

____

____

____

____

2.4 MANAGERIAL EFFECTIVENESS / EFFECTIVE MANAGEMENT

Managerial effectiveness is defined in different ways by different authors. Two terms which are often used interchangeably are effectiveness and efficiency.

Effectiveness	Efficiency
Organization effectiveness is the degree to which operative goals have been attained.	Efficiency represents the cost/benefit rate in the pursuit of these goals.
Effectiveness is related to the goal which is externally focused. It is sum total of both qualitative and quantitative variables in the organization. Quantitative include revenues, profits, productivity, efficiency and qualitative include job satisfaction, employee turn over, absenteeism etc.	Efficiency is an engineering term and refers to relationship between input and output. It pertains to how much input has been used to produce certain amount of output. More is the output from a given input, more is efficiency. It is quantitative in nature and can be calculated.

It is not necessary that both these terms always go together. In an organization, three types of situations may arise:

1. **An organization is efficient but not effective**. Efficiency is an internal conversion process while effectiveness is external phenomenon. The organization may be low cost producing (i. e. efficient) but it may fail to realize matching price for its products. As a result the organization is incurring loss (ineffective) in spite of being efficient. It usually happens when a product is in declining stage of its life cycle.
2. **An organization is effective but not efficient**. This situation arises when organization may not be efficient due to external environment (especially market conditions); it may earn profits and show effectiveness. E.g. in Indian business scenario , many inefficient business organizations like mini steel, mini cement and soya extraction units made huge profits but later on when the situation changed , they vanished.
3. **An organization may be both; efficient as well as effective at the same time.** This situation arises when an organization achieves perfect equilibrium and is both internally efficient and externally effective. Many successful organizations fall under this category. This situation is required for the long term survival of the organization.

It has also been found that there are three categories of variables that play important role in organizations. These are causal variables, intervening variables and end result variables.

Causal variables	Intervening Variables	End Result Variables
These are those factors which influence the course of development within a person or organization and its result or accomplishment. In case of a person these variables are his personality, perception, learning, attitudes, values, emotional stability, motivation, skills etc. effectiveness of a person is defined in terms of the degree to which he possesses these factors.	Intervening variables are those factors which are reflected as internal state of a person (his behavior). These are caused by causal variables. That means if we want to change a person's behavior, we need to change his causal variables.	The factors in which a persons' results are measured are called end result variables.

It is thus clear that three variables are closely inter related.. Therefore managerial effectiveness is defined as the goal achieving behavior of a manager, i.e. if this behavior of a manager is effective; his effectiveness is likely to be high. As Guion says, –Effectiveness of an executive lies largely in meeting major organizational goals through the coordinated efforts of his organization. The executive's own behavior contributes to the achievement of organizational goals only by its influence on the perceptions, attitudes and motives of other people in the organization and on their subsequent behavior.‖

Check your Progress II

Note: Use the space given below for your answers

1) Differentiate between terms *effectiveness* and *efficiency*.

____

____

____

____

____

2) Can an organization be effective and efficient at the same time? How?

____

____

____

____

3) What are three goal achieving variables in a manager?

____

____

____

____

2.5 EFFECTIVE MANAGER

Managerial effectiveness is easier to attain if a person is an effective manager. Effective manager has the combination of three terms.

The person: what type of person is the manager and what are the traits of his personality. It has been concluded from extensive research that there are personal characteristics that shape the behavior of a person. The managers who score high on certain characteristics/traits tend to be more successful. Jurgenson has listed 12 such characteristics. According to him a manager must score high on being decisive, aggressive, self starting, productive, well informed, determined, energetic, creative, intelligent, responsible, enterprising and should have clear thinking.

The process: managerial effectiveness depends upon managerial process involved in managing the affairs of the company. No standardized process can be established as management is situational. This means that that a managerial process which is effective in one situation may not be effective in another situation which is different from previous situation. Luthans has found that managers typically perform following functions.

1. Traditional Management: this includes functions like decision making, planning, controlling.
2. Communication: this involves Information exchange on routine basis and processing paperwork.

3. Human Resource Management: all people centric activities are part of this, viz. motivating, disciplining, managing conflict, staffing, training and development etc.
4. Networking: this pertains to public relation activities like socializing, politicizing, interaction with outsiders.

Luthans studied 450 managers and found the following.

Managerial activities	Time spent (%)		
	Average managers	Successful managers	Effective managers
Traditional Management	32	13	19
Communication	29	28	44
Human Resource Management	20	11	26
Networking	19	48	11

The table shows that effective managers spent most of the time in communication and in managing their people and least time is spent in networking.. But successful managers (those seeking quick promotions etc.) spent most of the time in networking. It is worth mentioning that every organization has some degree of politics. Thus through networking promotion is managed rather than achieved.

Campbell has listed 13 behaviors of effective managers.

1. They manage people, not work.
2. They plan and organize effectively.
3. Their goal setting is realistic.
4. They make decisions with group consensus but accept responsibility for these.
5. They delegate frequently and effectively.
6. They communicate effectively.
7. They are stimulus to action.
8. Their coordination is very effective.
9. They believe in cooperating with others.
10. They win gracefully.
11. They express hostility tactfully.
12. They rely upon others for help in solving problems.

13. Their behavior is consistent and dependable.

The Result: effective managers and effective managing lead to achievement of common organizational goals. Effective managers show more efficiency, better productivity and developing commitment among employees.

But it is not necessary that managerial effectiveness shall bring organizational effectiveness. Organizational effectiveness depends on a number of internal and external factors. External factors are from external environment and can be political, demographic, economic, international etc. these are mostly beyond the organizational control. But internal factors are from within the organization. Consultants at McKinsey & Company (a U.S. based consultation firm) have identified seven internal factors.

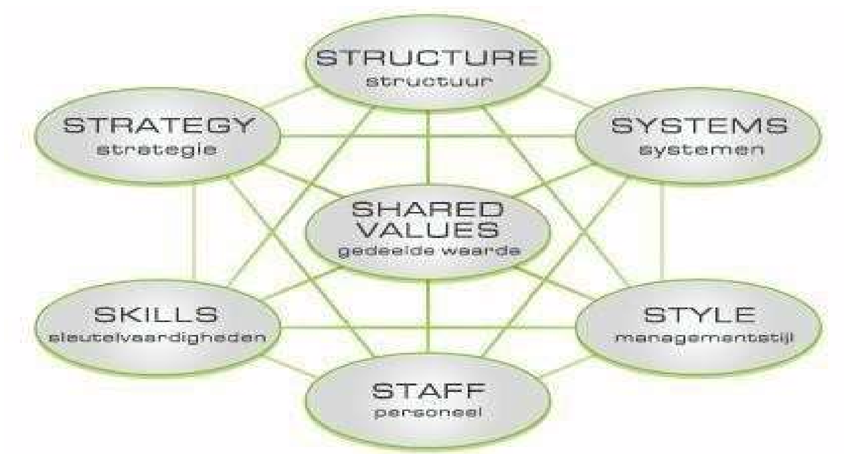


Figure 1 McKinsey 7 S Model

These seven S are following:

1. Strategy. It helps to achieve organizational goals.
2. Structure: this is the basic frame work of organization to designate responsibility and functions.
3. Systems: it includes management tools for planning, decision making, communication and control.
4. Staff: human resources of organization.
5. Skills: organizational and individual capabilities.
6. Style: styles of managing people i.e. how managers lead and motivate.
7. Shared values: Values, objectives, goals of the organization.

All these seven factors are interrelated to each other. Staff, skill and style are directly related to managers. All these factors combined with external factors are held responsible for organizational effectiveness.

2.6 FUNCTIONS OF MANAGERS / MANAGERIAL ROLES

Each manager has to perform a set of managerial roles. Henry Mintzberg made a detailed study of the work of various executives and on the basis of this study, has divided the managerial roles in three categories:

- Roles and functions related with inter personal relationships. This has been named as **Interpersonal Role**.
- Those activities which deal primarily with transfer of information, also called **Informational Roles.**
- Those that essentially involve decision making or **Decisional Role.**

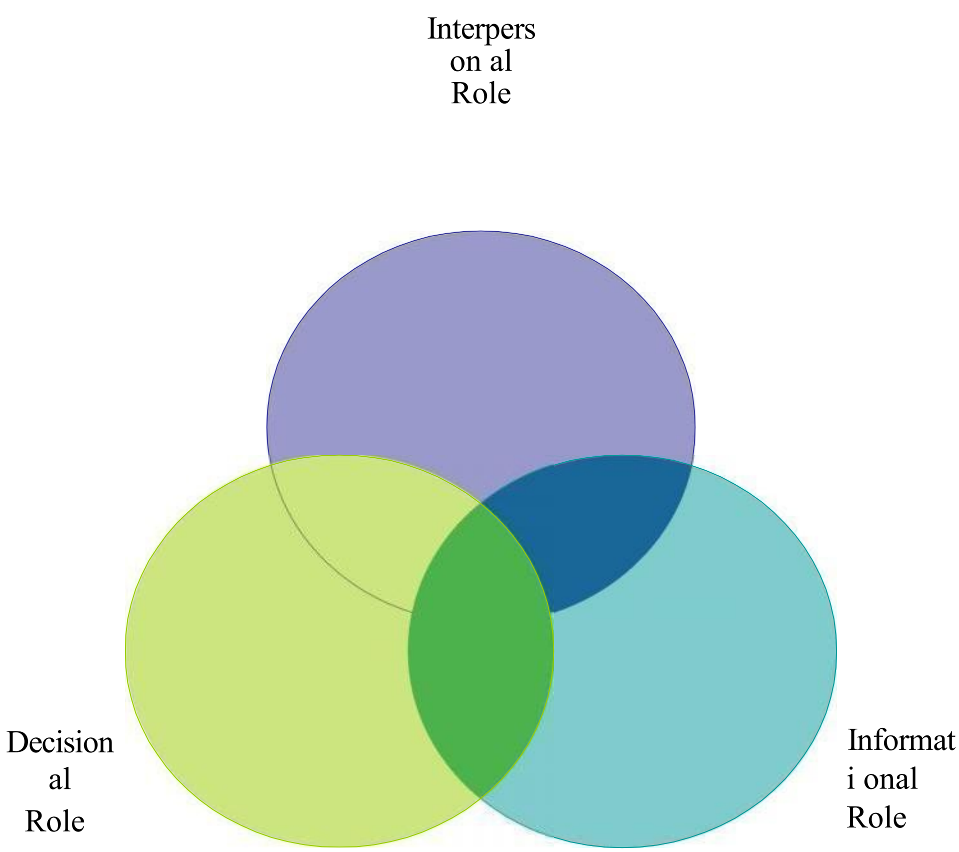


Figure 1 Managerial Roles

Inter personal role: This role relates to managers‘ dealings and relationships with people. The relationship with people helps a manger to acquire information. A manager has to perform three different interpersonal roles.

Figure head role Formal authority of a manager gives him a special position of status in an organization. Because of this, manager plays the role of a figure head i.e. the head of a particular unit, however large or small in the organization. A manager represents his work group to the higher management and higher management to his work group. If at the top level, manager represents the organization legally and socially to the outsider too.

Liaison role Manager interacts with peers, subordinates, superiors and outsiders. This role is called liaison role in which he establishes contacts with people inside and outside his organization to gain favors and information. Top level manager uses this role for favors and information and supervisor uses this role for maintaining the smooth routine flow of work.

Leader role this role is the relationship of manager with his subordinates. Manager has to communicate, motivate and activate his subordinates to get the work done in the pursuit of common objectives, this role attains utmost importance.

Informational role: Because of the interpersonal role the manager is in a unique position to get information. His contact with the outside world and his leadership position makes him a focal point of information. Therefore, he becomes a nerve centre of organizational information. Three major information roles include the following:

Monitor role. Manager receives and collects the information to develop his thorough understanding of the organization.

Disseminator role. In this role, a manager transmits special information into his organization which has been gathered by him from his outer environment and his equals in the organization. A top level manager receives and transmits more information from outside the organization than a supervisor receives and transmits more information from inside the organization.

Spokesperson’s role. A manager performs the role of a spokesperson by disseminating the organizations‘ information into its external environment. He may have to negotiate prices with suppliers or union people who do not belong to his own organization and may have to provide some information regarding his organization. Thus a top level manager is considered an industry expert while a supervisor as a unit/ department expert.

Decisional Role: because of his unique access to information and because of his special position and authority, a manager occupies a central position in the organization. Due to this he has to perform significant organizational duties. He performs four types of decisional roles.

Entrepreneur's role. A manger initiates change and takes the risk involved in it.

Disturbance handler role. An organization may face threat from external or internal environment any time. During such times manager takes charge and handles the threat.

Resource allocator role. A manager plays the role of resource allocator when he decides how and where his organization will expand its efforts and resources.

Negotiator's role. This role is performed when a manger has to enter into negotiations on behalf of his organization. A top level manager makes decisions regarding organization as a whole and a supervisor takes decisions regarding his unit/ department.

Check your Progress III

Note: Use the space given below for your answers

1) What is *Interpersonal Role* of a manager?�".

____
____
____
____
____

2) List five behaviors of effective managers,

____
____
____
____

3) What do seven _S' signify in McKinsey's Model?

____

____

____

____

2.7 MANAGERIAL SKILLS

After going through above discussions, it is clear that a manager has to play different roles in dynamic and challenging situations of the organization. His ability to succeed depends upon different skills. What are the skills that a manager requires to be successful? Robert Katz has identified three managerial skills.

Technical Skills

Technical skills are the skills pertaining to knowledge of process, technique and proficiency. These skills enhance the manager‘s knowledge of different techniques of task completion. Technical skills are most important for first-level managers, but for the top managers, these do not have much high significance i.e. as we move up in hierarchy of managerial levels, technical skills lose their importance.

Conceptual Skills

Conceptual skills present managerial ability to formulate ideas. This involves understanding abstract relationships, developing ideas and solving problems. Conceptual skills help seeing the whole by analysis and diagnosis of different states to predict the future of the organization as a whole. Technical skills deal with things and conceptual skills deal

Conceptual skills are most important for top managers, less important for mid-level managers, and are not much needed for first-level managers. Importance of these skills increases while going from lower level management to top level.

Human Skills

Human skills (also called interpersonal managerial skills) are about ability of managers to interact and work effectively with people. These are most important skills for managers . Human skills enable managers to become leaders, to motivate employees for better accomplishments, to make more effective use of human potential in the business. These skills are important for all hierarchical levels in the company.

2.8 MANAGEMENT: TRENDS AND CHALLENGES

Like everything else, management is also not unaffected from change. With interesting events happening in at national as well as international levels, management is faced with various issues.

Globalization: Going global is one of the expansion strategies of business. With world shrinking, most of the companies are finding it relatively easier and accessible to do the business in international market and make reasonable profits. But globalization exerts lot of pressure on issues like operation management, location strategies, logistics and supply chain management, manpower issues etc. such challenges require establishing an explicit vision, mission, work culture and goals. Business also needs adjustments to the country in which organization establishes manufacturing plant. Such challenges seek very strong and knowledgeable leadership so as to keep the performance of the organization at the optimum levels.

Technology: Technology is changing very fast. Use of automated manufacturing process, advanced communication, internet and sophisticated software has become common. High technology needs innovative ideas to cope with such changes and survive. It also opens doors for global marketing. It helps in business by facilitating speedy operations and keeping track of customers online.

Workforce Diversity: The composition of workforce is changing due to two factors: globalization and entry of women in corporate sector. Workers are now more heterogeneous in terms of gender, race, ethnicity, age etc. Due to increasing trends of globalization people from different ethnic groups and countries work together in an organization. They bring with them diversity, different lifestyles and values. It was earlier assumed that people coming from different backgrounds will settle down uniformly at work place. But it is not so. It has posed a challenge to managers. They have to shift their philosophy from treating everyone alike to recognizing difference and responding to those differences in such ways so as to ensure employee retention and greater productivity.

Increasing number of women folks has highlighted different issues. The policies of organization have undergone changes like providing crèche facilities to working mothers, flexi working hours, stress management programmes, accommodating needs of working couples etc. the whole corporate sector is undergoing cultural change. Many companies like Eastman, Kodak, Reebok etc have developed ongoing diversity programmes to handle such issues.

Lack of desired talent: in times of tough competition and change, highly talented people are required. But in industry, there is a gap in demand and availability of such people. So it is becoming imperative for organizations to take prior precautions to retain the skilled employees by applying motivational empowerment measures to secure their job satisfaction and hence locality.

Innovation and Change: Earlier the change was slow and managers used to work in stable environment. But nowadays coping with continuous rapid changes in marketplace and the need to find newer ways to anticipate change are becoming more challenging. Reshaping the organizational structure, mergers, acquisitions, searching for new markets, knowledge creation, cost reduction, technological advancement, new product development etc are some of the initiatives that companies are implementing to adjust and survive under change.

Total Quality Management: There is increasing awareness about high quality in the industry. Total quality management (TQM), a concept that originated in Japan , is the mobilization of the whole organization to achieve quality continuously, entirely and economically. Most of the quality can improved through production process and quality improvement is also achieved through purchasing, marketing, after sales service etc. TQM is strategic approach in which everyone and every function of organization participate. It has now become a wave and is receiving due attention of producers as well as consumers. These days every management has to take care of Total quality management otherwise it becomes difficult to sell products either in domestic or international market.

Team work: There is recent shift in work culture from individual focus towards team focus. Formation of teams, collective responsibility and accountability is latest way of doing work. Teams are given targets, work is shared among members and cooperation among members is encouraged. Success of failure does not lie with an individual but the whole team. This trend is has resulted in flatter organizational structures with fewer hierarchical levels in between, reducing the red tapism and helping quick decision making.

Employee Empowerment: it is a long established fact now that autonomy encourages job satisfaction and hence output. Managers have now realized that quality , productivity and employee commitment can be improved by redesigning jobs and letting individual workers and work teams make job related decisions. This is called employee empowerment.many organizations have achieved better results by empowering employees and allowing them to plan and execute their work.

Importance of HRM: Due to changing environments, workforce diversity and lack of skilled people, role of HRM has become very crucial. It is very essential to hire right man for right job at right time by matching jab requirements to the characteristics of incumbent. To retain talented employees, talent management through offering challenging jobs, motivational measures, compensation and incentive plans and regular development courses. It has also become a challenge for HRM to maintain unity in diversity among people at workplace and design policies to accommodate people from different backgrounds and working couples with diverse needs.

Downsizing: Due to latest financial crisis, downsizing / reduction in workforce has become important measure for many organizations to cut down costs and sustain business. 85 % of Fortune 1000 companies have downsized their workforce (both white collar and blue collar). Many Indian public sector banks and undertakings have downsized by offering Voluntary Retirement Scheme (VRS). Many private companies have given pink slip to their employees showing the exit door. There is check on hiring new people. Such types of measure create pressures of job insecurity in the mind of existing employees. Employees who have to leave the organization also feel bad and leave negative feeling as they are unsure of their future. This turbulent period needs to be managed effectively to maintain high morale and job productivity. It has become another challenge for the management.

Trend of contingent workers: Due to downsizing organizations are not hiring workers on regular basis. Number of part time, temporary and freelance employees is increasing everyday. These are called contingent workers. The corporations are of the view that employment of contingent workers imposes much less financial liability as compared to regular permanent workforce. Managers get to have additional responsibility to see that contingent workers are treated properly at work place and are well motivated and creative.

2.9 Let Us Sum Up

Management exhibits varied roles and functions in an organization. Its presence can be seen in every aspect. For achieving pre set objectives, an organization needs to be both; efficient and effective. Manager is very important in network of management. Effective management to a large extent depends on manager‘s capability, behavior and skill set. Research has found that effective managers exhibit better people handling skills than average managers. There is no denying the fact that organization is closely linked with external environment. Every change in environment directly impacts the organization. These are times of rapid changes. Demographic and economic chacteristics of environment. It has made management‘s tasks more challenging in contemporary period as well as for future.

2.10 Key Words

- Nature of management functions
- Functions of management

- Effectiveness
- Efficiency
- Informational role
- Decisional role
- Entrepreneurial role
- Innovation and change
- Empowerment
- Coordinating
- Workforce diversity

2.11 Short Answer Questions.

1. List three functions of a manager.
2. What are different managerial skills?
3. Outline characters of effective managers.?
4. Explain briefly McKinsey's 7 S Model.

Long Answer Questions

1. Elaborate functions of management
2. What is the importance of management in an organization?
3. What do you mean by term management skills? How does skill requirement differ at different levels of management?
4. Discuss challenges that management faces today.

2.12 Suggested Readings

- Bhushan, Y.K. (1998) *Fundamentals of Organization & Management* ,Sultan Chand & Sons, New Delhi
- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, r.K. and Gupta, S. (2014) *Principles of Management*, Kal;yani Publishers, New Delhi

Activity

In the mid 1990, a number of private cable TV channels were launched in india. With their sleek presentation and innovative programming, they moved ahead of Doordarshan (DD) in terms of both revenue and viewership. Due to poor management at Doordarshan, transmission quality and programme content were deteriorating. Viewers began to switch to private channels, which better catered to their tastes and needs.

Questions

1. The present problems in DD have their roots in the mismanagement of affairs. Critically examine the above statement.

2. Critics felt that privatization could be the only solution to the problems of DD. Do you agree? Justify your stand.

3. discuss the steps taken by DD to revive itself.

UNIT 3

Evolution of Management- Classical and Behavioral Approach

Structure

3.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Historical perspective of management
- Scientific approach theory and its principles
- Administrative Theory and its Fourteen Principles
- Concept and Limitations of Bureaucratic Model of Management
- Importance of Human Relations in Management

3.1 INTRODUCTION

In the Previous two UNITs we have learnt about basics of management, relevance and importance of management, management functions, roles of managers‘ skills required by managers and current challenges of management. In this UNIT we will learn about historical perspective of various approaches to management.

Some authors have named these approaches as schools of management thought. After studying various schools of management thought we shall be able to understand the development in field of management and its evolution. The approaches of various schools were developed under specific conditions. As times have undergone immense change, these approaches may not be fully relevant today due to different conditions. Still every approach lays down certain fundamentals which are applicable in modern times.

3.2 HISTORICAL PERSPECTIVE

The history of management can be traced several thousand years into the past. Management is in fact as old as human civilization.

Most ancient example of management is recorded in Egypt. Building huge pyramids using lakhs of workers in time span of twenty years was not possible without management. These structures are outcome of accurate planning, coordination and control.

Great Wall of China is also an example of human management skills.

During middle ages, Greece and Rome also developed management ideas. In Venice assembly-line techniques were used to outfit galley ships to go to wars during the 15th century. There also existed a facility in which ten ships could be completely outfitted and sent to sea within a few hours.

Machiavelli, a famous philosopher has written extensively about leadership and politics.

Evidence of use of well recognized principles of management can be found in organization of Roman Catholic Church.

In India, Kautalya‗s writings also throw light on management strategies. Other scriptures like Bhagwad Gita, Mahabharata and Ramayana are full of management wisdom.

These principles of management were used in public life and military but not in business world as structure of industry used to be simple during those times.

The position however underwent a radical change with the onset of Industrial revolution. The structure of industry became complex. The organization of industry at a large scale created new problems for entrepreneurs. The need for expansion also added to worries of business leaders. The situation changed further during World War w I when scarcity of resources surfaced. It forced people to think of solutions to the problem of how limited resources could be used in better way. Things worsened during World War II. Growing competition and complexities of managing large business organizations also provided impetus to developing systematic management concepts and principles. Both these factors, growing competition and complexity in managing business, have demanded the efficiency in management process which can come not merely by trial and error methods but by developing and applying sound management concepts and principles.

3.3 CLASSIFICATION: Different thinkers have postulated different basis of classification of management thoughts. One most common classification is in the form of classical, neo classical and modern approach. Classical approach includes scientific management and administrative / operational management. Neo classical approach is called behavioral School includes theories of human relations and behavior. Modern approach includes contingency approach, decision theory, management science and some other approaches.

The table below explains the theories grouped in each approach.

Management School of Thought	**Theories/ approaches**
Classical School	Scientific Management
	Administrative Management
	Bureaucratic Management
Neo Classical/ Behavioral School	Hawthorne Studies and Human Relations
	Maslow's Need Hierarchy
	Theory X and Theory Y
Modern Management	Social System Theory
	Decision Theory
	Management Science
	Empirical School
	The Systems Theory
	Contingency Theory

Table 3.1 Schools of Management Thought.

3.4 CLASSICAL APPROACH

Also called traditional approach, it is one of the first schools of management thought and was developed during the age of Industrial Revolution during the period from 1900's to mid-1930. This theory believed hat employees have only economical and physical needs, and their social needs and job-satisfaction either don't exist or are unimportant. Thus this school advocated high specialization of labor, centralized decision making, and profit maximization.

3.4.1 SCIENTIFIC MANAGEMENT

This management theory analyzes work flows to improve economic efficiency, especially labor productivity. This theory was popular in the 1880s and 1890s in manufacturing industries and was developed by Frederick Winslow Taylor. Sometimes the term Taylorism is used to describe this theory.

Elements and Tools of Scientific Management

1. Separation of Planning and Doing. Taylor insisted on separating the function of planning from doing. Earlier a worker used to plan about his work and instruments required for that. Worker was put under the supervision of supervisor (gang boss). Job of a supervisor was only to see how the workers were performing at the work. This used to create lot of problems. Taylor insisted that supervisor should do the planning part and worker should do only the operational work.

2. Functional foremanship. Separating planning and doing led to development of supervision system which could take planning work adequately besides supervising the workers. Functional foremanship was based on specialization of functions. In this system eight persons were involved to direct the activities of workers. (1) Route clerk (2) Instruction card clerk (3) Time and Cost clerk (4) Disciplinarian (5) Speed boss (6) Inspector (7) Maintenance Foreman/ Repair Boss (8) Gang Boss.

In this system first four persons are concerned with planning and last four persons are concerned with doing of work. This element is against the principle of unity of command.

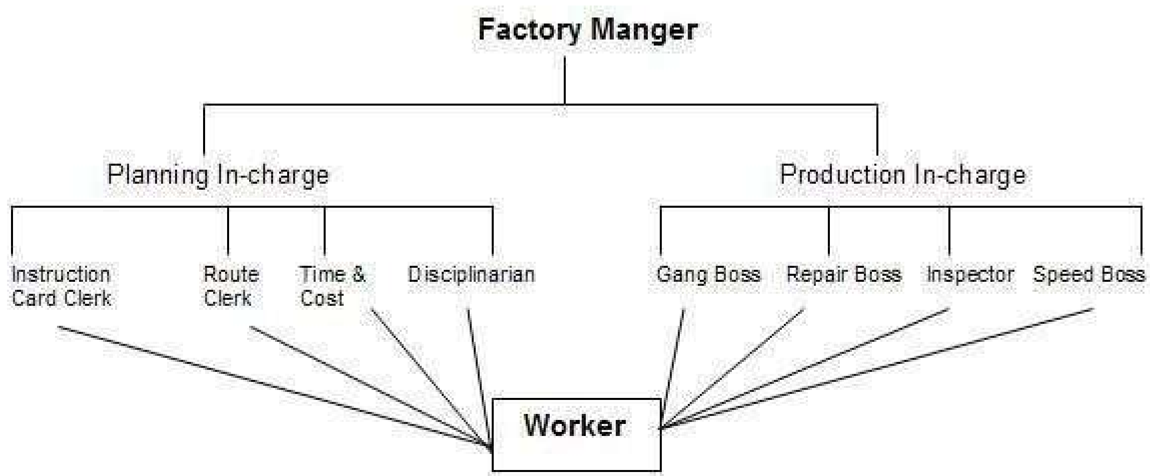


Fig.3.1 Functional Foremanship

3. Job Analysis. Job analysis is the study of different tasks involved in a job. The best way of doing a job involves doing the least movements in less time and little cost. Job analysis done by Taylor suggested that fair amount of day's work requires certain movements and rest periods to complete it. It included **Time Study** (it is about determining the time taken by a movement to complete. Best movements are those which take minimum time to complete. Time study helps to fix the amount of work to be done in given period of time), **Motion Study** (the study of movements in parts which are done while doing a job. It is used to eliminate unnecessary movements during work, only focusing on required movements. Omitting wasteful movements during work helps to reduce time taken to accomplish work and reduces the fatigue of workers.), **Fatigue Study** (this study was done to know the amount and frequency of rest required in completion of work. This helped to assess the optimum amount of work done by workers and to schedule the rest breaks before the fatigue would set in).

4. Standardization. Scientific management emphasized on setting up of standards in every aspect of business operations. Standardization is establishment of norms, weights, sizes, types, qualities, and measures etc. Standardization should be in there instruments and tools, period of work, amount of work, working conditions and cost of production. It helps in determination of task to be done, comparison and classification of products on the basis of quality and utility.

5. Scientific selection and Training of Workers. A scientific approach should be followed during hiring of workers. Criteria like age, education, work experience, aptitude and physical strength should be considered during recruitment process. Work allocation should be based upon a workers physical and mental ability. To enhance efficiency and effectiveness of workers, training should be given to them.

6. Financial Incentives. Taylor proposed that workers should be given financial benefits for better output. This measure would motivate them, increase their earning and encourage higher productivity. He introduced differential piece rate system to calculate earnings.

7. Economy. Scientific management is about reduction of wastage of resources and stresses on taking care of economy and profit. Economy and profits can be making optimum use of resources and eliminating unnecessary wastage.

***8.* Mutual Cooperation**. Scientific management believes in mutual cooperation between workers and management. There must be atmosphere of harmony between two parties.

Principles of Scientific Management

There are five basic principles of scientific management.

<u>Science vs. Rule of thumb</u>. Taylor proposed that all work done in business organization should be based on scientific be based on scientific measures and not on estimation and intuition. Organized knowledge should be applied to replace rule of thumb. Use of scientific method involves precision in all aspects of work but rule of thumb involves estimation. Various functions like day‘s fair work, time for rest breaks, standardization of work and differential piece rate system form core of scientific management, it is essential these things are measured precisely and not based on estimates.

<u>Harmony vs Discord</u>. Scientific management believes that attempts should be made to obtain group harmony and discord must be eliminated. There should be mutual cooperation between workers and management to maximize output. Managers should have cordial attitude towards workers and share gains of productivity with them. Workers too should cooperate by maintaining discipline and loyalty.

<u>Cooperation vs Individualism</u>. Scientific management is based on mutual confidence, cooperation and goodwill. Taylor suggested substitution of war with peace, suspicious watchfulness with mutual confidence, and enmity with friendship. Cooperation between workers and management can be developed through mutual understanding and change in thinking.

<u>Maximizing output</u>. Taylor believed in continuous increase in production and productivity rather than restricted production either by workers or management. Inefficiency and deliberate curtailment of production were hated concepts.

Development of workforce. According to scientific management, all workers must be developed to maximum possible extent for attaining the prosperity of both, the company and workers' own. For this regular training must be provided to them.

3.4.2 ADMINISTARATIVE MANAGEMENT

This theory was given by Henry Fayol , a French industrialist, also known as Farther of management. Fayol focused on the importance and the practice of forecasting and planning for the purpose of providing training to management and to improve workplace productivity. He believed that managerial excellence is a technical ability and can be acquired. He developed theories and principles of management which are universally accepted. His fourteen principles of management are as under:

1. Division of Work: Division of work means specialization. According to this principle, a person is not capable of doing all types of work. Therefore each job and work should be assigned to person who is the specialist/ expert of his job. Division of work allows a person to work in a limited area. This reduces the scope of his responsibility by promoting efficiency. Fayol promoted the division of work not only shop floor level but at management levels also.

2. Authority and Responsibility: this principle states that responsibility is incomplete without authority. If someone is made responsible for any job, he should also be given authority to carry out the task. Authority and responsibility always co-exist. An efficient manager makes best use of his authority and does not escape from the responsibility. In other words when the authority is exercised the responsibility is automatically generated.

3. Discipline: According to Henry Fayol a well disciplined working force is essential for improving the quality and quantity of the production. Discipline here means sincerity about the work and enterprise, carrying out orders and instructions of superiors and to have faith in the policies and programs of the business enterprise. Fayol does not advocate warning, fines, suspension and dismissals of worker for maintaining discipline.

4. Unity of Command: It is one of the most important principles. A subordinate should take order from only one boss and is expected to be responsible and accountable to him. Violation of this principle causes serious outcomes. According to Fayol, if a unit of command is violated, authority gets undermined; which puts discipline in danger, disturbs the order and stability is threatened. It creates harmonious relationship between officers and subordinates and congenial atmosphere of work.

5. Unity of direction: This principle emphasizes the attainment of common goal under one boss. Fayol gave the concept of one head, one plan which means that group efforts on a particular plan must be led and directed by a single person to enable effective co-ordination. This also fulfils the principles of unity of command and brings uniformity in the work of same nature.

6. Subordination of individual interests to general interests: this principle states that common interest is above the individual interest i.e. the interest of the business enterprise ought to come before the interests of the individual workers.. Sometimes the employees overlook the interest of the organization. This attitude proves to be very harmful to the enterprise.

7. Fair remuneration to employees: Remuneration and method of its payment should be fair, proper and satisfactory. This reduces tension and differences between workers and management, and creates harmonious relationship.

8. Centralization and Decentralization: Anything that increases the importance of subordinates is decentralization. In an organization there must be one central point which looks after overall direction and exercises control on all aspects of business. But the degree of centralization of authority should vary according to the needs of situation. Fayol proposed centralization in small units and proper decentralization in big organization. Fayol however does not favor centralization or decentralization of authorities but suggests that these should be proper and effective adjustment between centralization and decentralization in order to achieve maximum objectives of the business. Extent of centralization and decentralization vary in different organizations at different times.

9. Scalar chain: Scalar chain is a chain of supervisors from the highest rank to the lowest rank. Each communication, whether upward or downward, must flow through each position in this line of authority. It can be short circuited only in special circumstances when its rigid structure is detrimental to enterprise.

10. Order: According to Fayol there should be proper, systematic and orderly arrangement of thing and people. There should be safe, appropriate and specific place for every article. There should be right man in right place. Therefore the selection process should be careful and scientific.

11. Equity: Equity is the combination of justice and kindness. The management should be kind, honest and impartial with the employees. Everyone likes equity in behavior and treatment. It brings sense of loyalty among the employees of the enterprise.

12. Stability of tenure: This principle is linked with job security of employees. It is always in the interest of the organization that its trusted, experienced and trained employees do not leave the organization. Unnecessary turnover indicates bad management.

13. Initiative: Managers should encourage their employees to take initiative to suggest new ideas, experiences and more convenient methods of work within their limits of authority and discipline. Initiative is motivational measure and increases enthusiasm and energy among employees.

14. Espirit de' corps (Spirit of Co-operation): This principle promotes the motto of ‗union is strength'. It is the extension of principle of unity of command. Managers should encourage the spirit of cooperation among their subordinates and erring employees should be given verbal warnings. Fayol discourages written warnings as these complicate the matters.

Comparison of Scientific and Administrative approach

Both scientific and administrative theories have contributed greatly to the world of management. Both theories were contemporary and have some similarities and some differences with each other.

Similarities: There are certain similarities between the management thoughts of these two scholars. These are listed below.

1) Both aimed at improving the then prevailing managerial problems.

2) Both developed ideas and principles on management from their personal experiences, so ideas were practical.

3) Both emphasized on training as they believed that managerial qualities can be acquired through regular training.

4) Both recognized the importance of the human factor and of motivation of the workers.

5. Both thought of financial incentives for the purpose of improving the productivity of labour. Taylor developed differential piece rate system and Fayol suggested profit sharing.

5) Both encouraged cordial relations between workers and management.

Differences: Major differences between Scientific and Administrative theories can be listed as under:

1) Scientific theory disregards human element. It stressed on improving men, material and processes. This theory believes that productivity is based on workers and they should be trained

well. Administrative theory pays due regard to human element. Its principles (initiative, spirit de‘corps and equity) recognize needs for human relations.

2) The focus of scientific theory is _Bottom up‘. It looks at workers from supervisory level and believes that efficiency can be increased at operating level. Administrative theory has _Top Down‘ focus. It believes that efficiency can be created not only at operating but higher levels as well.

3) Taylor aimed at improvement of labor productivity and elimination of wastage. Fayol developed management theory which is more relevant for management than workers.

4) Taylor stressed on efficiency. Fayol stressed on administration.

5) Scientific management is limited to shop floor or factor only. Administrative theory has wider applicability and can be applied at all levels of management.

Conclusion: Fayol is called Father of Management and Taylor is known as Father of Scientific Management. Fayol‘s principles are widely applicable and have stood the test of the time. Taylor‘s principles are limited in scope and have undergone change due to influence of modern management.

Check your Progress I

Note: Use the space given below for your answers

1) What is the significance of Standardization in scientific management?‘

2) Explain Unity of direction?

3) Write three major differences between scientific management and administrative management theories..

3.4.3 BUREAUCRATIC MANAGEMENT THOUGHT

This theory was given by Max Weber. Bureaucracy (a term widely used in govt. organizations) is an administrative system which is designed to accomplish large scale administrative tasks by systematically coordinating the work of many individuals. Max Weber has indentified three types of powers in the organizations: traditional, charismatic and rational-legal. He named rational legal power as bureaucratic power and claimed it to be the ideal type of power in the organization.

Features: This theory proposed following postulates.

Administrative class. This type of organization has an administrative class with distinct features.

1. People are full time employees and are on payrolls. They also receive perqs associated with their rank.
2. There are fixed rules to determine their tenure in the enterprise.
3. Employees have no propriety interest in the enterprise.
4. The selection process is scientific, rigorous and based upon incumbents‘ competency level.

Hierarchy. There is a hierarchy of positions i.e. all the positions are ranked in order of seniority from top to bottom. Each lower office is subject to control and supervision of higher office leaving no office uncontrolled. This is fundamental feature of bureaucratic organizations. Different offices at same level have same extent of authority but different areas of operations and hence functions.

Division of work. Specialization is taken into account while dividing the work tasks among employees. Thus each office has area of specific expertise. While distributing the work following things are taken care of.

1. Sphere of work is well defined.
2. Requisite authority is granted to incumbent.
3. Areas where incumbent should not venture are also defined. This prevents overstepping the boundary between his role and role of others.

Rules and Regulations. Bureaucratic organization is essentially led by fixed rules and regulations. When there is no rule on a new operation, the matter is forwarded to next senior level for decision and this then becomes the precedent for future decisions on similar matters.

Rules provide various benefits like stability, continuity and predictability and each official knows the outcome of his behavior on a particular subject.

Impersonal Relationships. Relationships among employees are too governed by system of authority and rules. There is no personal or emotional involvement. All decisions are thus governed by rational factors.

Official Record. Major characteristic of such organization is maintenance of proper official record. Every decision and activity undertaken is formally recorded and is preserved for future reference.

Limitations of Bureaucracy:

It was assumed that a bureaucratic organization is superior type of organization which functioned on rational basis, with clearly defined rules, equal distribution of work and specified work areas. But bureaucracy has some major shortcomings and is not very preferred form og organization. Major limitations are:

1. Bureaucracy is all about rules and rigid hierarchy. Too much emphasis on rules leads to inefficiency and sometimes their misuse. Similarly excessive emphasis on superior subordinate relationship is detrimental to harmonious organizational climate.
2. Bureaucracy follows an impersonal approach devoid of all emotions and sentiments. This is not always applicable because people can not always deal with rules and regulations. Humans have emotions and feelings, and these do affect decisions.
3. Rules adherence also causes goal displacement. In bureaucratic organization, the following of rules becomes the main objective of employees rather than the set objective. What becomes important in the long run is whether rules are followed or not, rather than whether objective has been achieved in given time frame or not.
4. Conflict between professionals and bureaucrats becomes common. The former want to work according to their area of specialization but the latter try to impose rules.
5. Conflict between organization and individuals is also common. Individuals prefer freedom and flexibility but over emphasis on rules lead to rigidity only. This does not suit personality of mature people, forcing them to deviate from rules.

3.5 BEHAVIORAL APPROACH

Classical approach focused mainly on jobs. Behavioral approach, in contrast, focused on the individuals performing work. This theory is directed towards human side of management.

Neglect of humans and emphasis on machines and materials led to development of this thought.Prof. Elton Mayo is the founder of behavioral approach. Abraham Maslow, Douglas mcgregar, Fredrick Herzberg, Rensis Likert , Keith Davis, Chris Argyris are some of the prominent contributors to this school of thought.

3.5.1 HAWTHORNE STUDIES AND HUMAN RELATIONS

Hawthorne plant belonged to General Electric Company, Chicago. Telephone system bells were manufactured here. About thirty thousand workers were employed in this plant. All the workers were given material benefits including pension, sickness benefits and recreational facilities. Yet it was observed that workers were highly dissatisfied and productivity levels were very low. A team led by Elton Mayo investigated the causes. They conducted four experiments:

1) Illumination experiments conducted to study effect of illumination on productivity.

   In this experiment brightness of light was first increased and then decreased to see changes in productivity. It was found that productivity did not fall after decreasing brightness of light, indicating that there were some other factors responsible for productivity.

2) Relay assembly test room experiments conducted to study effect of change sin working hours and related working conditions on productivity

   During this experiment two small groups (six members each) of relay assembly workers were selected and kept in different rooms. Varying changes were made in working hours, rest periods and lunch periods. Workers were asked to choose their own rest periods. They were allowed to give suggestions regarding working conditions which were implemented too. Out put increased in both rooms. It was concluded that factors like social relationships and participation in decision making were more important and had better effect on productivity than working conditions.

3) Plant wise mass interviews conducted to study workers‘ attitudes and sentiments

   This experiment lasted for three years. Twenty one thousand workers were interviewed during this period. The study found that workers wanted to have freedom to discuss matters important to them. This type of liberty at workplace could lead to better productivity.

4) Bank wiring observation room experiments conducted to study analysis of social organization sat workplace.

The experiment included 14 male workers of bank wiring room put under observation for six months. It was communicated to them that a workers' salary will depend on group performance, not individual performance. It was hypothesized that efficient workers will pressurize inefficient workers to perform better. But the study concluded that group established its own culture and standard and social pressure led all to achieve standard output.

Major findings of these studies led to following conclusions.

1. The organization is a social system, not only a formal structure of functions. Social characteristics of people set the production norms and determine output and efficiency in organization.non financial rewards affect the behavior of workers and value of financial rewards. Motivation measures therefore should be designed, keeping these factors in mind.
2. Workers are social beings and it is natural for them to form informal groups. These groups exert great deal of influence on them, and workers prefer to follow norms of social groups.
3. Conflict may arise if there are differences in interests between social groups and management. Conflict can be avoided by setting mutually agreeable goals by both parties.
4. Leadership exerts strong influence on performance of employees leader therefore must be strong, knowledgeable, helping and motivating to employees.
5. Supervisors too influence workers. They should be friendly, attentive and genuinely concerned with employees. This helps improving productivity.
6. Management should regularly communicate with their employees. Employees shoud be encouraged to give suggestions. Good communication helps resolve many problems and eliminates conflicts.

Conclusion: Hawthorne work has critics who reject it because of lack of scientific objectivity, but it remains a fact that Hawthorne studies ushered management into the realms of human relations. It compelled thinkers to study human problems in management.

Check your Progress II

Note: Use the space given below for your answers

1) What are major findings of Hawthorne Studies?'

____
____
____
____
____

2) Cite three reasons for the lack of popularity of Bureaucratic Management thought.

____
____
____
____

3) What was relay assembly test room experiment?

____

____

____

____

3.5.2 MASLOW'S THEORY OF NEED HIERARCHY

Hierarchy of Needs model was developed by in USA. Maslow opined that human actions are directed towards goal and how to achieve it.A behavoiur could satisfy several functions at a given time. E.g. getting a membership at city's premium club can fulfill need for self esteem as well as need for socialization by interacting with people. This model has strong acceptance (in spite of certain limitations) in modern management and is widely used for understanding human needs , do designs motivational measures, management training and personal development.

The Maslow's Hierarchy of Needs is a five-stage model. The original five stage model is discussed here.

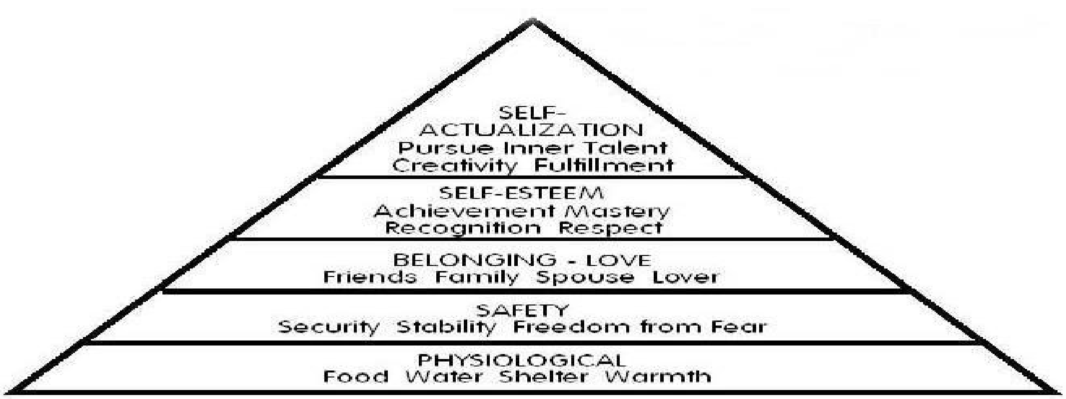


Fig 3.3 Maslow‘s Need Hierarchy Model

Source: Maslow, A. Motivation and Personality (second ed.)Harper & Row, 1970

Physiological Needs are basic needs required to sustain life. These needs required immediate gratification. Need for air, water, food and shelter are basic needs. Till a man‘s basic needs are satisfied, he will not be able to think of higher order needs.

Safety Needs include Security, safety and freedom of fear. When physiological needs are satisfied, person‘s safety needs comes into play. A person wants to live in safe circumstances with stability and protection. Due to these needs, we want a secure job, life insurance, medical insurance, pension and own home.

Needs of love and belongingness also called affiliation needs are next ones on pyramid. A person feels the need for love, family and spouse, at social level; he wants to be accepted in the society and seeks to be member of clubs, informal groups at work place and even community.

Self Esteem Needs are about self respect, achievement, attention, recognition and reputation. Maslow identified two versions of self esteem needs, the lower version and higher version. The lower one is the need for the respect of dignity even dominance. The higher version is about the need for self respect including feelings like confidence, competence, achievement, mastery or expertise, independence and freedom. This is called higher form because unlike respect of others, if one gains respect for self, it is hard to lose. Negative version of these needs is manifested as low self esteem and inferiority complex.

Self actualization needs are highest order needs. It is the quest to reach at ones‘ full potential. Unlike lower level needs, this need is never fully satisfied. As one grows, more opportunities for further growth crop up. Very few people overcome the hindrances of their daily life to fulfill lower level needs and reach the level of self actualization.

Similarly Maslow‘ Need Hierarchy Model has both advantages and limitations.

Advantages

- It is an excellent model to understand needs of workers and employees.
- With the help of need analysis of this model, motivational measures, job designs, compensation packages and various events can be designed.
- Lunch and rest breaks and decent wages can fulfill workers‘ physiological needs.

- On the basis of safety needs, safe work environment can be created and workers be given job security and related benefits like retirement and insurance.
- To fulfill social needs, team based projects can be given. Social events should also be organized regularly.
- The workers‘ achievements must be recognized and appreciated. Promotions to competent persons will also help fulfilling esteem needs.
- For self actualization needs, career planning should be done so as to give employees ample of challenges and opportunities for growth.

The model suffers from following limitations.

- Many authors claim that this model is intuitive and not practical.
- All cultures do not adhere to need hierarchy given by Maslow. In some cultures, social needs are of utmost importance.
- This need hierarchy fails to explain the concept of _starving artist‘ where a person neglects his lower order needs to achieve the higher order needs. E.g. a struggling actor will do anything, even work at low salary, to get a break in a movie of a director of high repute.
- People can not be motivated to satisfy only one need at a time under most of situations. Therefore the question of moving to higher order needs only when lower order needs are satisfied does not arise.

Conclusion: No model is a complete model. In spite of its limitations, Maslow‘s Need Hierarchy model is widely accepted and recognized model in social sciences. Many motivational measures and training programmes are designed on the basis of this model.

3.5.3 THEORY X AND THEORY Y

Theory X and theory Y was given by Douglas McGregor. This work is an extension of Maslow‘s need hierarchy theory. McGregor has divided needs in two categories. Category X has lower needs and category Y has higher order needs. Either set of needs can be used to motivate employees, although better results are achieved if theory Y is chosen.

Theory X has following assumptions.

1. People have an inherent dislike for work.
2. Because of their dislike for work, people avoid work as far as possible.
3. People need to coerced or threatened with punishment to force them to work.

4. People need to be directed and controlled to get them to achieve organizational objectives.
5. People preferred to be directed. They shun the responsibility and lack ambitions.
6. People want security more than anything else.
7. Motivation exists only at physiological and safety levels.

Theory Y has following assumptions.

1. Expenditure of effort in work is as natural as play and rest.
2. People are not lazy.
3. People have the potential.
4. People will exercise self direction if they are committed to objectives.
5. Commitment to function exist because they are motivated due to reward associated with their achievement.
6. People learn to seek and accept responsibility.
7. Creativity, ingenuity and imagination are widely distributed among population. People have the capability of using these abilities to solve organizational problems.
8. Motivation occurs at social, esteem, self actualization, physiological and safety levels.

Conclusion: Many mangers are theory X managers. They believe that management‘s role is to coerce and control employees. They liberally use negative measures like explanations, fear factor and punishments. They follow authoritarian management style.

Enlightened managers are theory Y managers. They respect their employees, provide them autonomy and responsibility and help them realize their potential. They follow a participative managerial style.

This theory has been criticized for generalization of work and human behavior.

3.6 Let Us Sum Up

Management exists since time immemorial. It was only during nineteenth century that this term has been in use frequently. Taylor gave the concept of scientific management. This theory laid much emphasis on increasing productivity but failed to give importance to workers. Fayol (also known as father of management) developed fourteen principles of management considering workers as humans with emotions. Some of these principles have stood test of the time and are still valid. Mayo _s Hawthorne study explored the social needs of employees.Theory of Bureaucratic Management did not gain much popularity as it proposed a rigid organization structure with over emphasis on rules and regulations. Many sociologists and psychologists conducted research on human behavior and contributed various models of human needs and motivation. These models are of immense use in designing performance appraisal; and incentive plans for workforce.

3.7 Key Words

- □ Scientific management
- □ Administrative Management
- □ Scalar Chain principle
- □ Unity of command
- □ Unity of direction
- □ Bureaucracy
- □ Division of Work
- □ Human Relations
- □ Hawthorne study
- □ Maslow's Need Hierarchy
- □ McGregor's Theory X and Theory Y

3.8 Short Answer Questions.

1. List major contributions of Taylor's Scientific Theory.
2. What is the contribution of Max Weber?
3. Differentiate between Centralization and Decentralization?
4. Explain briefly postulates of Theory X and Theory Y?

Long Answer Questions

1. Elaborate fourteen principles of administrative theory. Discuss its advantages and shortcomings.
2. Critically analyze Maslow's need Hierarchy Theory..
3. Assess the contributions of Elton Mayo to management thought?
4. Discuss Taylor's Scientific Management theory. How does it differ from Administrative theory?

3.9 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Bose, D.C. (2006) *Principles of Management & Administration*, Prentice Hall India Learning Pvt. Ltd., New Delhi
- Taylor, F. W. (1911)*Scientific Management*, Harper & Row, NY
- Bhushan, Y.K. (1998) *Fundamentals of Organization & Management* ,Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity:

Mr. Rohit is a great scholor and manager. His style of management is followed as an example in other organizations. He is respected by peers and co-workers for his sincerity, commitment and loyalty. He spent ample time with his peers and subordinates solving various managerial problems and also delegated them authority for the same.

As president of the company, he developed principles and philosophies of management for all the departments in consultation with each departmental head and concerned subordinates.

Though he prefers a persuasive style of leadership, he expects perfection in work. He cannot tolerate mistakes, laziness and slackness in performance.

His ideas of perfection made people believe that he was intolerant and strict.

Questions

1. Which theory of management does Mr. Rohit believe in?
2. What is people`s perception about his managerial style?
3. Do you recommend change in his style of management?

UNIT 4
EVOLUTION OF MODERN MANAGEMENT

Structure

4. 0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Characteristics of modern management school of thought
- Prominent theories of management and their relevance in modern times
- Management as a social system
- Major thinkers of modern school and their contributions
- Relevance of these theories in modern times.

4.1 INTRODUCTION

We have discussed Classical and Behavioral Schools of management thought in the previous chapter. It is now clear how concept of management evolved through the years. Management thinkers started observing workers at the shop floor and thought of different ways of increasing productivity. Many experiments were also conducted. In the early theories not much difference was made between man and machine. Gradually this concept changed. Workers were accepted as beings with emotions, sentiments and needs which were both monetary and non monetary. Newer concepts emerged and changes at the workplace started to happen. Eventually more observations were made and evolution ushered into modern management era.

4.2 MODERN MANAGEMENT ERA

Modern management era is relatively new (1950 onwards). Modern management thinkers consider organization as an open system, continuously in touch with external environment. So the impact of changes outside the organization can not be ruled out. There are varied theories. Some justify management as system made up of sub systems; some theories consider management as process of numbers and decision making, and theories like contingency theory highlights that there are no set rule of management. Every situation is different and handled differently, hence management is situational. We will discuss some prominent theories of this era.

4.2.1 SOCIAL SYSTEMS APPROACH

Social system approach was developed by Chester Bernard on the basis of the ideas contributed by sociologist V. Pareto. This approach has attempted to extend the concept of human relations further. This approach considers that

- Organization is a social system. This social system is full of cultural relationships.
- Organization exists in external environment and there is relationship between external and internal environment of the enterprise.
- An organization has set goals. To achieve these goals, group members must cooperate with each other.
- Goals of the organization should be in harmony with group goals. This harmony is must for organizational effectiveness.

Chester Bernard‘s other major contributions include:

Concept of organization: Bernard was not convinced with explanation given by Classical theory.. He gave his own version of organization according to which formal organization is a system of consciously organized and coordinated activities of two or more persons. Three conditions that are essentially found in a formal organization are: there are persons who communicate with each other; they are willing to contribute to the action; they attempt to achieve a common goal.

Formal / informal organization: An organization can be divided in two parts formal and informal. Formal organization has planned coordinated interactions having deliberate and common goal. An informal organization exists within formal organization and refers to those social interactions which are neither planned nor have common purpose. Informal organization exists due to social needs of people and to overcome the problems of formal organization. Formation of informal organizations should net be discourages as these serve as a means of communication and bring cohesion in system. These help to protect the individual from dominance and onslaught of organization.

Organizational elements: an organization has four elements namely departmentation (a system of fictionalizations to help people specialize, a system of effective and efficient incentives (to encourage people to contribute towards group action, a system of power (which propels group members to accept the decisions of executives) and a system of logical decision making.

Authority: unlike given by classical theory, Barnard proposed that authority does not transcend from up to down. There exists _acceptance theory of authority' or _bottom up authority'. A person does not simply accept the command just because it is given by higher ranks but he accepts an order only when he can understand it, when order is not inconsistent with organization purpose or his personal interest and when he is mentally and physically capable to comply it.

Functions of an Executive: Executive has three major functions.1) maintaining organizational communication through formal interactions, 2) securing essential services from employees so as to achieve organizational goals, 3) formulating and defining organizational purpose.

Motivation: In additional to financial measure, non financial motivation techniques should be designed. These include opportunities for power and distinction, pride and workmanship, pleasant work place, participation in decision making, feeling of belongingness.

Executive Effectiveness: responsible leadership is the most important quality in executive effectiveness. It is most strategic factor to seek help from people. executive leadership should Free from preconceived notions and ideas. This leadership should be of high caliber, technical and social skills. Leadership usually commits four different errors which should be avoided. These errors are oversimplification of organizational set up, not recognizing the importance of informal organizations, inversion of emphasis on objective and subjective aspects of authority and confusing morality with responsibility.

Organizational Equilibrium: organization is said to be in equilibrium when individual and organizational efforts match to satisfy individuals. This equilibrium is not static but dynamic as demands and aspirations of employees keep on changing and organization has to cope with this changing situation.

Thus it can be concluded that Chester Bernard showed his concern for developing an organization through social system. His contributions command great respect in management.

4.2.2 DECISION THEORY

Herbert Simon observed the management problems from socio psychological view. Simon a Nobel Laureate in economics looked at management as the process involving decision making. Manager is the major decision maker and organization is a decision making unit. Management is all about decision making and the members of organization make decision and solve problems. Organization can be considered as a combination of decision centers. Significance of organization members depend upon significance of decisions taken by them. Organizational effectiveness is greatly influenced by quality of the decisions taken. Various factors are considered during decision making form a part of management. Such factors are information systems and social and psychological aspects in addition to other tools and techniques.

Major contributions given by Herbert Simon are as under:

Concept of organization: organization is a complex network of decision processes which are influenced by operatives. It involves distribution and allocation of decision making functions. The best way to analyze an organization is to find out where and by whom decisions are being taken.

Decision making: Decision making is the core of management and management is another name of decision making. The decision sequence can be broken down in three steps;

a) First step is the intelligence activity. It is the initial phase when environment scanning is carried out as a preliminary work for making decisions.
b) Second step is designing the activities which will help taking decisions. This activity is about inventing, developing and analyzing the possible course of action to take place.

c) Third step (sequential to above two steps) is the choice activity. Here final choice of possible solution is made from available alternatives.

Bounded Rationality: Simon argued that man is not completely rational, therefore does not insist on finding optimal solutions. Instead, man has a bounded rationality and is satisfied with the good enough solutions which satisfy him. Managers can not maximize due to various limitations and constrains. A decision is said to be rational if desired goals are achieved with the help of appropriate ends.

Administrative man: Simon gave ‗Administrative Man' as a model of decision making. This model is based upon four assumptions.

a) Management man is administrative man. He prefers a satisfying approach in decision making unlike maximizing approach of an economic man.
b) Man can perceive the world as a simplified model of real world. This is the reason of his contentment with simplification.
c) He can make his choice without first determine all possible choices.
d) He has the tendency to make decisions with simple rule of thumb or tricks of trade or simply habit

Organizational Communication: Role of communication in the organization can not be ignored. Communication process comprises of three stages; initiation, transmission and receipt followed by feed back. Barriers may surface at any of these stages. To avoid problems in communication, role of informal communication plays a greater part than formal network of authority.

Influence: Simon conducted detailed study of various components of influence in decision making and suggested that managers should efficiently use all forms of external influence.

4.2.3 MANAGEMENT SCIENCE

Management Science approach is also called quantitative approach, mathematical approach and operations research approach. This developed during World War II. During this period, research was being done to develop a mathematical model which could be applied in military operations to find optimal solutions to logistics and other areas. This school draws many concepts from decision theory and provides many techniques for rational decision making. It uses techniques like linear programming (LP), critical path method (CPM), programme evaluation review technique (PERT), probability, sampling, queuing theory, simulation and games theory etc. in management science theory; attempt is made for pursuing systematic analysis of managerial problems and issues. These days computers with inbuilt operation management programmes are used to handle different quantitative problems faced by management in areas like strategic planning, production planning, control, scheduling and inventory management etc. Herbert Simon, Von Newman, R.M. Cyert, Churchman, R. Ackoff and J. March are major contributors to this theory.

Features:

1. Organization exists for the achievement of measurable economic goals.
2. In order to achieve these goals, optimal decisions must be made.
3. The job of the manager is to arrive at best possible solution out of a series of variables. These variables can be presented in the form of mathematical models.
4. Proper formulation of model and use of various operational tools can lead to best solution available.

Limitations:

There is no denying the fact that Management Science approach lays stress on precision and discipline and is very popular today, but it suffers from some major limitations.

1. It can provide solutions to only quantitative problems. All managerial problems are not quantitative in nature.
2. This approach does not consider *human factor* in the organization at all.
3. The approach believes that management is all about decision making. There are many other functions of management other than this.
4. Operations research or electronic data does not provide the decision. It in fact provides alternatives. It is up to manager to decide the rest.

It can be said that management science theory is only a valuable supplement of management, not a substitute for it.

Check your Progress I

Note: Use the space given below for your answers

1) What are major postulates of _social system approach?‘

____

____

____

____

____

2) What were the limitations of management science theory?

____
____
____
____

3) Define the concept of bounded rationality.

____
____
____
____

4.2.4 EMPIRICAL SCHOOL

This school was founded by Ernest Dale. This school of thought is also called case approach or management experience approach. Dale stated that management is nothing but the study of the experience of the managers. Knowledge gained through experience can be applied for problem solving and decision making.

According to this approach, experience is the best teacher.

1. Managerial experience includes the study of success and failures in various situations.
2. Managerial experience can be passed from one person to another.
3. By studying the experience of different managers, management theories can be formulated.
4. Experience can be taught in classroom as case study.

Empirical school lays emphasis on experience only. it misses other factors. Moreover case study method can be quite useful in classroom but real situations may be different. This method also fails in dynamic situations.

4.2.5 THE SYSTEMS APPROACH

This theory is an outcome of works of Von Bertalanffy (regarded as father of Systems Theory), Ackoff (invented operations research), Starr (a decision theorist with Operation research and developed the concept of *sub optimization*) and Boulding (an economist , developed feedback loops and cybernetics- a study of inputs, thorough puts and outputs). This theory proposes that to run a business efficiently and effectively following steps should be taken.

- The organization should be considered as a system.
- Objectives of the system should be established. Extent of achievement of objectives will be performance criteria.
- Identify wider system i.e. environment.
- Create formal sub systems within the system including a humanistic and psychosocial subsystem.
- Integrate the subsystems with the whole

system. This approach is based upon four concepts.

Specialization: a system is divided into smaller parts or sub systems allowing more specialized concentration on each component.

Grouping: it is necessary to group the related disciplines. This prevents generation of excessive complexity due to increased specialization.

Coordination: as the components and sub components of the system are grouped, it becomes necessary to coordinate interactions among groups.

Emergent Properties: Dividing a system into sub systems requires recognizing and understanding the emergent property of a system. It means to understand why the system as a whole is greater than sum of its parts.

A system is a set of inter connected and inter related elements directed to achieve certain goals. All components of system are related and connected in an orderly arrangement as per some plan. Components of the system are known as sub system. A sub system is a functional unit of a system, which if separated, can work like a system and has similar characteristics as those of system. All the sub systems of a system work in unison for the survival of the system. Human body is an example of a system. It is made up of various sub systems like nervous system, digestive system, sensory system etc. All sub systems work together for survival of human body. If any subsystem is not functioning well, the whole system can suffer. Same implies to organization which is made up of small units and departments called subsystems. All subsystems of organization are linked with each other through communications, responsibility- authority relationships, decisions, objectives, policies and decisions etc. organization as a system has a set of roles for which all subsystem work in sync. Major goals include adaptation, survival and growth.

Features of system:

1. A system is a whole unit made up of smaller unites called subsystems. All subsystems are related to each other and are mutually dependent.
2. A system has a define boundary which demarcate it from surrounding environment. Boundary is visible in physical system (e.g. a glass of water), but is invisible in social system because in social systems boundary is not like a wall.
3. Boundary can make a system open or closed. All living organisms are open system and all non living things are closed system.

Closed System	**Open System**
Closed system has no interaction with environment	Open systems are in continuous interaction with its environment.
Closed system is self contained and self maintaining	Open system imports energy from environment and gives outputs.
Closed system is rigid and static	Open system is dynamic and flexible
Closed system has no feedback mechanism	Open systems have feed back mechanism
e.g. closed thermos flask, table	e.g. an open thermos flask, a shop

An open system transforms inputs. Transformation is essential for its survival. System takes inputs from environment, act as mediator and transform inputs into output, and give these back to environment. Thus three things inputs, mediator and output are necessary for transformation.

Management as a system: Features of management as a system are

Management is an open system: Management is essentially an open system. It has three elements of open system; input, mediator and output. As is clear in fig 4.1, it takes inputs from environment, transform these to products or services and give these outputs back to environment. It also takes feedback from environment to improve its services further. Feedback can also be in the form of changes in laws, markets, govt. policies or consumer preferences.

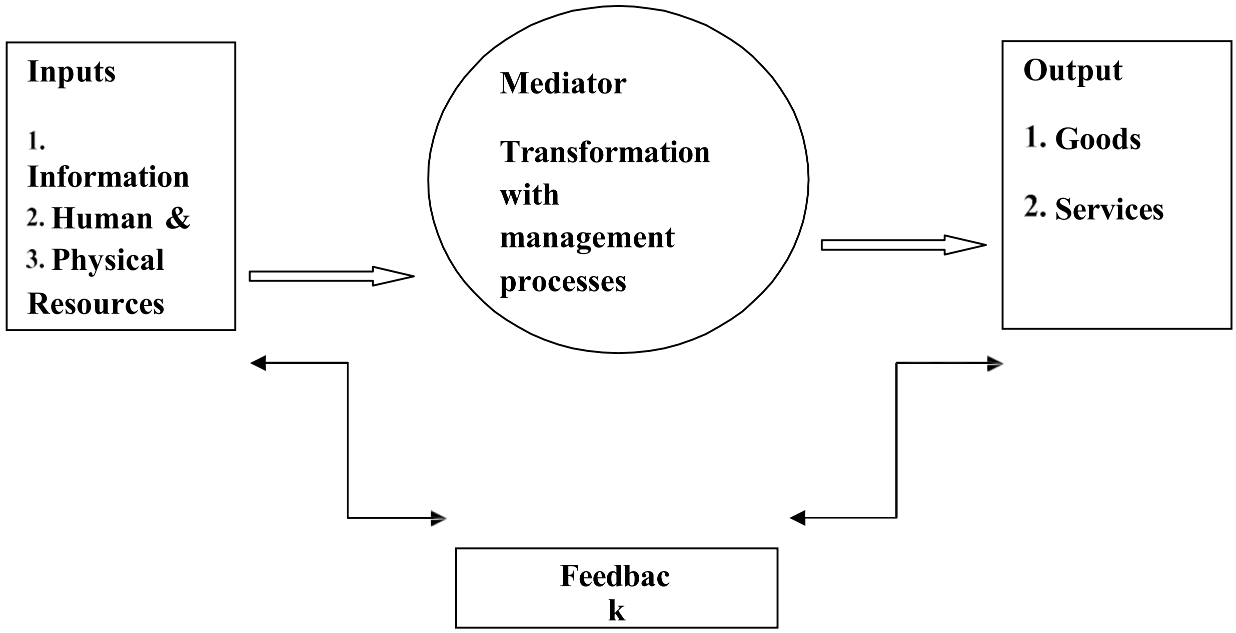


Fig 4.1 Open System

Management is a social system. Human are essential part of management. so unlike a biological or mechanical system , management is a social system.

Adaptive nature. Being an open system, survival of organization is dependent on its adjustment to changes in environment. Management strives hard to bring essential changes in organization so that not only it adapts well and survives the change but also grows in spite of odds.

Dynamic nature. Management is dynamic in nature. It tries to establish equilibrium in the organization. Effectiveness of organization depends how well management manages internal as well as external environmental factors.

Management is probabilistic and not determistic. Unlike deterministic model where results are pre determined and almost certain, management depends upon a number of internal and external variables which are always changing. Function of so many dynamic variables can not be predicted precisely.

Management has multilevel and multidimensional features. It operates at organizational level i.e. system and sub system level (micro level) as well as at business level in external environment called supra system level (macro level). Still it has same characteristics at all levels i.e. sub system, system and supra system level.

RELATED CONTRIBUTIONS

There are some more related systems theories developed by other thinkers. Prominent among these are

Mangerial Grid. It was developed by Robert Blake and Jane Mouton and analyses leadership styles. It is based on two variables: task focus and relationship focus. By combinations of two scales from 1 to 9 digits, it concludes five types of leadership styles. This theory is referred to as leadership theory. It is a classic example of the specially designed analysis and instruments of systems theories.

Vroom's Expectancy Theory. After studying processes of motivation and decision making Victor Vroom developed expectancy or equity theory. This theory examines the degree of desire to perform a behavior than the speed to perform a behavior. This is categorized as one of theories of motivation.

Least Preferred Coworker Scale*:* This scale was developed by Fred Fiedler. It is questionnaires which can be used by management in different ways especially to find out what inter relate human sub systems. Fiedler believed that some personality attributes contribute to effective leadership in some situations but in others. This relates to contingency theory of leadership.

Conclusion: Systems approach is integrated approach. It takes into consideration the totality of organization. It provides framework through which analysis of organization with its environment can be done. But it has two limitations.

It is said that system's approach is very abstract. It merely indicates that system's parts are interrelated but fails to explain how? It also fails to explain how an organization is related to its external environment.

This approach lacks universality and can not be applied to all organizations. In most of the cases, it is found to be more suitable to larger organizations than smaller ones. To overcome these shortcomings, researchers have tried to modify system's approach, as a result of which Contingency theory is proposed.

4.2.6 CONTINGENCY / SITUATIONAL APPROACH

This approach is an extension of Systems approach. This was developed by Burns, Stalker, Woodword, Lawrence, Lorsch and Thomson etc. Contingency theory states that

1. Management is totally situational.

2. Organizations have to handle different situations in different ways. There is no single set formula to handle these different situations i.e. the conditions and complexities of the situation determine the possible applicable and effective solution. Thus management principles are not universal.
3. Management has to face dynamics of external environment on daily basis. Success of management depends upon how well it copes with environmental changes. Therefore its diagnostic skill should be sharp enough to anticipate possible changes and alternatives to counter these.
4. Management needs to flexible and should keep changing or modifying its strategies and policies with change in environment.

Limitations: This theory is not accepted as unified theory because

1. In spite of research done, very little literature about contingency theory is available. This is not sufficient for needs of managers.
2. Theory itself appears very simple but when it needs to be applied, it becomes very complex. Every situation involves many variables and all variables can not be analyzed every time, especially when time is short and decision needs to be taken quickly.
3. This theory can not be tested empirically due to lack of any methodology.
4. Contingency theory is reactive in nature, not proactive. According to this theory decision is to be taken after studying the situation (reactive) whereas in management, many decisions are essentially proactive (decision taken before the situation arises/ in anticipation) in nature.

Whatever the limitation be, it is seen that at micro level i.e. organizational level, most of the decisions are taken on contingency basis and at macro level, decisions are taken in anticipation. So, contingency theory is more appropriate at organizational / micro levels.

SYSTEMS APPROACH VS. CONTINGENCY APPROACH

- Systems approach treats all organizations, small or bigger, equal. Contingency theory treats each organization as unique entity.
- Systems theory studies organization at abstract level, contingency approach is more practical, rational and action oriented.

- Systems approach emphasizes inter relationships of systems and subsystems but contingency approach deals in studying nature of interdependence and its effect on organizational structure and functions.
- Systems theory does not comment on blind application of a management principle on any situation but contingency theory condemns it right away.
- Systems approach lays stress on synergistic effect of organizational and external inputs but contingency approaches focuses on aligning organizational structure and design to environment.
- System's theory is vague and abstract but contingency theory is rational and simple.

Check your Progress 2

Note: Use the space given below for your answers

1) Organization is a social system.' Justify the statement .

____

____

____

____

____

2) What is the philosophy of empirical school of thought?

____

____

____

____

3) Discuss the improvement of contingency theory over systems theory..

____

____

____

____

4.2.7 CONTRIBUTIONS OF PETER DRUCKER

Peter Drucker is a legendary figure in field of management. He had varied experience in psychology, sociology, journalism and law. He developed solutions to many managerial problem through consultancy. He developed many approaches which were highly relevant. His contributions to the field of management can not be ignored. His major contributions are discussed here.

Nature of management: Drucker has completely disagreed with bureaucratic management. Instead he has emphasized on management with creative and innovative practices. According to him the basic objective of management is to lead the organization towards innovation. He has treated management as a discipline as well as a liberal profession. Management as a discipline has its own tools, skills, approaches and techniques. He opined that managers should not only have skills and techniques but also the right perspective to put things into practice. They should also understand the social and cultural requirements of the organization and its country. He placed more emphasis on practice rather than formal education.

Managerial Functions: Management is the organ of its organization and exists for its functions. The valuable functions that a manager should do include 1) understand specific purpose of his organization, 2) manage work in such a way that work is productive and worker achieving, 3) to manage organizations' social impact and social responsibility. A manager acts as an administrator and entrepreneur. He performs functions like objective setting, decision making, organizing and motivating. Objective setting is highly important and all functions of enterprise depend on it. Various areas where objectives should be set are market standing, innovation, productivity, resources (physical and financial), profitability, managerial performance and development, worker performance and attitude and social responsibility of business.

Federalism: Drucker advocated centralized control in decentralized structure. Decentralizing creates a new constitution and new ordering principle. It is like relationship of central govt. and state govt. (Federalism). There are close links between decisions taken by top management and decisions taken by autonomous units. Federalism has many advantages over organizing with other methods. It sets top management free and it can devote more time on its core functions, it defines the functions and responsibilities of operating people and it provides measures to calculate their extent of success in achieving the operating jobs.

Management by Objectives: one of the most important contributions of Drucker to the world of management is Management by Objectives (MBO). This concept revolves around human action, human behavior and human motivation. It is applicable to each and every organization. It includes the method of planning; setting standards, performance appraisal and motivation.MBO has become so popular today that it is regarded as most modern management approach.

Organizational Change: Drucker visualized rapid pace of changes in society due to technological advancements long ago. It is easy to adapt to gradual changes, but rapid changes are not easily absorbed by organization. A person and a firm should be able to develop and understand the philosophy to face these changes. This can be done by developing dynamic organizations which are capable of absorbing rapid changes and survive than the static ones.

Drucker‘s contributions have opened a new chapter in the management world. He is the only Western thinker who has attracted attention in the communist world too.

4.3 OTHER PROMINENT CONTRIBUTIONS to the development of management science are by following authors:

Oliver Sheldon gave inputs regarding management in broad terms covering determination of policy (administration), execution of policy and use of organization to this end (management) and combining men with functions (organizing). Author of *Philosophy of Management*.

Henry Dennison developed concepts of motivation, leadership, teamwork etc. he conducted studies to find out applicability of methods of engineering to management. Author of Organization *Engineering*.

Mooney and Railey worked on the theory of organization and put forth nine principles of organization which are considered valuable in modern theory of management. Written book titled *Principles of Organization*.

Alvin Brown conducted analysis of principles of delegation of authority, and tried to lay down principles of management too. Authored book tilted *Organization of Industry*.

Henry Gantt was room mate of Fredrick Taylor. He recognized that total programme goals are series of interrelated derivative plan that humans could comprehend and follow. Based on this, he identified relationship among different activities required to complete a programme. Gantt Charts developed by him are used extensively in production management.

Frank Gilbreth conducted time and motion study that involves study of movements of a worker. It aims at eliminating unnecessary, ill directed and in efficient motions so as to perform the work in best possible way.. He classified body movements in bask elements and gave the term THERBLIGS to it. Interestingly Therbligs is opposite of Gilbreth.

Check your Progress 3

Note: Use the space given below for your answers

1) What is _Federalism‘ in management?

____

____

____

____

____

2) Discuss the contribution of Gilbreth.?

____

____

____

____

3) How does change in external environment influences an organization?.

____

____

____

____

4.4 Evolution of Management– A Chronological Overview

Management School/ thought	**Period**
Early contributions	Up to 19th century
Scientific management approach	1900-1930
Administrative management approach	1916-1940
Human Relations approach	1930-1950
Social Systems approach	1940-1950
Decision Theory approach	1945-1965
Management Science approach	1950-1960
Human Behavior approach	1950-1970
Systems approach	1960 onwards
Contingency approach	1970 onwards

4.5 Classification done by various thinkers: Various thinkers and contributors have classified the management thought in different ways. Some classifications are given here.

Thinkers	Classification
Newman, Summers, Warren	Productivity approach
	Behavioral approach
	Rationalistic model approach
	Institutional approach
George Terry	Management by custom
	Scientific management school
	Human behavior school
	Social Behavior school
	Systems management school
	Decisional school
Harold Koontz	Management process school
	Empirical school
	Human behavior school
	Social system school
	Decision school
	Mathematical school

4.6 MANAGEMENT THEORY JUNGLE: The past three to four decades have seen a veritable deluge of writings from various experts. Taking account of different views proposed by different practitioners and thinkers one faces plethora of confusion about the scope of management. Each scholar emphasizes his own point of view and brings out the weaknesses of others‘ theories. Mathematical/ management science school finds that behavior school lacks quantitative vigor. Empirical school criticizes the process school for its unscientific approach. Keeping this controversy in mind Prof Koontz has named all these approaches and theories as The Management Theory Jungle with confusion of language and findings. Since times, the vegetation has changed in this jungle, new approaches have developed, older approaches have taken new meanings but the developments of management science and theory still have the characteristics of a jungle.

4.7 Let Us Sum Up

Modern management school of thought is relatively new in origin. Various theories compiled in this school emphasize on two factors; human factor is highly important in organization, due to presence of human factor, an organization is social system. External environment exerts immense influence on the organization. Organization is essentially an open system which is in continuous touch with external environment. Organizational effectiveness depends how well management aligns the organization with external environment and how well it manages the internal environment of the enterprise. Continuous and rapid changes in environment pose serious challenge to organization. Only a dynamic organization can survive these.

4.8 Key Words

- Social system
- Formal organization
- Informal organization
- Open System
- Management Science
- Bounded Rationality
- Therbligs
- System Approach
- Contingency Theory

4.9 Short Answer Questions.

1. List major contributions of Simon's Decision Theory.
2. How does an open system differ from a closed system?
3. Explain empirical theory?
4. What is Management Science Theory?

Long Answer Questions

1. Assess the contributions of Peter Drucker in the development of management thought.
2. Explain the System's Approach to Management.
3. How does Social System approach differ from Management Science Approach?
4. What is contingency theory of management? How does it overcome the limitations of systems theory?

4.10 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Bose, D.C. (2006) *Principles of Management & Administration*, Prentice Hall India Learning Pvt. Ltd., New Delhi
- Bhushan, Y.K. (1998) *Fundamentals of Organization & Management* ,Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity I

Why is Fayol considered as father of modern management?____

____--

Activity II

Discuss _Systems Approach' to the study of management.____

____

____

____

____

____

_

UNIT 5

Planning

Structure

5.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- What does planning mean
- Importance of planning
- Different types of plans
- Barriers to effective planning
- Process of Planning

5.1 INTRODUCTION

We have discussed about functions of management in last chapters and it is clear to us that planning is the basic and foremost function of management and all other managerial functions depend upon planning. Planning means to think about future and preparing an action plan for handling it. Planning is essentially a futuristic activity. It is the process of *looking ahead*. It is the determinant of a course of action. Planning is said to be the blueprint which describes *how to run the organization* and manage business affairs in both, day to day basis and in the long run. It includes setting up of objectives to be achieved in a specific period of time, methods for doing various things dealing with the actual work of the organization, and looking into the overall philosophical and intellectual framework in which these methods operate. Planning is major activity having various sub activities. Planning as a process involves determination of future course of action which clearly defines why an action, what action, how to take an action and when to take an action. Why of action reveals that action has some objectives and end results that need to be achieved, what of an action specifies the activities to be undertaken, how and when generate various policies, programmes, procedures and other related elements.

5.2 PLANNING: DEFINITIONS

Some of the following definitions will help us understanding the planning in better way:

Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualization and formalization of proposed activities believed necessary to achieve desired result.

-George Terry

Planning is the selection from among alternatives for future courses of action for the enterprise as a whole and each department with it.

-Koontz and O‘ Donnel

Planning may be broadly defined as a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change.

-McFarland

Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets.

-Louis Allen

Planning is the determination in advance of a line of action by which certain results are to be achieved.

-Hart

After going through above definitions it can be inferred that

- Planning is futuristic
- It is all about achieving certain goals
- It is based on action
- It is divided among different activities.

5.3 NATURE / CHARACTERISTICS OF PLANNING

It is now clear that planning is an integral part of management. The following points shall further clarify its nature and characteristics:

Planning is rational in nature. The concept denotes the choice of appropriate means for achieving stated objectives. It involves analysis of company‘s present position (in terms of market standing, turnover, product development, financial status, manpower planning, talent management, demand forecasting, production targets, acquisition of new machinery, expansion plans etc) and its desired position in future. This analysis forms the basis of all planning to be done so that to reach at desired position.E.g. a company is having tenth position in market in sale of refrigerators. It wants to sell more refrigerators to improve its position to fifth rank in next three years and first rank in next five years. This will be the common objective of the company. All the planning shall be done to achieve these objectives in three years and gaining the top position in market in market in coming five years. Targets of product design, product promotion, Demand forecasting, recruitment of resources including manpower, up gradation of machinery (if required) and sales will be fixed. Action plans will be made to reach these targets. Control measures will be designed to check the progress made in each area.

Planning is an open system approach. An organization is an open system. It takes inputs from environment, transforms these and gives output back to environment. It is thus in continuous touch with environment. As external environment is dynamic and changing, the plans also need to be reviewed and modified according to changes. Thus planning process has to be in line with environmental changes. Thus it is an open system approach and can not be made or accomplished within the organization without considering the effects of external environment.

Planning is the primary function. All other functions like organizing, staffing, directing, controlling etc are followed by planning. Without planning no other function can be performed. Once planning is complete, function of controlling goes side by side with planning. Planning is incomplete without controlling and vice versa.

Planning revolves around objectives. As discussed above, the objectives influence the future course of action of every business. Poor or unrealistic objective setting will lead to wrong planning wastage of efforts and resources to achieve them. Therefore the main purpose of planning is to focus on proper setting of objectives before plans are made.

Flexibility of planning is very essential to make it a success. We have seen that external environment is highly dynamic. If planning is rigid and inflexible, it will fail to accommodate changes and objectives will not be achieved. Therefore planning should have ample scope for amendments as and when required. E. g. if company plans to sell refrigerators at lower prices than its competitors, but due to changes in EXIM policy, the raw material that it has to import become more expensive. If the raw material can not be purchased locally, company is left with no option but to import it at increased priced. It will lead to increase in cost of production. To absorb this increase, prices of refrigerators must be increased to certain extent, otherwise profits will come down and this will affect the enterprise negatively.

Planning has to be realistic in nature. The future is always uncertain. Planning should be as close to reality as possible. It should help achieve objectives with normal efforts. Objectives set too high can not be achieved. If planning is done on wishful thinking, it will not lead to achievement of objectives.

Planning is all pervasive. It extends throughout the organization because it is the fundamental function. Every manager has to perform planning in his area of operation. Top management is responsible for overall objectives and actions of organization. It plans about what these objectives should be and how should these be achieved. A departmental head has to devise the objectives of his department within the organizational objectives and also design the methods to achieve these. Similarly a foreman devises the objectives of his shop and methods to achieve these. Budget is also planned at top level, and then allocated at departmental levels, in department it is further reallocated at subsequent levels. Thus planning occurs at all levels of organization.

Planning is a continuous process. The work does not get over with formulation of plans. Regular review of plans is required in wake of environmental changes. In execution of planning, there may be a change in settings and conditions needing modification on continuous basis. Thus planning is always tentative and subject to revision and amendments as new facts become known.

Planning is about choosing the alternatives. It involves choice among various alternatives. Planning exists only because more than one alternative are available to achieve the end results. There will be no need of planning if only one alternative is available. Thus the availability of alternatives leads to necessity of planning.

Check your Progress I

Note: Use the space given below for your answers

1) Define planning.

____
____
____
____
____

2) Why is planning important

____
____
____
____

3) –Planning is Pervasive‖ Justify the statement?

____
____
____
____

5.4 APPROACHES AND PRINCIPLES OF PLANNING

Planning, as we know, is pervasive and exists at all levels of management. In an organization planning is based upon extent of participation, authority, delegation and competency level of managers. It generally carried out according to following four approaches.

Top down approach: This approach is followed in organizations where decentralization is lacking and every decision making authority is completely centralized and vests with top management. In such enterprises, the top management defines the mission statement of organization, sets the objectives and defines the planning accordingly. Action plans are made to achieve goals, discussed and amended. When all work is done, the decisions of the top management regarding planning work are communicated to employees at lower levels of management. In this type of approach, there is minimal or no participation of employees in planning process. All planning is done at the top. The quality of planning work depends upon caliber of people at top level.

Bottom up approach: This approach is opposite to top down approach. Here all the planning work is done by people at lower and middle levels of management and conveyed to top level. This approach ensures maximum participation of employees, thereby providing them with ample opportunities to make contribution to planning process.

Composite approach*:* This approach is the combination of top down and bottom up approach. Here, a middle path is chosen to facilitate the policy formulation, implementation and decision making of the plans. The top management offers guidelines and sets boundaries within which the plans are to be made. Before final draft of planning is made, debates and discussions take place. This is a lengthy process. This set up allows all, top, middle and lower levels of management to participate and decide unanimously. Therefore once plans are approved, they find acceptance from all sides.

Team approach: This approach is similar to composite approach, except that in this approach, the manager is given the task of planning. The planning drafts are prepared by managers after analysis of external and internal environment and then forwarded to top management for approval.

Principles of Planning

Planning process is based upon certain core principles. These are listed as under:

Principle of attaining common objectives: All planning is done keeping in mind achievement of common objectives of the organization. If planning is not means to the ends (objectives), it is futile exercise.

Principle of primacy of planning: Planning is the first and foremost function of management. All other functions are done after planning work is complete.

Principle of pervasiveness: Planning is done at each and every level of management and in each and every department of organization and for each and every task to be done. There is no area of function in the organization, where planning is not involved.

Principle of planning premise: premises are presumptions on the basis of which planning process is carried out. The premises must be near accurate, realistic and in tune with external environment. If premises are not accurate, planning will be affected negatively.

Principle of flexibility: plans made must be flexible to incorporate environmental changes and other contingencies. Rigid plan will make it very difficult to achieve the objectives.

Principle of periodic review: all plans made must be reviewed periodically to see the compatibility with environment changes and premises. If any of the factors changes, plan should be reviewed and modified. This principle is to support the principle of flexibility.

Principle of critical factors: the factors that play critical role in achievement of objectives are called critical factors. These include man, money, machine and material. These factors must be considered while choosing the most appropriate alternative.

Principle of competition: while drawing plans, the plans of the competitors must be kept in mind. Innovative plans should be made by thinking what competitors will do in a given situation. If this factor is ignored, the revenue may decline.

In addition to these principles, there are some other factors which are fundamental requirements of planning. These are also called **six Ps of planning**. These include:

1. Purpose: To understand the reasons behind existence of the organization. Why the firm exists? For profits, for social service, for some other work? If this purpose is clear, the planning will be in line with the vision of the organization.
2. Philosophy: To understand the belief and mission of the organization. To understand how the purpose is to be achieved. The means needs to achieve the ends should be clear.
3. Promise: Also called SWOT analysis. This involves studying a firm‘s strengths and weaknesses (internal environment) and accordingly Opportunities and threats present in the external environment. An organization, to be successful, needs to focus on its strengths and minimize its weaknesses.
4. Policies: Policies are guidelines for action. An organization may have policies regarding buying raw material, machinery, hiring manpower, compensation to employees, promotions and demotions and market policies. Before planning process begins, these policies must be understood and all plans should be drawn out by keeping these in mind.
5. Plans: Plans are all about objectives (end goals) and action (means). The plans should be made within the common objective of the company and action plans should be according to policies.
6. Priorities: All objectives set should be organized in terms of priorities. At the time of resource allocation, the most important objectives should be given preference rather than

the lesser important ones. Sometimes, if most important objectives re achieved, the lesser important objectives are achieved automatically.

Check your Progress II

Note: Use the space given below for your answers

1) Differentiate between terms *top down approach and bottom up approach* of planning.

____
____
____
____
____

2) Why should the plans need to be reviewed periodically?

____
____
____
____

3) Name six Ps of planning.

____
____
____
____

5.5 PLANNING PREMISE

The presumptions on the basis of which the processes of planning proceeds are called planning premises. Assumption regarding, likelihood of certain events to occur in future, are made. Depending upon these assumptions, various alternatives are reviewed and from these the most appropriate one is chosen and plan is drawn. If the presumptions happen in the future as assumed, the decisions taken according the plan chosen will be right. If presumptions change, the plan needs to be reviewed.

The premises fall in three categories:

Internal and external premises: internal premises or presumptions are about internal environment (factors) of the firm and belong to its own climate. These factors are well understood and fully controlled. These include factors like sources of raw material, machinery and equipment, sales forecasting, basic policies and programmes, availability and competence level of personnel etc.

External premises are related to factors of external environment. These factors include various types of sub environments like political factors, govt. interference, demographic characteristics, international environment, social factors and technological change etc. these factors have great influence on premises setting. These factors are not under control of organization. To survive, a company must understand these factors well and should make plans to survive changes in external environment effortlessly.

Controllable and uncontrollable premises: the factors which are completely under the control of management are called controllable factors. E.g. managerial policies, programmes and rules etc. The factors on which the management have no control are called uncontrollable factors. e.g. strikes, wars, natural calamities, inventions, changes in demographic characteristics, social change etc.

There are some factors over which, management has some control. These are known as semi controllable factors. E.g. efficiency of workers, pricing policies, marketing programmes etc.

All these three categories of factors are highly important for organization. Premises must be set after considering these factors. Likewise, any change in any of these factors is likely to cause revision and modification or redesign of the plan, depending upon the extent of change.

Tangible and intangible premises: this is the third category of premises. Tangible premises can be easily expressed in quantitative terms. E.g. projected sales. But intangible premises cannot be quantified and can be only assumed. E.g. reputation of the firm. In setting premises, both tangible and intangible factors play crucial role.

5.6 WHY PLANNING

It is now clear that planning is the primary activity of management. Increasing complexities of business, ever changing technologies, competition, consumer preferences and difficult financial environment have increased the need of planning. Planning is desired because of following reasons:

1. Planning is essential for the business in modern turbulent times. The external environment is undergoing fast changes. There is rapid technological change, globalization of economies, increasing competition, ever changing consumer preferences

and spending capacity of people have made business a complex affair. Planning helps handling these changes effectively.

2. Planning helps in improving the performance of the firm. Research studies have shown that firms which do planning well in advance tend to perform much better as compared to those firms where planning is done in routine.
3. Planning has focus on attainment of objectives. The thrust of formal planning is on setting objectives and to provide guidelines for achieving them. Objectives, thus, provide a direction and all the planning decisions are directed towards achieving them. This focus also ensures optimum utilization of resources, time and efforts.
4. Planning helps in proper utilization of resources. The needs of the organization are assessed and placed in order of priority. Planning ensures that most important needs should be given preference than least important ones during resource allocation process.
5. Planning helps to design control measures. All quantitative targets and their actual performance can bring to notice any deviations. Periodical reviews also points towards low performance areas. Similarly, deviations in production, sales, profits etc comes into light during periodic reviews and help investigators design remedial measures immediately, so as to achieve targets within stipulated period of time.
6. Planning helps in decision making process. As it helps specifying the action to be taken for achieving goals, it serves as the basis for decision making in future.
7. Planning helps avoid business failures. Planning if done accurately and scientifically can help avoiding business failures by enabling the firm to make optimum use of resources, re3ducing wastages and handling the changes successfully.

5.7 FEATURES OF A GOOD PLAN

A good plan should have following features.

1. It should revolve around common objective of the organization. A plan , no matter for which level or for which purpose is defined, must always contribute in one way or the other to , achievement of objective set by management.
2. Plan should be simple, clearly understood and must be conveyed to the employees.
3. It should be based on premises. Premises must be as accurately designed as possible.

4. It should be comprehensive in nature i.e. It should be prepared btytaking all the factors under consideration.
5. It should not be rigid. Flexible plans are always better as these allow changes to be brought as and when needed thus help the organization to cope with changes.
6. It must be based upon certain fixed standards. These fixed standards are set according to the organization's requirements.
7. It should be practical, not hypothetical in nature.
8. It should be logical in nature.
9. It must ensure optimum use of resources. It should aim to minimize wastage.
10. It should provide room for self analysis i.e. proper analysis and classification of actions and why a specific action was chosen,

5.8 PLANNING PROCESS

The process of planning may differ according to time and type of planning. Koontz has outlined eight steps which are mostly followed during planning process.

1. ***Be aware of the opportunities***: As this step precedes the actual planning, it cannot be considered as a part of planning process. But as it is vital homework on the basis of which planning shall be done, we have included it here. It is very important for the management to take a preliminary look at the possible future opportunities and understand them clearly and completely. Managers must be aware of where they stand in terms of their strengths and weaknesses, what problems they wish to solve and why, what gain do they expect from this exercise. The areas which must be scrutinized for this purpose include the market, competition, customer needs and preferences, company's own strengths and weaknesses.
2. ***Establish the Objectives***: The second step involves establishing the objectives for the whole enterprise and also for each subordinate unit. Objectives can be decided for the long term as well as for the short term. Enterprise objectives provide direction to the major plans which define the objectives of every major department by staying within the primary common objective of the company. Major departments in turn, control the objectives of subordinate departments and so on down the line. The objectives thus form a hierarchy. The objectives of the lesser departments will

be more accurate if their managers understand the overall enterprise objectives and then derivate the goals.

Objectives specify the expected results and indicate the end points of what is to be done, where primary emphasis is to be placed and what is to be accomplished with the help of strategies, policies, procedures rules, budgets and programmes.

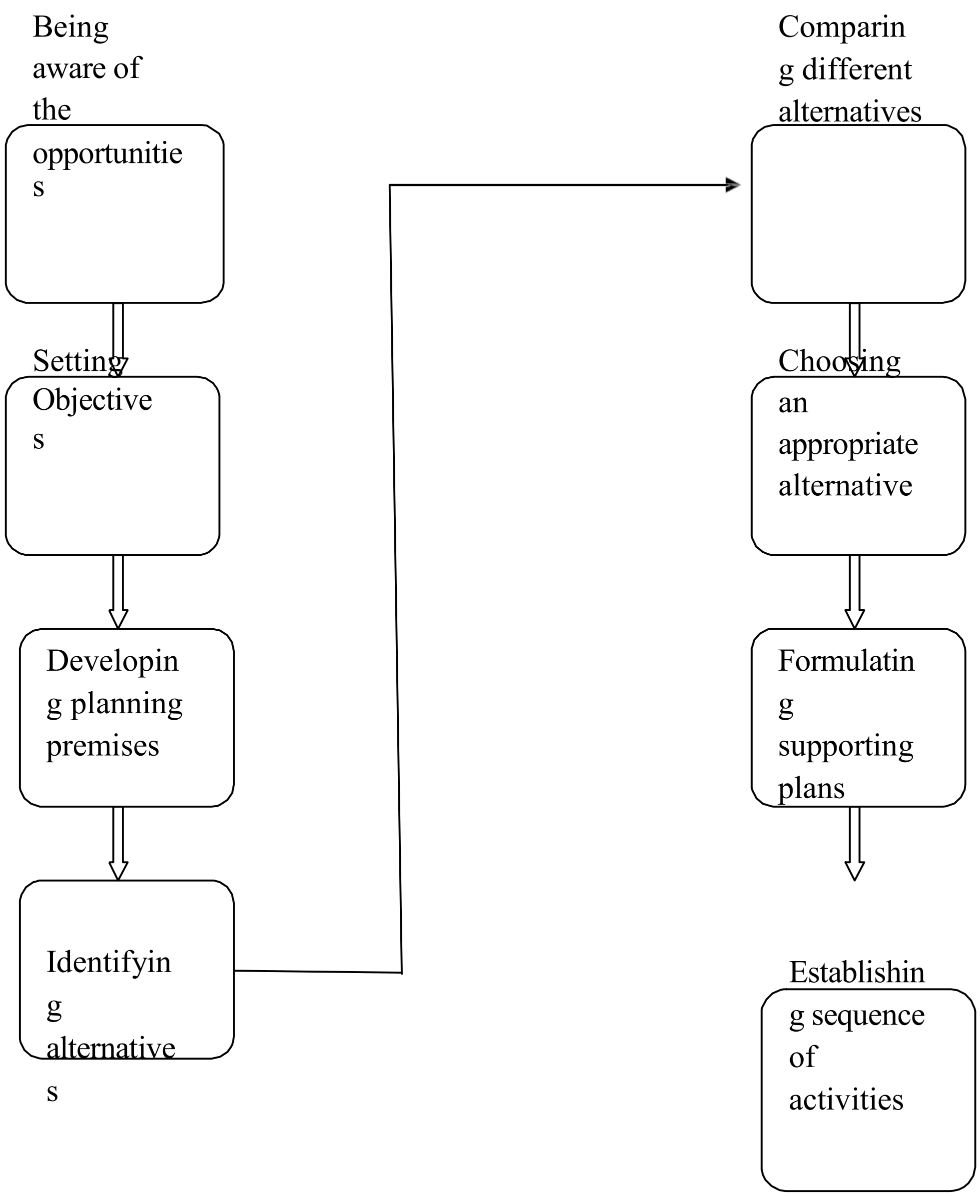


Fig 5.1 Steps in Planning Process

3. Developing Premises: This step involves drawing up the premises about the environment in which the plan has to be carried out. Various planning premises include forecasts, applicable basic policies and existing company plans. Koontz states the major principle of planning premises as, –the more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.‖ Forecasting is very important in premising. For example what kind of market will be there? What will be the volume of sales? What price mix? What product mix? What about technical developments? Costs and rates? Tax rates and policies? What new plants? What should be the dividend policies? What will be the scenario of political and social environment? How to finance the company‘s expansion plans? What are going to be the long term trends? And many more such questions need forecasting. Managers use various sources of information while preparing different types of forecasts about the enterpriser. The nature of planning premises differs at different levels of planning. At the top level, it mostly externally focused, as one moves down the organizational hierarchy, the composition of planning premises changes from external to internal. The major plans (old or new) will materially affect future against which the managers at lower units must plan. For example a superiors‘ plans affecting a subordinates managers area of authority becomes premises for the latter‘s planning.

4. ***Identifying alternatives***: Based upon organizational objectives and premises, various alternatives can be identified. Concept of identification of alternatives means that a specific objective can be achieved through various ways or actions. e.g, if an organization wants to expand, it may do so in more than one ways. It may opt for integration, diversification, and internationalization. If it chooses internationalization, again there are many ways to expand business beyond country‘s borders. It can opt for indirect exports, direct exports, collaborations, may consider the option of giving franchisees or licensing or may set up its own production plant there.

   Since all alternatives cannot be considered for further analysis, it is necessary to reduce the number of alternatives which do not meet the minimum preliminary criteria. Preliminary criteria can be defined in several ways such as minimum investment required, matching with the present business of the organization, control by the govt., feasibility of earning handsome returns and long term benefits etc.

5. ***Evaluation/ comparison of alternatives***: After deciding the minimum selection criteria for different alternatives, those alternatives which fall below the preliminary

criteria are dropped and rest are considered. Each and every alternative is weighed according to cost and profit factor, feasibility factor, its compatibility with vision of organization and its policies and finally its long term benefits,. The alternative with maximum benefits is chosen and planning begins.

Continuing with the example cited above, a company may drop the idea of exports as it wants to enter into a country, it may consider the option of franchisees or licensing or setting up its own plant. Plant set up may not be compatible with the cost factor as investment here may be very high, the company drops this too. Franchisees and licensing may not appear within the company policies so this may be dropped too. Finally company may decide to enter into joint venture with some prominent player in another country, establish itself b, study and understand the new market before venturing out independently.

6. ***Choosing an alternative :*** After evaluation is complete, the alternative that is most fit is selected. Sometimes there may be more than one alternative which are found to be equally good. In such cases more than one alternative are selected and planning is done for both. Selecting more than one alternative involves additional benefit of having a backup plan. As future is always uncertain. Sometimes if things change drastically and first alternative fails, the second alternative can be chosen as contingency plan.
7. ***Formulation of supporting plans***: after choice of an alternative is made, basic plan is drawn. Various plans are derived to support the basic/main plan. There can be different derivative plans. Examples include buying equipments and raw material, recruiting and training personnel and developing new products etc.
8. ***Establishing sequence of activities***: when basic and derivative plans are ready, a sequence of all activities is made so that plans are put into action. Based on plans at different levels, duties and responsibilities of individuals are fixed. Budgets are prepared to give plans more concrete meaning for implementation.

5.9 IMPORTANCE OF PLANNING

Planning has various advantages for the organization. Some of these are listed below:

1. ***Focus on objectives***: Planning helps in laying down the objectives of the organization clearly and practically. It also focuses its attention on achieving these objectives. Planning reduces aimless activities in the firm and allocates work for everyone.
2. ***Optimum utilization of resources***: Planning helps in best possible utilization of resources by minimizing disparities of resource allocation. All resources are first indentified and then planned.
3. ***Better coordination***: planning focuses on achieving the objectives of the organization. As these objectives are common for all, all efforts are made to achieve these objectives by concerted efforts of all. The duplication of effort is also avoided. In the absence of a plan, the organization will be pulled in different directions creating confusion and chaos, leading to the failure of the organization.
4. ***Future suspicions:*** Planning is futuristic activity and future is never certain. In planning, we analyze the premises which are as close as possible to reality. All planning is done on these premises. Back plans / alternative actions are also readied to handle major changes in future. All this exercise of planning helps taking care of future suspicions and uncertainties.
5. ***Helps achieve economy***: Alternative chosen during planning are carefully analyzed on various parameters including cost effectiveness. Only the best fit alternatives are chosen. Thus activities in planning are not done by hit and trail method, but in calculated way. This helps cutting down costs and maintaining economies in operations of the organization.
6. ***Encouraging innovation and creativity***: Better planning system encourages managers to devise newer ways of doing the things which can lead to more efficiency, low cost and more effectiveness. This attitude ignites innovative minds. It is also a motivational measure. It encourages an open and frank work culture.
7. ***Facilitates function of control***: planning fixes up most of the objectives quantitatively and lays down the performance standards. It facilitates the managers to assess the performance of their subordinates. The deviations in performance can be rectified easily and speedily through regular reviews. Planning and control are inseparable.
8. ***Facilitates management by exception:*** Principle of management by exception states that management should not be involved in every activity. Management should not worry

when things are going smooth but interfere when there are deviations in work performance. Planning allocates works for everyone. This provides managers with more free time which can be utilized for better planning rather than in giving directions in day to day work. Thus planning facilitates management by exception.

Check your Progress III

Note: Use the space given below for your answers

1) What is *planning premis*es? What do mean by semi controllable variables?

2) How do we evaluate different alternatives during planning process?

3) What is –management by exception‖?

5.10 BARRIERS/ LIMITATIONS OF PLANNING

Managers usually face few practical problems during planning process. These problems can prove lethal if not taken care of. Some of these are listed below:

Problem of accuracy in premises: A major limiting factor in planning is difficulty of formulating accurate premises. Due to inevitable uncertainty of future, premising is bound to have marginal error. Although this error can be minimized by accurate forecasting, still it is suggested that long range planning should not be undertaken because it is very difficult to predict distant future.

Problems of rapid changes in the environment: in a complex and rapidly changing environment, complications that make planning extremely difficult, also magnify the succession of new problems. The problem of change is often more complex in long range planning than in short range planning. The reason being that in rapidly changing conditions, planning activities taken ion one period may not be relevant for another period because the conditions in two periods are quite different.

Problems of inflexibilities: Sometimes there exist many such variables which often provide less flexibility in planning than what is needed to cope up with the changes in the future events. Such inflexibilities can be external or internal to the organization. There are three major internal inflexibilities:

1. Psychological inflexibilities: this inflexibility is in terms of ―resistance to change‖. Under such conditions, the employees are not willing to change their existing mindset and behavior. They look more into present than in future whereas planning looks into future and it often depends upon people‗s willingness to accept change.
2. Policy and procedural inflexibilities: organizational policies and procedures, once established, are very difficult to change. These are basically meant to facilitate managerial action by providing guidelines but they often tend to be too exacting and numerous that they leave very little scope for managerial initiative and flexibility. Such problems are more prominent in bureaucratic organizations where rules and procedures are more important than results.
3. Capital investments: many times, once funds are invested in fixed assets, the ability to switch future course of action becomes very limited and investment itself becomes a planning premise. As long as investment in fixed asst exist, this inflexibility continuous unless the organization liquidate this investment.

Besides internal inflexibilities, managers have to regularly face external inflexibilities, because these are caused by external environment and hence are not under organizational control.

1. Political climate: every organization faces this problem. Attitudes of govt. influence business, taxation policy, regulation of business etc. These constraints generate considerable influence on planning process.
2. Trade unionism: existence of trade unions especially those organized at national level, tend to restrict, freedom of planning. They usually put limitations on wages, work rules and productivity, hampering the freedom of decision of managers in these areas.

3. Technological advancements: rate and nature of technology change may also put a limitation on planning. Whenever there occurs a change in technology, the company has to face numerous problems that results in low productivity, higher cost of production and less competitive competence. Higher is the rate of technological change; higher is the number of the problems faced.

Time and cost factors: Planning process is highly time consuming and expensive process. It usually suffers from these two factors.

Time is a limiting factor for every manager in the organization. If managers are busy in preparing detailed reports and instructions beyond certain level, their effectiveness gets at stake. Spending excessive time on any of the activity is dysfunctional in the organization.

Cost is another limiting factor for planning process. Cost of planning goes up when it becomes over elaborate and excessively time consuming. Additional staff may need to be appointed. Planning should not become an activity where it consumes more money but contributes less. It should be taken at a level where it justifies the cost and not beyond it. Indirect cost like stationary, food, managers‘ time, financial compensation for those who are involved in planning also make planning costly affair. Planning is based on premises which are further based on possibilities of future which is always uncertain. If planning fails to meet the future requirements and there is no contingency plan as back up, all time consumed and money spent on planning becomes nothing but wastage of resources or in other words a loss on investment.

Problems of people factor: sometimes people involved in planning process fail to formulate plans correctly. They may falter at many steps, at formulation as well as implementation levels. Major reasons for failure can be lack of commitment to planning, failure to formulate sound strategies, lack of clear and meaningful objectives, tendency to overlook planning premises, failure to see the scope of plan, failure to see planning as a rational approach, excessive dependence on past experiences, lack of support from top management, lack of delegation of authority and lack of adequate control techniques etc. these factors may result for either inadequate or wrong planning in the organization.

5.11 HOW TO MAKE PLANNING EFFECTIVE

We can make planning effective by following steps:

1. Establish climate for planning by setting goals, establishing and communicating planning premises, involve all managers in planning process, reviewing subordinate‘s plans and their performance, by ensuring that managers have appropriate staff assistance and information. These steps ensure that planning will not occur without forcing it upon employees but the facilities required for this purpose are well provided for.
2. Involvement of top management: effective planning must originate and get support at the top level and get support from lower level managers. Both parties must have full involvement into this process. There should be an upward push as well as a downward press. Superiors may be pushed into settings goals and premises and approving plans which are prepared by subordinate managers.
3. Participation issues: the best planning is done when managers are given opportunities to contribute plans related to their areas of work. Participation of all managers in planning leads to their commitment, loyalty to planning and enthusiasm to implement the plan. Participation can be through management by objectives (discussed in next chapter), formation of planning committees or in the form of grass root budgeting I budgets are prepared for every small unit of the organization and moved upwards for final approval.
4. Communication: communication is very important in planning process. Objectives of business must be communicated to those who actually implement them. All policies, procedures, programmes etc should be known at operational levels. If the plans are not properly understood by those who implement these, it may not be able to achieve results.
5. Emphasis on both long term and short term plans: Both long term and short term plans should get equal emphasis. Short term plans shall be fulfilled automatically, if long term plans are fulfilled. Therefore long term plans will set the ultimate goals and these should be achieved through short term plans. Therefore both types of plans should get equal weight age and should be well integrated.

5.12 Let Us Sum Up

WE have seen that planning is a vital and primary activity of an enterprise. All other functions of management follow planning. Planning and control are inseparable. Planning helps achieving the objectives of the organization by ensuring proper resource allocation and lowering cost.

5.13 Key Words

5.14 Short Answer Questions.

Long Answer Questions

5.15 Suggested Readings

- Bhushan, Y.K. (1998) *Fundamentals of Organization & Management* ,Sultan Chand & Sons, New Delhi
- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi

Activity

The managing director of a company sent his departmental manager Mr. Arya to attend a five-day seminar on Developing plans for organizational activities. After Mr. Arya came back from the seminar, the MD called him to his office and said. –I hope the seminar has helped you in learning to prepare plans. Please help in making plans for the following issues.‖

(a) You know our managers go on frequent touring in india and abroad. Most of them take their spouses along at the company's expense. We want to stop this practice.

(b) Many employees take advance for official expenses but do not fill the necessary vouchers in time. It is becoming difficult for the accounts department to keep track of the defaulters and keep their accounts upto date.

Questions

1. If you were the departmental manager, what plans would you make in each case?

2. Can these plans be used repeatedly?

UNIT 6
Planning and MBO

Structure

6.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Different types of plans and planning
- Objectives of an organization
- Relevance of MBO
- Process of MBO
- How can MBO made effective in an organization

6.1 INTRODUCTION

So far our concepts have become clear regarding planning, its primacy and relevance in the organization. Planning always result in formulation of supporting plans. Planning as well as plans is of different types. In addition to classification of planning, in this chapter, we shall study another important concept of management, Management by Objectives or MBO. This concept was contributed to management by **Peter Drucker**, known as new age management guru. MBO makes work allocation, control as well as performance appraisal easier and concrete. Many organizations religiously implement is year after year to facilitate work flow. Its importance thus cannot be overlooked.

6.2 CLASSIFICATION OF PLANNING / PLANS

Planning can be classified on different grounds. There are five different classes of planning.

1. **Planning according to coverage of activities**: There are two different types of planning in this category: corporate and functional planning.

Corporate planning: as the name suggests, this planning is undertaken at top level (corporate level).this planning covers the entire organizational activities. Focus of this planning is to set future objectives and making plans to achieve these. This planning is usually done for the long term. Corporate planning is original and starting point of planning process in the organization. It lays down the basic goals, strategies and policies for enterprise as a whole. Corporate planning integrates various functional plans and also provides for future contingencies. SWOT analysis is also done at this level to match internal and external environment i.e. strengths with opportunities and weaknesses with threats.

Functional Planning: Corporate planning is integrative but functional planning is segmental in nature. It is undertaken for each major function of the organization like production, marketing, finance and HRM. At the subsequent levels, functional planning is undertaken for sub function within each major function. E.g. all marketing related plans are made in marketing department and so on. Functional planning is derived from corporate planning and it must contributes to the same. This contribution is achieved by integrating and coordinating functional planning with corporate planning.

2. **Planning on the basis of contents:** On the basis of contents, planning is of two types; Strategic and operational planning

Strategic Planning: Strategic planning is the process of planning as to how to achieve organizational objectives with the available resources. It is usually done at the top level. An assessment of available resources is made and plans are drawn for next ten years. This planning is also for long term. It provides cohesiveness in company‘s policies and activities over long period. It is concerned with both: formulation of goals and selection of means with which goals are to be achieved. It is designed to improve organizations‘ relationships with environment. Strategic planning is comprehensive and unified plan for the deployment of scarce organizational resources and it sets the direction of organizations‘ activities for achievement of goals.

It is important for following reasons:

- To study the impact of external environmental factors on business of the organization.
- It is required for assessing the needs for various resources, acquiring them and allocating them judiciously.
- It helps in better planning with the help of information technology and other techniques and ensures success to a great extent.

Operational planning: Also known as tactical and short term planning, operational planning involves the conversion of strategic plans into detailed and specific action plans. These plans help sustain the present position of the organization in the market. Operational planning is done at middle and lower levels of management. Operational; plans are meant to support strategic plans. All changes in the internal and external environment are met through tactical plans. The success of tactical plans depends upon the speed and flexibility with which management acts to meet sudden situations. Operational planning is mainly concerned with efficient use of resources which are already allocated and with the help of control mechanism; it ensures efficient implementation of action so that business objectives are achieved.

Difference between Strategic planning and Operational planning are:

1. Strategic planning is done for the long term whereas operational planning is meant for short term.
2. Strategic planning has greater scope and covers almost entire organization. Operational plans are limited in scope and cover only that area where these are relevant.
3. Strategic planning is concerned with both, internal as well as external environment whereas operational planning is mostly concerned with internal environment.
4. Strategic precedes the operational planning. Strategic planning sets the trends and direction of the organization, while operational planning implements those.

3. **Planning according to time period:** According to time dimension, planning can be long range planning and short range planning.

Long range planning: long range planning is done for long term goals of the organization. Generally long term planning is done for three to five years. Long term plans are made for all functional areas of business. These are affected by environmental factors. Long range plans deal with the broad competitive and technological aspects of the organization and for allocation of resources over an extended period of time. These are prepared after analysis of firm‘s external environment and forecasts of events. As these plans are meant for long term future and future is full of uncertainties, these plans must be flexible to incorporate changes of external environment. Long term plans cover major areas like manpower planning, product planning, financial resources, organizational structure and research and development activities.

Following factors propel an organization for long range planning:

- Technological development and fast changing consumer needs.
- Need to develop new product lines and product mix over a period of time.
- Tendency for improving the scale of operations, expansion plans etc.
- Changing patterns of industrial relations make it important to design long range plans.

Short range planning: the plans which are normally for a period of one year are termed short range plans. These plans are specific and detailed. Short range plans are break up of long range plans and they contribute to the achievement of long range plans.

4. **Planning according to approach to environmental response**: Planning is an open system approach and an organization has to react to environmental changes. In environmental context, planning is of two types; proactive and reactive planning.

Proactive Planning: This type of planning is about designing suitable course of action in anticipation of likely changes in the relevant environment. Organizations while using proactive planning use broad planning approaches, broad environmental scanning, decentralized control and reserve some resources to be utilized for the future use. These organizations do not wait for environment to change but take action in advance of environmental change. Most of the successful organizations generally, adopt proactive approach in planning.

Reactive planning: In reactive planning organizations' responses come after the environmental changes have taken place. These organizations start planning, after the changes have occurred. In such situations, the organization generally loses opportunity to those organizations which adopt proactive planning approach. This is because by the time, reactors are ready with their plans; the contextual variables of planning show further changes, therefore their plans do not remain valid in the changed situations. This approach of planning is useful in an environment which is fairly stable over a long period of time.

5. **Planning according to degree of formalization**: This classification is based upon extent of formalization in planning.

Formal planning: Formal planning takes place in the form of well structured process involving different steps. Generally, large organizations undertake planning in formal way. These organizations create separate corporate planning cell, placed at sufficiently high level in the organization. Such cells have experts from different backgrounds. The job of these cells includes monitoring of external environment closely for perceptible change and in depth studies of relevant changes. After doing this research, suitable measures are suggested and planning process that is adopted is rational, systematic, well documented and regular.

Informal planning: informal planning is undertaken generally by smaller organizations. The planning process is based on managers' memory of events, intuition and gut feelings rather than based upon systematical evaluation of environmental events. There is no specific department for planning in such organizations. Informal planning becomes a part of routine job of manager. For smaller organizations, the environment is not complex; these organizations manage to do reasonably well with informal planning.

TYPES OF PLANS

Plans can be broadly classified in two categories:

1. Standing or strategic plans
2. Single use or operational plans

1. **Standing or strategic plans** provide guidelines for future course of action. These plans once formulated, are functional over long periods of time. These plans include the following:

Mission statement: Mission statement defines the direction of the business. It helps the organization to link its activities to the needs of the society and legitimize its existence.

Objectives: these are the open ended results that need to be achieved within the allotted period of time. Objectives are predetermined, written, realistic, time bound, specific and quantifiable in nature.

Policies: A policy is the guideline for action. Policies are flexible, clear, simple, written, practical and logical in nature. Policies can be of three types;

a) Corporate policies: these are made at corporate/ top management level. These are meant for whole organization.

b) Departmental policies: these policies are designed for a particular department. These vary for each department.

c) Functional policies: these policies are designed for different functional areas of organization.

Strategies: these are general programmes of action meant for attainment of comprehensive objectives.

2. **Single use or operational plans**: these plans are relevant for specified period of time. The plan lapses when this time period is over. Then these plans are formulated again for next specified period. These plans are derived through standing or strategic plans. Standing or strategic plans are implemented through single use or operational plans. These plans include the following:

Projects: It is highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds for execution.

Budgets: Budgets are the financial statements of estimated income and expenditure for given period of time. These are decided mostly for a year.

Targets: Targets are the end results formulated for each department. These are quantifiable. These help to track progress towards achieving goals.

Programmes: Programme is a sequence of activities undertaken for the implementation of the policies and achieving the objectives of the organization.

Check your Progress I

Note: Use the space given below for your answers

1) Define and differentiate between strategic planning and functional planning.

____
____
____
____
____
____
____

2) Why is proactive planning important?

____
____
____

3) Is informal planning relevant for large firms? Why?

6.2 MANAGEMENT BY OBJECTIVES

Management by objectives is relatively a new technique developed in recent past. It is a multifunctional concept which can be used as an appraisal tool, motivational technique as well as control device. There are many contributors to this technique, but the term MBO was coined by Peter Drucker. Koontz defines MBO as *a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organizational and individual objectives*.

Chakaravarty defines MBO as *a result-centered, non specialist, operational managerial process for the effective utilization of material, physical and human resources of the organization by integrating the individual with the organization and organization with the environment.*

MBO is an overall philosophy of management that focuses on measurable goals and end results. It provides a systematic and rational approach to management. MBO is based on assumption that people perform better when they know what is expected of them and when they can relate their personal goals to organizational objectives. It also assumes that people are interested in goal setting process and in evaluating their performance against the targets. MBO is also called **Management by Results (MBR)**.

According to J. Philip, MBO system has following characteristics.

1. In this system there is some form of corporate body which is responsible for laying down the common objectives of the enterprise.

2. Objectives of each position on the organization are established by both; the job holder and the boss. These objectives are in mutual agreement with the overall objectives of the organization.
3. The objectives set at different levels of management and of different position are perfectly in sync with each other and with overall objectives of the organization. Every objective contributes towards achievement of organizational common objective.
4. Objectives of each managerial position are measurable.
5. The responsibilities and authority for each position in the organization is well written and clearly defined. It avoids overlapping and conflict and brings clarity in the organization.
6. All objectives set are time bound i. e. they are to be achieved within specified time frame.
7. In MBO system, job improvement plans are designed to facilitate achievement of objectives. These plans are also acceptable to both subordinate and boss.
8. There is periodic review and necessary updating of mutually agreed goals. This is done jointly by boss and subordinate.
9. Such mutually agreed objectives form the basis of performance appraisal.

6.3 FEATURES OF MBO

Above discussions bring out following features of MBO:

1. MBO is not a technique but philosophy of management. A technique is applicable only in specific areas but philosophy guides every aspect of management. MBO is such approach that provides both; *techniques* for better *management*.
2. It is all about objectives. In MBO, the objectives of the organization and of individuals are decided jointly by superiors and subordinates. These objectives become the targets which are to be achieved by all individual in the organization. The periodic review of thesese objectives and targets is also done collectively by bosses and subordinates.
3. The jointly set objectives are time bound. These objectives become the yardstick to measure performance of individuals (individual objectives), departments (departmental objectives) and the whole organization (corporate objectives).
4. A comparison of the target and actual results enables the managers to assess the performance of their subordinates and similarly help the top management to evaluate the performance of managers. This makes MBO a tool for performance evaluation.

5. MBO provides regular review of performance. This is done at least once in a year to check the progress annually. This review ifs future oriented and form basis for planning and corrective action.
6. MBO also provides guidelines for appropriate system and procedures. Other activities like delegation of authority, allocation of responsibility and authority and allocation of resources can be done by keeping the objectives as basis.
7. Objectives also become a basis of reward or punishment in the organization.

6.4 PROCESS OF MBO

Management by objectives is approach where joint goal setting is done. Employees are encouraged to work through participation. This process has following steps:

Setting preliminary Goals at the Top: with the help of planning premises, the top managers the purpose or mission of the organization. This forms the basic step of MBO. The goals set by top management require deep analysis in internal and external environment and matching strengths with opportunities and weaknesses with threats.

Followed by this the most important objectives or goals for the enterprise for next few years are decided. These objectives are then divided into short term and long term goals. The goals are then set for all levels of management, for every department and every individual. Typically as one proceeds down the organizational hierarchy, the length of time set for accomplishing goals tends to get shorter. It is seldom feasible for the first level supervisors to set annual goals, since their goal span on mostly operating matters like cost or scrap reduction, rearrangement of facilities etc. these goals can be accomplished in few months' time. The goals are never forced upon subordinates and are always set jointly be superior and subordinates. The process of joint goal setting also make managers aware about the problems that subordinates face while doing the work. The goals set are bound for regular reviews and modifications. During goal setting, managers also establish measures of goal accomplishment. In nut shell following points should be borne in mind that objectives should

- Be Verifiable;
- Indicate the time frame within which they are to be achieved;
- Indicate the cost involved;
- Indicate quantitative and qualitative aspects of the expected results;

- Encourage achieving personal and professional growth and development of employees;
- Be clearly communicated to all concerned with these;
- Short term and long term objectives should be in tune with each other

Identifying key result areas: Organizational objectives and planning premises together provide the basis for the identification of key-result areas. Key-result areas are categorized with the inputs of various stake holders and specify priorities for organizational performance. Examples of key result areas include (i) profitability, (ii) market position,(iii) innovation, (iv) productivity, etc. KRA differ from one organization to another.

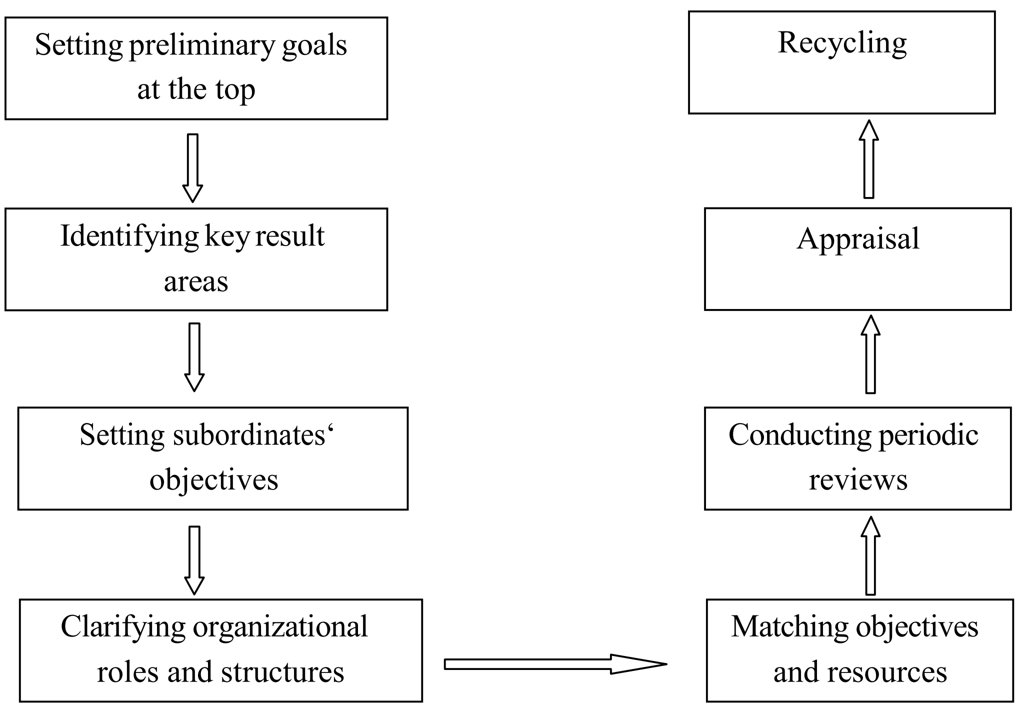


Fig 6.1 Process of Management by Objectives

Setting the subordinates objectives: The subordinate managers are communicated about common objectives, planning premises and strategies of the company. The superiors then discuss these with their subordinates. Subordinates are asked about what they can accomplish? How much will they contribute to organization's common objectives? Time frame required to achieve goals is fixed. Resources required are listed. Feasibility of achieving the targets is also discussed. Superiors need to take care that targets fixed are neither too high nor too low. The superiors usually try to fix higher targets while the subordinates bargain for the lower ones. With mutual agreement, targets should be set at touchable target. Too high targets will mort be achievable. Too low targets will not contribute significantly. Thus unrealistic targets will weaken the whole programs of objective setting.

After all relevant discussions between superior and subordinate, the final objectives are fixed. It must be taken care of that individual objectives are in line with organizational objectives.

Clarifying organizational roles and structure: Sometimes organizational roles are not clear and specific responsibility for attaining objectives is not fixed. This leads to chaos. There should be clear cut assignments of tasks and fixation of responsibilities. Sometimes the responsibility of a person for a specific task may not be fixed. Such activities can be put under the overall command of a particular person. In the absence of such command, specific responsibilities for taking up different tasks should be allocated to concerned managers. Thus the organizational roles must be clear to all. Need for changes in the present organization structure may arise. The organization charts and manuals should be suitably amended to depict the change brought about due to MBO. The job description of various jobs must be redefined with their objectives, responsibilities, and authorities. The relationship among all jobs should be clear explained.

Matching objectives and resources: When objectives are finalized, the resource requirement becomes clear. Without a proper balance between the objectives and resources, the achievement of goals is difficult. Superiors, therefore, must ensure to remove the gaps between goals and resources required.All managers at various levels require these resources to accomplish their goals. They should get all possible help to achieve the targets like infrastructure, staff, modifications in job, authority and responsibility etc.

Conducting reviews: Periodic meetings (also called reviews) between the superior and the subordinate to review the progress towards the goal attainment are must in MBO. For this purpose the superior should, well in advance, establish check points or standards of performance for evaluating the progress of their subordinates. The reviews can be held monthly or quarterly. These reviews serve as a feedback mechanism MBO system. Since individual or group goals are specifically defined, mostly in quantifiable terms, employees can compare their progress at review time against the specified goals. This periodic check-up allows managers and employees to see whether they are right path or not. Any deviations found during reviews can be rectified.

Appraisal: Appraisal aspect of MBO helps to measure the actual performance of employees as compared to expected performance. The gaps or deviations between actual and expected performance are taken into notice, and measures for improvement are identified. Appraisal is not merely for punitive action, but it also ensures that everything moves as pre planned.

Recycling: On the basis of outcome of appraisal, the feedback is provided to higher level of hierarchy. Due to joint goal setting, what happens at one level may influence the outcomes at other levels too.

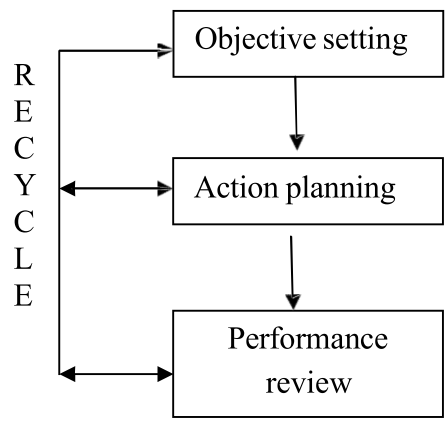


Fig. 6.2 Recycling aspect of MBO

Source; L.M. Prasad

Feedback of one level is recycled to next level and so on to see if objectives are properly set at all levels. Feedback information helps in taking decisions to make necessary changes in MBO programme and to shape goals for the next year. The MBO cycle repeats itself on an annual basis.

Check your Progress II

Note: Use the space given below for your answers

1) Define MBO.

____
____
____
____
____

____
____

2) What is the significance of joint objective setting?

____
____
____
____
____
____

3) List key features of MBO.

____

____

____

____

____

____

6.5 ADVANTAGES OF MBO PROGRAMME

Management by objectives has proven a highly beneficial progranmme for companies. Its major advantages are listed below:

- **Better management.** Through MBO, all resources and activities are put in such a way that they result in better performance. The five actions of MBO that improve the performance are

1. Clarity of objectives is the mainstays of MBO. Employees do better when they understand better what they are supposed to do. This improves their performance.
2. Clarity of roles, responsibility and authority leads to better performance. This also increases cooperation on both vertical and horizontal levels.
3. Periodic reviews help in better performance by giving feedback about employees‘ actions and results. The review provides opportunities for taking stock of situation and planning future action plan.
4. MBO process involves participation of employees in objective setting. This is a big motivation for employees who feel valued and empowered. Also due to joint goal setting,

the employees tend to be more committed and dedicated to the goals with a feeling that they are achieving their own objectives. This improves their performance.

5. Periodic reviews in MBO process provide a feeling that there is always room for further improvement. The action plans provide measure to avoid deviations and correct wrong practices. This provides employees opportunities to learn as well. This improves performance immensely.

- **Clarity of actions**: MBO tends to provide key result areas (KRA) where organizational efforts are needed. Close vigil is kept at the changes in the environment. Any modifications in action plans, if needed, are done at fast pace. MBO also aims to create clarity in organizational roles and structures, responsibility and authority. The objectives cannot be accomplished without authority. Positions should be built around the key results expected of people. Implementation of MBO helps removing deficiencies in the system.
- **Leads to personnel satisfaction**: MBO increases satisfaction among the employees in many ways. It allows participative management by permitting joint setting of goals. People get opportunities to share their ideas with their superiors, contribute new ideas, discuss their problems, bargain their targets and decide about the resources required to achieve the targets. All this gives employees a feeling of self importance, empowerment and sense of belongingness. This raises their motivational levels. They feel that they are achieving their own objectives because they have been fully involved while deciding the objectives which no body has forced upon them. All these factors increase their satisfaction and motivate them.
- **Control measures**: MBO mechanism involves regular reviews which help in devising the control measures. The setting of standards and then finding the deviation from these is control. As verifiable goals are set in MBO, it becomes easy to find deficiencies in the system. Every person knows what is expected of him, so these standards act as clear cut controls.
- **Basis for organizational change**: MBO involves people in goal setting after explaining them the rationale behind these goals. Under MBO programme people are least resistant and most receptive to the change, because they are all involved in deciding their own work. MBVO equips an organization to handle the change in better way.
- **Other benefits:** Some additional advantages of MBO programme are:

1. It increases the effectiveness of management process by utilizing the human resources effectively and efficiently.
2. It encourages commitment of employees towards goal attainment. It acts as a self appraisal and self management tool which enhances their self motivation and control. It also makes employees result oriented.
3. It reduces duplication of efforts and leads to increased trust, cooperation and supportiveness among employees.
4. It improves communication and organization structure which helps in locating weak and problem areas.
5. It helps to identify training needs and opportunities for growth on the basis of measurement of performance against established standards.

6.6 LIMITATIONS OF MBO

In spite of the benefits MBO provides, it suffers from a number of weaknesses:

1. **Failure to teach the philosophy of MBO**: MBO is successful only if managers who have to put this concept into practice clearly understand it. They, in turn, must explain to subordinates what it is, how it work, why it is being done, what part it will play in appraising performance, and above all, how participants can benefit.
2. **Failure to give guidelines to goal setters**: Management by objectives cannot work if those who are expected to set goals are not given needed guidelines. Managers must know what the corporate goals are and how their own activities fit in with them. They should also understand the planning premises and assumptions of the organization about future. Failure to understand these aspects lead to failure of the system.
3. **Difficulty of setting goals**: goal setting is core philosophy of MBO. It is not always easy to set goals accurately. The goals must be verifiable for the performance to be evaluated. Truly verifiable goals are difficult to set. Casually set objectives may prove a liability to the organization.
4. **Emphasis on short term goals**: In most MBO programs, managers set goals for the short term, seldom for more than a year. Their thrust is to give undue importance to short term goals at the cost of long term goals. Problem of lack of compatibility of short term goals

and long term goals may also persist. So equal emphasis need to be given to both short term and long term goals.

5. **Tendency for inflexibility**: Many times, employees have the tendency to stick to the set objectives even if there is need for modification. The objectives will cease to be meaningful if frequently changed, but at the same time, it is also foolish to strive for achieving those goals which have become obsolete due to revised corporate objectives.
6. **Time consuming activity**: A great deal of time to objectives at all levels of the organization is required in MBO. Initially to built confidence in subordinates, superiors may have to hold many meetings. The formal, periodic progress and final review sessions also consume time. So MBO is a time consuming process.
7. **Over load of paperwork**: Introduction of MBO programme leads to need of regular documents like newsletters; instruction book lets, training manuals, questionnaires, performance data, and reports etc. To know about the progress, managers may also demand regular reports and data in writing. So MBO imposes cumbersome paper work.
8. Sometimes lack of follow-up by the bosses at the appropriate time is another hurdle in the successful implementation of MBO. To avoid such situation, the superior must get to the subordinate at the appropriate time. The subordinate should be prepared to tell the boss exactly what has been accomplished and how.
9. MBO can be used as a threat by overzealous managers. Managers turn MBO into a political issue and start playing games.
10. MBO can be used as a 'whip' to control employee performance. It ceases to be a motivational tool under such circumstances
11. It can lead to a tug-of-war situation in which the subordinate tries to set the lowest possible targets and superior the highest.
12. MBO is suitable for managerial, professional and sales employees but not much applicable to routine worker level jobs like assembly line. Here, traditional methods of performance appraisal need to be used.

Check your Progress III

Note: Use the space given below for your answers

1) List important benefits of MBO?

____
____
____
____
____
____
____

2) Inflexibility is a limitation of MBO. Discuss.

____
____
____
____
____
____

3) How can MBO provide better management in the organization?

____
____
____
____
____
____

6.7 HOW TO MAKE MBO EFFECTIVE

MBO is not a magic tool for an organization's major functions like planning, motivation, evaluation, and control needs. MBO does not become an instant success in the company either. Some steps must be undertaken to make it effective and successful. These are listed as under:

Formulate clear objectives: Objectives should be clear. Objectives must be realistic and clearly understood by both, managers and subordinates. It should be communicated well that the objectives will be used to evaluate performance. Managers should be provided training to learn the skills of setting useful, measurable goals and communicating them effectively.

Encourage active participation in goal setting: Managers should be prepared to lessen direct control over their subordinates to certain degree to encourage them to take more active roles in defining and achieving their own objectives. Sometimes managers may feel uncomfortable with this little loss of power, but to make MBO program effective, it is necessary to reduce degree of control. There should direct communication between the superior and subordinate in setting the goals, discussing the subordinate's problems and resetting the goals, and reviewing his performance. There should be an effective two-way communication during this process of join goal setting.

Support and commitment of top management: An active participation of top management is essential for implementation of MBO programme. Practice of the top management is imitated at the subsequent lower levels in the organization. For example If the top managers use ‗objectives' as an instrument for managing, this practice will be followed down in the organization. If top management does not regular efforts to keep the MBO system alive and fully functioning, then the initial acceptance and enthusiasm among employees program will quickly disappear. To sustain the momentum, support from top management is very important.

Educate and train managers about MBO: Managers and subordinates should be educated about the philosophy of MBO, the procedures involved, skills required and advantages of the MBO system to the organization and their own careers. The resistance from managers, if any, should be overcome, otherwise MBO program will not succeed. The personnel at all levels should be imparted adequate training for generating receptive mindset to help effective implementation MBO.

Make feedback effective: An MBO system, lot of activity depends on participants who provide feedback regarding their work for attaining objectives. Employees should be clearly told baselines like, what to be achieved and how well it is being achieved them and 'where he stands' and 'where he is going' so that he may overcome shortcoming of his performance and may make necessary adjustments to achieve the desired results on his own. Thus it is not only setting goals that is important but regular performance review and feedbacks of results are equally necessary.

Take care of necessary mechanism: MBO cannot be implemented as in isolation. It should be integrated with all other organization programmes including human resource planning & development, product planning and development, production control, financial planning etc.

6.9 Let Us Sum Up

MBO is a management practice which aims to increase organizational performance by aligning organizational goals and subordinate objectives throughout the organization. In this system specific performance objectives are determined through participative approach. Also called joint

goal setting, in MBO programme, superiors and subordinates set mutually agreeable goals after lot of discussions and deliberations. Progress towards objectives is periodically reviewed and rewards are determined accordingly. MBO builds link between planning and controlling functions, and helps to overcome many barriers of planning. This approach is also known as 'Management by Results' (MBR). MBO also serve as a tool for performance appraisal.
Management by objectives programme is implemented through long process involving various steps like goal setting at top level;, followed by subordinates goal setting. Changes in organizational structure are also incorporated if required, to facilitate goal attainment. There is a regular periodic review in which managers check the performance of subordinates and give this feedback to next levels in hierarchy. The success of MBO depends on accuracy of goal setting and overcoming the employees‘ resistance to change. MBO demands careful planning and proper implementation.
Some of the problems present in MBO system surface due to wrong implementation like incomplete understanding of MBO philosophy by people, poor planning and lack of guidelines for implementation, practical difficulty in setting objectives, lack of follow up etc. MBO programs have achieved considerable acceptance, even though they require a great deal of time and energy, because they tend to result in improved performance and higher morale.

6.10 Key Words

- Corporate planning
- MBO
- MBR
- Joint goal setting
- Recycling
- Long term goals
- Short term goals
- Resistance to change
- Clarity of roles and objectives
- Periodic review
- Appraisal
- Feedback

6.11 Short Answer Questions.

1. What do you mean by Key Result Areas in MBO?
2. Under which situations an organization has to change its objectives?
3. How does joint goal setting take place?
4. Explain the concept of _Recycling' in MBO.

Long Answer Questions

1. Define MBO? Discuss its characteristics and features? What are its advantages to the organization?
2. Discuss the process of MBO in detail.
3. What are limitations of MBO? List some measures to make MBO more effective.
4. Explain different ways of classification of planning.

6.12 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited , fourth ed. New Delhi

Activity

Sun Stampings ltd. Is a large concern that supplies electrical stampings to government and non-government organizations. Its plants are spread in various parts of the country. Unfortunately, there was lack of coordination in purchasing procedure followed by different plants. As a result, some of the plants faced difficulty in obtaining the raw material and, thus, production suffered. The company decided to appoint a purchase executive Mr. Malhotra at the post of Senior manager, purchase in the head office to improve the overall purchase procedure of the company keeping in mind the requirements of various plants. Mr. Malhotra decided to centralize the purchase procedure and sent letter to plant office and no purchase orders should be made at their level. The letter went as a directive without consulting the plant managers. Mr. Anand , the assistant of Mr. Malhotra told Mr. Malhotra to consult the plant managers before issuing the letter but Mr. Malhotra refused.

When plant managers received the letters, they replied Mr. Malhotra that they agree to his directions but when it came to actually sending the requisition to the head office, they did not do so. They followed the original purchase procedures.

Questions

1. Analyse the case.

2. explain the concept and importance of MBO (management by objectives).

UNIT 7

Decision Making

Structure

7.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Concept of decision making and various types of decisions
- Process of decision making and issues associated with this
- How to make decision making an effective exercise
- How different conditions influence decision making
- How concept of rationality affect decision making

7.1 INTRODUCTION

Decision making is integral part of management and is done on routine basis. Managers face many issues – what to do with profits? Invest further or pay dividend? When to hold review meetings with subordinates? What should be agenda of next meeting? What steps are needed to curb increasing indiscipline among workers? How to check absenteeism? Dealing with trade unions? Modifications in objectives due to changes in govt.'s new export policy. For handling various such issues, decisions are to be taken regularly. Routine type of decisions is taken subconsciously. Sometimes the issues are major and sensitive. For such cases the decision making process becomes calculated and lengthy and decision is taken after lot of deliberations. Decisions are taken by managers and actions are carried out by others. Quality of decision taken determines the quality of its outcome. The managers are evaluated on the basis of their decision making.

In this chapter we will discuss in detail the basic decision making process and different types of decisions taken under different circumstances. We will also ponder over issues relating to effective decision making.

7.2 CONCEPT OF DECISION MAKING

A decision is all about making choices. When managers are making decisions, they have various alternatives available to choose the best one from. Koontz describes decision making as *selection of a course of action from among alternatives.*

According to Lopez, a decision can be defined as ‗ *a decision represents a judgment: a final resolution of a conflict of needs, means or goals; and a commitment to action made in face of uncertainty , complexity and even irrationally'.*

A decision thus involves choosing one most suitable alternative among few available. Decision making is to arrive at a decision. Shull defines decision making process as ‗*Decision making is a conscious human process involving both individual and social phenomenon based upon factual and value premises which concludes with the choice of one behavioral activity from among one or more alternatives with the intention of moving towards some desired state of affairs*.' In decision making three aspects of human behavior are involved:

1. Cognitive aspect: it is the conscious process of being aware of thoughts, perceptions and reasoning.
2. Conative aspect: it is the ability to act on what is known.
3. Affective aspect: this aspect deals with feeling and emotions like fear, joy etc that occurs for very short duration and involuntarily in response to a particular situation.

Based upon these discussions, following features of decision making can be listed:

- Decision making is essentially cognitive in nature.
- In decision making there are various alternatives available. Most appropriate alternative is chosen. Thus it involves freedom of choice.

- Decision making is not always rational. It can be judgmental also where traces of emotions and feelings creep in.
- Decision making is always goal oriented. Decision maker is seeking to achieve certain results through decision making.
- In an organization, it is important to get support of top management during decision making because vital decisions affect the whole of the organization.

7.3 TYPES OF DECISIONS

Decisions are taken with different frequencies and under different circumstances. Some decisions are major and some minor. Some may affect the whole organizations. There are different ways to classify different decisions.

Programmed and Non programmed decisions:

Programmed decisions are routine decisions which are repetitive in nature. These are made within the framework of rules and policies of the organization. These decisions are easiest for the managers to make. In programmed decisions, since each manager is guided by same policy and rules framework, the decisions taken by different managers for similar problems will be same. For example placing orders to suppliers, making salaries every month, deducting fines etc from defaulting employee‗s salary, filling tenders in routine, signing employee‗s tour expenditure vouchers etc are programmed decisions. As programmed decisions are of routine nature, they are mostly taken at lower levels of management.

Non programmed decisions are novel and non repetitive. Non programmed decisions are relevant for solving unusual problems in which various alternatives cannot be decided in advance. If a problem has not arisen before and there is no standard method for and it needs customized solution, then it is to be handled with non programmed decision. Thus in these decisions the situation is not well structured and outcomes of various alternatives cannot be decided in advance. Unlike programmed decisions, in non programmed decisions, it is possible for different managers to arrive at different decisions. Most of these decisions are of high importance and have long term consequences. Therefore these decisions are made by managers at higher levels of management. Examples of non programmed decisions include mergers and joint ventures, plans of diversification of business etc.

Strategic and Tactical Decisions:

Strategic decisions are about major choice of actions related to the allotment of resources and contribution to the achievement of organizational objectives. Features of strategic decisions are:

- These are most important decisions and affect the whole organization for the long term.
- These decisions are non programmed decisions.
- These decisions are always taken at the top level.
- Outcomes of strategic decisions directly linked to achievement of organizational objectives.
- These decisions are totally different from earlier decisions as new strategic choice may be opted depending upon the conditions under which decision is being taken.
- As top management deals with external environmental changes, strategic decisions are also concerned with these changes. That is why, these are always different.
- Strategic decisions have three elements:

a) Action element: course of action specifying the work to be done

b) Result element: Desired result to be achieved through: implementation of decision.

c) Commitment element: makes the people involved to be responsible for attaining the objectives.

Tactical decisions are also called ***operational decisions***. These are derived out of strategic decisions and are related to the day to day operations of the organization within the framework of rules and policies. Features of tactical decisions are:

- These decisions relate to routine or day to day work of the organization. These are taken very frequently and hence are repetitive in nature.
- These are programmed decisions because these are taken within framework of pre set rules, regulations, procedures and policies.
- Outcomes of tactical decisions do not affect the whole organization. The outcome is of short term nature and affects a narrow part of the organization.
- Authority of taking tactical decisions is best delegated to lower levels of management because

a) These decisions affect a narrow part of organization for short term and have preset framework within which decisions are to be made. This becomes easy for lower level to undertake such exercise.

b) By delegating this authority to lower levels, the managers at higher levels save their time and become free to ponder over strategic decisions which are crucial for business.

Check your Progress I

Note: Use the space given below for your answers

1) Define _decision‘ and _decision making‘.

2) What are the key features of decision making?

3) How do programmed decisions differ from non programmed decisions?

7.4 DECISION MAKING PROCESS

The decision making process is a sequence of certain steps which are discussed below. Before the decision making begins, it is important to specify objectives. If objectives are set, then only we start with problem identification and weighing alternatives available. A standard decision making process comprises of six steps but it is not mandatory that all steps are repeated for every decision in the organization. This process is usually followed for non programmed decisions because they are new, have environmental impact and a unique solution is to be found with lot of research. For programmed decisions, this exercise is simple because programmed decisions are routine decisions and framework within which decision is to be taken, is already set in the organization.

Step 1: Identification of problem: the process of decision making begins with identification of the problem. A problem is a question thrown forward for solution. A problem is the gap between the existing state and the desired state. In management, a problem is said to exist if one faces a question whose answer involves doubt and uncertainty. If preliminary objectives are set rightly and specifically on the subject matter of decision, many clues can be derived from these regarding nature of the problem. These clues help in problem identification as well as finding solution to it. A problem can be identified through diagnosis and analysis process.

Diagnosis: the term _diagnosis' in management has been taken from medicine. Its meaning is same. Just like a doctor studies the symptoms to diagnose a disease, in management too, managers study the symptoms to diagnose the problems. For example if high rate of absenteeism is persisting in the organization, than this is the symptom of some underlying problem. Symptom gives a clue to problem. When all causes of absenteeism are studied, the problem of high rate of absenteeism will automatically come to the light. Diagnosing the real problem involves assessing the gap between existing and desired situation i.e. gap between _what is _and what ought to be.'

Analysis: the analysis of the problem needs to find out about various aspects confronted later on. For example who will make the decision, what information will be required and from where the information will be made available? Analysis provides many revelations to managers to enable them to gain insight into the problem. Ideally, analysis of a problem should be based upon critical factors like availability of information for making decisions, criticality of decision and time available for making decisions. Information will be collected from internal as well as external resources and some of the information may not be available. Criticality of decision will decide the level at which at which the decision will be made. Thus diagnosis and analysis will help deciding the sources of information and from where help should be sought to decide alternatives.

Step 2 Search for alternatives: A problem can be solved in more than one ways, but all the ways may not be equally attractive. Moreover, choice of alternatives is done only when these are available. If there is only one way of solving the problem, then there is no such need. Now a decision maker needs to find out different alternatives available to solve the problem. Several sources can be used for this purpose. For example decision maker‘s own past experience (past experience takes into consideration all previous actions applied by decision maker to different sets of problems. Successful actions of past may become alternatives for future, although if problem is entirely different, the past action may not be relevant at all), past experience of others (copying the suitable actions taken by successful decision makers) and using creative techniques (mathematical modeling etc.).

All alternatives when generated may not be screened. Some alternatives may get rejected straightway due to either limitations of decision maker or due to lack of much information. While generating alternatives, principle of limiting factors must be kept in mind. A limiting factor is the factor that stands in the way of accomplishing desired objectives. If limiting factors are identified, the search for alternatives can be limited to only those alternatives which can overcome the limited factor.e.g if a firm is unable to raise lot of investment, it should drop the idea of projects involving high investment.

Step 3 Evaluation of alternatives: All generated alternatives needs to be evaluated to finalize which alternative is most suitable. Each alternative will not be evaluated and some will be out rightly rejected because of limitations of managers and other limiting factors. Only those alternatives are discussed which have good prospect of being carried out. There are two approaches for narrowing down the alternatives.

Creating constrains**:** Decision makers develop a long list of limits that must be met by an alternative. Each alternative is evaluated against these limits. Those alternatives which fall short of satisfying these limits are rejected.

Grouping of alternatives: all alternatives are segregated into different groups. Groups are created on specific criteria important for decision making. a representative alternative from each group is discussed. The group which show up the best is kept and rest of the groups are discarded. The alternatives within the selected group are evaluated. This method is appropriate for taking decisions like location of plant and warehouse, distribution network etc.

After selecting the alternatives for evaluation, different evaluating criteria are chosen. Usually evaluation is done on the basis of tangible and intangible factors. Tangible factors are quantifiable and can be measured easily .These include cost, investment, profits, revenues, output etc. intangible factors are qualitative in nature and hence cannot be measured like tangible factors. These include factors like goodwill of company, environmental issues, trade union issues, displacement of locals due to setting up of plant etc. to measure intangible factors, some qualitative standards are fixed. Various techniques are used to evaluate both tangible and intangible factors.

Step 4 Choice of an alternative: Evaluation of alternatives provides a clear idea of how each one of them will contribute to the objectives. Comparison is made among all alternatives and the best one is chosen. It is not necessary that the chosen alternative is the best one. It should be most suitable to attain required objectives. Thus the selection is based on satisficing approach rather than maximizing approach. The choice of an alternative can be based upon following approaches:

Experience: Decision makers rely upon their past experiences if they have solved similar problems earlier. Past experience is usually valuable but becomes a limitation when it blocks better choices especially when environmental factors are flexible.

Experimentation: This is method used in scientific enquiries. In this method an alternative is put in practice and result is observed. The alternative that yields the best result is selected. Test marketing is one such example. During this, a product is launched in selected cities and response of consumers is observed. It is encouraging, the product is launched at full scale, otherwise it is withdrawn from the market, modified and is re launched. Major limitation of this method is that it is expensive and time consuming and hence can be used at limited scale.

Research and analysis. This approach tries to solve the problem first by comprehending it. It tries to establish relationship among critical variables, constraints and planning premises that are relevant to the objectives sought. In the second stage, the alternative is broken down into different components. The individual impact of each component on the objectives is evaluated. The impact of all components of each alternative is combined to find out the total impact of each alternative. The alternative having the most positive impact is selected. This step involves lot of calculations and the computers may be used to sort this out. The decision about choosing the alternative is influenced by decision maker‘s personal experience, opinion, values and aspirations.

Step 5 Action: After an alternative is chosen, the work begins to convert this decision into something operationally effective. This is called action aspect of decision making. This is also known as implementation of chosen alternative. It is accomplished in three phases.

1. All the managerial levels are communicated about the choice of the selected alternative. It is important to generate acceptance from all levels. If high level of acceptance is missing, implementation will be incomplete and not successful. Resistance to accept the alternative must be removed. Acceptance starts at higher levels first and then travels down to lower levels.
2. Sequences of actions that are required to put alternative into implementation are designed.
3. Resources required for implementation are assessed and acquired. People who will be responsible for implementation are selected and are given authority and responsibilities to execute. These people are accountable for their actions.

Step 6 Results and feedback: After implementation of decision, the results start coming. These results must be in line with objectives. To check whether results are in agreement with objectives, feedback mechanism is set up. In this mechanism, every outcome of implementation is analyzed. If there is found a deviation between objectives and results, a serious note is taken and the factors responsible for the deviation are indentified.

Check your Progress II

Note: Use the space given below for your answers

1) What is *diagnosis* in decision making? Explain.

____
____
____
____
____
____
____

2) Explain the process of evaluation of alternatives?

____
____
____
____
____
____

3) What is –limiting factor‖? Give examples.

____
____

7.5 EFFECTIVE DECISION

There are three aspects of effective decisions. An effective decision is the one which is action oriented, goal directed and provides efficiency in implementation.

1. Action Orientation. The decision should be able to specify actions which are required to be undertaken to achieve objectives for which the decision has been taken.
2. Goal Orientation: like all other activities of the organization, decision making too should be goal oriented. It should help the organization to achieve the goal. Goals are achieved through both decision as well as its implementation.
3. Efficiency in implementation: the final results of a decision are achieved through implementation. Proper implementation is required for any decision. A decision must be able to get converted into some results through implementation. If it cannot be implemented, it is of no use.

STEPS FOR MAKING EFFECTIVE DECISIONS

As decision making process is expensive and time consuming, if it is not undertaken effectively, all efforts go waste. Following guidelines are given to help make this exercise an effective one.

1. ***Clear cut interpretation***: the real problem needs to be interpreted clearly. For this purposed, in depth study and repeated observations should be done. The tendency to assume things without adequate basis and proper analysis can make identification of real problem difficult and lead to wrong conclusions. To avoid such situation, problem should be well defined.
2. ***Use of limiting factor***: Limiting factors should be given maximum importance while choosing the alternatives. To identify limiting factors, decision makers should do a complete analysis of internal and external environment of the organization. In light of environment, the organizations‘ strengths and weaknesses should also be studies i. e a complete and up to date SWOT analysis of the organization should be done. This analysis will bring out limiting factors. These are the factors which should be considered as

bottlenecks while choosing the alternatives. Managers should avoid taking decisions which cannot be implemented by organization. The concept of limiting factors is not static. Limiting factors may change from decision to decision and from time to time. E.g. if shortage of funds was a limiting factor ten back, it is not necessary that the company is still short of money.

3. ***Adequate information***: decision making is not possible without adequate information. More is the quantity of information, higher is the validity of decision. Due to limitations like time and cost, a limited amount of information can be collected. Therefore, decision makers should be deciding the extent to which they need information. There is no need to collect that information which is irrelevant and will not contribute much to the problem. In addition to the information, experience and common sense should also be used in right proportions. Relying too much on these (common sense and experience) can also lead to blunders. If the information is not available or is inadequate, it is better for the decision makers to defer the decision rather than taking a wrong decision. Because cost of taking a wrong decision is much higher than deferring the decision.
4. ***Giving importance to others' opinions***: a decision is generally affected by an individual's personal preferences and values. Interpretation of many qualitative facts is also subject to personal judgment. If others' opinions are taken into consideration and given adequate attention, the personal influence on decision will get reduced and the quality of decision shall improve.
5. ***Timeliness:*** A decision must be made at the right time; otherwise it may not be effective. Environment is fast changing. To respond to this change, decisions are to be made fast and implemented quickly. A delay in decision making and implementation may fail to yield expected results as the environmental may undergo another change by that time. One of the reasons for slow growth of the organizations is their incapability to decide quickly. So, managers must set deadlines by which decision must be arrived at. Deadlines vary from decision to decision as some decisions are routine and operational, needing less time. Strategic decisions are novel and non repetitive and need more time.

7.6 DECISION MAKING CONDITIONS

Decisions are made for the future conditions and future is always uncertain. The future conditions for a decision can be presented on a continuum.

Perfect certainty ←——— Risk ———→ Complete uncertainty

Fig. 7.1 Decision making conditions (Source: L M Prasad)

Outcome of decision will vary according to the conditions under which it has been taken. The table below depicts how outcomes are affected by different environmental conditions.

Tab. 7.1

Conditions	Nature of outcome
Certainty	Complete and accurate knowledge of outcomes of each alternative as there is only one outcome of each alternative.
Risk	Multiple possible outcomes for each alternative can be identified and probability of occurrence can be attached to each outcome.
Uncertainty	Multiple outcomes for each alternative can be identified but there is no knowledge of the probability to be attached to each.

Outcome of decisions in different conditions (Source: L M Prasad)

It is clear from the table that knowledge of outcomes is different in different conditions, resulting in different decision making strategy in each case. These three conditions are discussed below:

Condition of complete certainty

Conditions of certainty are said to exist when a manager has got the faultless information regarding the state of presented affairs and the conditions that would affect the decision making.

Such conditions exist when the decision is to taken for immediate future and manager has taken such decisions previously, a number of times with the similar results. In conditions of certainty, deterministic model can be used, in which all the factors are assumed to be exact with chance playing no role. However, such conditions rarely exist.

Conditions of risk

Risk implies a degree of uncertainty and an inability to fully control the outcomes of an action. In such circumstances, manager has to keep in mind two things; amount of risk involved and amount of risk that the organization is willing to take. Risk involved can be calculated by risk analysis and willingness of organization to take risk depends upon its risk taking ability and attitude towards risk.

Risk analysis tries to develop probability for every critical variable in a decision problem. Probability can be defined as a statistical measure of chance of occurrence of some outcome. in risk analysis, consequences are expressed numerically and their likelihood of occurrence as probabilities . Total risk is the sum of the product of the consequences multiplied by their probabilities.

Conditions of uncertainty

The conditions of uncertainty are said to exist when the manager has no information, either about the outcome or the relative chances for any single outcome. Here

- Manager lacks the information about the results or probability of results.
- Information data base is very limited.
- Different variables and their interdependence is not known.
- Information data base is not fully reliable.

This is the most common form of decision making. There are four different criteria for taking decisions.

Maximax Criterion (optimistic approach): The maximax or optimist looks at the best that could happen under each action and then chooses an action with largest value. Optimist believes that he can get action with best case. Maximum of maximax is best of the best.

Maximin Criterion (Pessimistic approach): The maximin or pessimist looks at the worst that could happenunder each action and then chooses the action with the largest payoff. Pessimist assumes that the worst will happen and he takes action with best worst case. Maximum of the maximin is best of the worst.

Minimax (Opportunist): this type of decision is based on opportunistic loss. Opportunist takes the minimum of the maximum. He tries to minimize the regrets and takes minimum of the maximum. This is similar to best of the worst.

Check your Progress III

Note: Use the space given below for your answers

1) What is the importance of _timeliness‘ in decision making?

2) Explain decision making under conditions of certainty.

3) What are the characteristics of an effective decision?

7.7 RATIONALITY IN DECISION MAKING

Rationality is the judiciousness of using objectiveness and intelligent action during decision making process. It is characterized by behavioral nexus between end and means. If appropriate means are chosen to attain ends, the decision is said to be rational. But in real life, it is very difficult to separate means from end. What seems end today might become means tomorrow. Rationality of humans is not unlimited. It is bounded and this limits our ability to acquire and apply the information. People usually settle for acceptable option rather than exploring maximum options because decisions they comfort normally demand greater information processing abilities than they possess. This is also called **satisficing**. Satisficing is the tendency for decision makers to accept the first alternative that meets their minimally acceptable requirement than pushing further for an alternative that produces the best result.

Two aspects of rationality in decision making are maximization and optimization. These are two contrasting views that depict the process of decision making. There are two approaches or models based on these views; Economic Man Model and Administrative Man Model.

Rational or Economic Man Model: This is known as classical approach in decision making. This approach deals with decision making under conditions of uncertainty. It is believed that economic man is completely rational. This approach explains how a manager should behave in the process of decision making. Decision making under this model is characterized by following features:

1. The economic man is completely logical and reasonable in approach.
2. Economic man identifies the ends (goals) to be achieved, very clearly. He also understands the means (methods) which can be used to achieve the end; i.e. methods to attain goals.
3. The decision maker or the manager is well aware of various alternatives available and will be in position to evaluate them rationally.
4. The economic man is believed to be objective, and will not allow any bias, preference, liking or disliking in decision making process.
5. Economic man tries to achieve goals with positive and optimistic attitude.
6. It is assumed that economic man has clear understanding of existing environment.

The economic man model is applicable to routine, repetitive decisions and programmed decisions. There is framework of pre determined rules, policies and procedures which is used while making routine decisions. Economic man is always in search of the best way of doing things, so as to maximize his benefits. He is governed by economic considerations and uses mathematical and statistical tools for solving problems.

According to LM Prasad, in business context the concept of economic man cannot be applied because of the following reasons:

1. Complete rationality is not possible because the conditions under which the economic man takes the decision do not exist in reality. These are complete certain conditions which do not exist.
2. Even if rationality is possible, it cannot be applied because it amounts to maximization of profit. This is not possible due to pressure from environmental forces.

Behavioral Model/ Bounded Rationality/ Administrative Man Model

To overcome the limitations of Economic Man Model, the management experts have developed behavioral approach which is realistic and close to real life situations. This approach is pragmatic and explains that a manager is a human being and cannot be fully rational as he is confronted with many constraints, problems, limitations and inadequacies. Considering factors and difficulties of real life situations, Simon gave the concept of Bounded Rationality which states that real life decision maker must cope with inadequate information about the nature of problem and its solution. The norm of rationality is bounded by many limitations and therefore, this concept is known as ‗Bounded rationality‖. The administrative man‘s rationality is bounded by following limitations:

1. An administrative man may not have access to all type of required information. Some of the information may not be available.
2. Rational decision making requires research and analysis of various alternatives before reaching a decision. In real life situations, time available to decision makers might not be sufficient to go through the rational process. A decision may have to be taken immediately or within very short period of time.
3. There may exist situations where multiple and conflicting objectives are involved. In this kind situation a process of compromise and adjustment becomes necessary rather than rationality for taking decisions.
4. Decisions are always meant for future. Future is always uncertain and complex. The predictions about various outcomes in future cannot be done with very high level of accuracy. So an administrative man has to deal with changing situations in decision making process.
5. When encountered with problems which require complex and unstructured solutions which cannot be explained with rationality, it becomes important to rely upon intuition than on rationality.

6. Many variables like philosophy, multiplicity of goals, existence of informal goals, power structures in and out of the organization are to be taken into account while taking decisions. Therefore many adjustments are to be made, sometimes defying the norms of rationality.

Tab. 7.2 Difference between Economic Man Approach and Administrative man approach

Economic Man Approach	Administrative Man approach
Economic man keeps searching for all the alternatives and tries to maximize	Administrative man continuous to find alternatives till he finds an alternative that satisfies his personally determined minimum acceptable level. Beyond this the search ends.
Economic man follows the concept of rationality and thus tries to find the best alternative.	Administrative man is satisfied when a suitable alternative is found, whether maximizing or not. Thus he satisfices.
A normative theory, it describes role prescription for decision making process.	A descriptive approach, it predicts the actual role behavior

7.8 Let us sum up

Decision making is integral part of management and is done on routine basis. Routine type of decisions is taken subconsciously. Sometimes the issues are major and sensitive. Decisions are taken by managers and actions are carried out by others. Quality of decision taken determines the quality of its outcome. The managers are evaluated on the basis of their decision making. Decision making is essentially cognitive in nature. In decision making there are various alternatives available. Most appropriate alternative is chosen. Thus it involves freedom of choice. Decisions are taken with different frequencies and under different circumstances. Some decisions are major and some minor. Some may affect the whole organizations. There are different ways to classify different decisions. The decision making process is a sequence of certain steps; Identification of problem, Search for alternatives, Evaluation of alternatives, Choice of an alternative, Action and Results and feedback. An effective decision is the one which is action oriented, goal directed and provides efficiency in implementation

7.9 Key Words

- Decision
- Decision making
- Certainty
- Risk
- Satisficing
- Rationality
- Alternatives
- Limiting factor
- Effective decision
- Programmed decisions
- Tactical decisions

7.10 Short Answer Questions.

1. Differentiate strategic and tactical decisions.
2. How does external environment influence decision making in the organization?
3. What is the concept of bounded rationality?
4. Discuss different conditions under which decisions are taken?

Long Answer Questions

1. Define *decision making*. Discuss its process.
2. Discuss approaches to decision making? How do they differ from each other?
3. What is an _effective decision'? How can we make decision effective?
4. Explain different ways of classification of planning.

7.11 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi

- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi

Activity

You are the managing director of ABC Ltd. In order t0o increase the quantity and quality of production, you plan to automate your assembly line. New machines are bought and installed. Training programmes are conducted to train the operators to operate the new machines. Though technically everything has been installed properly, yet production goes down. You show your concern over the matter as to why should better production methods and techniques result in fall in production and set an enquiry. A meeting of managerial heads is called. HR manager, Mr. Chaddha found that workers fear loss of jobs because of increased automation and no additional financial incentives are offered to them for increased production. According to Mr. Chaddha, low morale of workers is, thus, the reason for low production.
You want to solve this problem in consulation with your

subordinates. Questions

1. what steps will you take to solve this problem?

2. Explain the conditions under which you are taking decisions – certainty, uncertainty, risk.

UNIT 8

Decision Making & Forecasting

Structure

8.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Group decision making and how it differs from individual decision making
- Quantitative and qualitative techniques of decision making
- Role of creativity in decision making
- Concept of forecasting
- Techniques of forecasting

8.1 INTRODUCTION

We have understood the basic concept of decision making, its process and types in the last chapter. We have become aware that decision making is a routine exercise for managers. Decision making process is not simple. Except for routine decisions, lot of work needs to be undertaken before arriving at a decision including external and internal environmental scanning and SWOT analysis of the organization. The decisions are taken by individuals as well as groups. All the decisions are not qualitative. Many involve huge numeric data that cannot be handled with simple calculator. To sort out this data base and reach at conclusion, various statistical and mathematical models are used on computers before an alternative can be chosen. Decision making becomes more difficult and challenging when resources are limited or scarce. Sometimes profit maximization is not possible due to critical factors playing greater role. Under such circumstances, the next best optimum alternative needs to be chosen. With decision making getting difficult and strategic, it is not possible to take decisions individually. Here, the group decision making sets in. With ever changing environment scenario, taking a conventional decision is not a surviving trick in business. Decision should be different from other competitors, otherwise competition can prove lethal. So the decision needs to be creative and innovative. In this chapter will cover all these concepts.

8.2 INDIVIDUAL VERSUS GROUP DECISION MAKING

Organizational decisions are combination of individual and group decisions. Programmed decisions which are to be taken within a framework of set guidelines are best taken by an individual. But non programmed and strategic decisions need expertise from different areas. Such decisions are usually taken by a group of people. When an individual takes decision, all steps of decision making process are followed. The decision, being a programmed one, does not carry influence of individuals‘ personal preferences. But in group decision making, two or more than two persons are involved. Group reaches a decision either through consensus or by majority. Group decision is not governed by an individual‘s perception. Rather in group decision making, group behavior is of primary importance. Following factors play decisive major role individual or group decision making.

1. **Kind of problem**: For programmed decisions, individual decision making is preferred, because in this type of decisions, policy guidelines are set and decision making is routine with outcome already known. In non routine, complex and non programmed decisions, group decision making is preferred. Such decision exert influence over whole organization and due to complexity of problem, help of experts is sought.
2. **Availability of time**: Group decision making is slow, lengthy and time consuming process. When problem is complex and time constraint is not there, group decision making is preferred.
3. **Quality of decision**: quality of group decision is always better as this decision is the outcome of minds of different experts from different fields. Therefore, highly vital decisions are group decisions.

4. **Organizational climate**: Supportive climate encourages group decision making, competitive environment promotes individual decision making.
5. **Legal binding**: legal requirement also determine the type of decision making to be followed. Some decisions are bound to be made by board of directors (due to company law or some other legal binding) or through committees in the organizations. Such decisions are compulsorily made by groups.

8.3 TECHNIQUES OF GROUP DECISION MAKING

There are four most common techniques of group decision making:

Brain storming: Brain storming is a technique which focuses on *generation of ideas*. This was applied by for the first time by an American company named Osborn. This technique is widely used in organizations and educational institutes.

Process: Brain storming process comprises of following steps:

1. A group of 10-15 people is made. One of the members act as idea collector.
2. It is ensured that each member of the group is affected by the problem on which the decision is sought, directly or indirectly.
3. The problem is presented to group members. It is explained precisely and clearly so that everyone understands it and focus attention on it.
4. Each member is asked to contribute ideas to solve the problem.
5. No limit is put on the number/ quality/ quantity of ideas.
6. No limiting factor (financial, procedural, legal, organizational or any other) is to be considered while contributing ideas.
7. The purpose is to conduct a relaxing and free session where maximum number of ideas can be generated without any limitation. Emphasis is on quantity of ideas only.
8. Idea evaluation is done later. Any criticism, judgment or comment on ideas is prohibited during idea generation.
9. After idea generation process is complete, the scanning of ideas begins. Those ideas which are not feasible or repetitive are removed from the list.
10. Most valid, practical and feasible idea is selected and the session gets over.

A major advantage of this process is that it encourages free flow of ideas by letting employees participate in idea generation. It stimulates enthusiasm and competitive spirit among group members. It encourages creativity.

Brain storming can be best applied to simple and well defined problems.

Nominal Group Technique (NGT): Nominal group technique or NGT is a structured group gathering which put a ceiling on verbal communication among group members during decision making process. This technique aims to settle the disparity among group members by allowing individuals create ideas followed by ranking of these ideas in problem investigation, generation of alternative and choosing the best alternative.

Nominal group technique/ NGO process comprises of following steps:

1. Three to four groups are made with each group not having more than ten members.
2. Each group has a member who acts as spokesperson for the group. There is a common facilitator for all groups.
3. Each group is explained about the nature of the problem and the group leader outlines the problem needing decision.
4. Sufficient time is given to the members to ponder over the problem.
5. Each group member writes down his/ her ideas silently and independently and chooses the best single idea on the problem.
6. After all members have finished writing their ideas, these ideas are presented before group members for discussions and evaluation.
7. The members are asked to rank these ideas. The decision is reached at on the basis of this ranking.
8. If the group fails to reach at common agreement, the ranking is repeated.
9. This process continues till consensus is reached.
10. The best ranked idea is selected.

This (NGT) technique is extensively used in industry, health care sector, educational and governmental organizations. This technique being written, favors all persons equally. Due to presence of written elements, each member gets an equal opportunity to express his idea. This technique prevents strong personality types from dominating the group. It also encourages creativity provides a forum for expression of minority view points.

Delphi Method

Delphi technique involves group communication among a panel of experts who are geographically separate. Thus there is no face to face interaction among them. This technique involves designing of questionnaire by a small group which is answered by a larger respondent group.

Delphi process comprises of following steps:

1. A panel of experts is selected. These experts are geographically dispersed and have expertise in area to be investigated.
2. A small team is formed in the organization. This team is responsible for questionnaire design and smooth conduct of Delphi.
3. Team develops first round of questionnaire.
4. The questionnaire is tested and revised to modify existing questions, addition of new questions, removal of language mistakes and vagueness.
5. The questionnaire is mailed to respondent group (panel experts).
6. Filled questionnaire are received and responses are tabulated and analyzed.
7. On the basis of above results, second revised questionnaire is designed and tested.
8. Revised questionnaire is again mailed to panel experts.
9. After receiving the completed questionnaire from panelists, steps 6 and 7 are repeated.
10. This procedure is repeated till the issues are narrowed and consensus is reached.

Delphi is useful technique when problem does not need precise analytical techniques and can benefit from subjective opinions. The quality of decision improves a lot as the experts can express their views freely as they being geographically apart, are free from each others' influence. Delphi is aimed to overcome disadvantages of committee action. The group interaction in Delphi is anonymous.

Delphi is quite time consuming technique. So this technique can be used only when there is no time constraint.

Consensus Mapping

In consensus mapping, ideas generated by several task groups are pooled to arrive at a decision. This technique helps facilitator and the group to reach at mutually agreed decision about how best to arrange a network of activities that have to be sequenced overtime into a usable plan of action.

Consensus mapping process comprises of following steps:

1. A task group develops, clarifies and evaluates a list of ideas.
2. Facilitator forms task groups (2-4), comprising of 5-9 members in each group.
3. The idea list is given to each group and group members are asked to search for clusters and categories of ideas given in the list.
4. In each group listing and discussion of alternative clusters and categories begins.
5. Finally group members in each group prepare a single classification scheme.
6. Facilitator consolidates schemes developed by different groups into a representative scheme.
7. This consolidated scheme is called ‗straw man map' for entire group (all task group taken together).
8. Group members' then work together to revise the straw man map into mutually acceptable solution.
9. This exercise is repeated till a single, consolidated map is achieved.
10. The final decision is based upon the consolidated map.

Consensus mapping technique works best for consolidating results from several task/ project groups. This technique is most suitable for multidimensional, interconnected elements and sequential steps.

Check your Progress I

Note: Use the space given below for your answers

1) Under what circumstances group decision making is preferred?

____

____

____

____

____

____

____

2) What are the key features of ―brain storming‖?

____
____
____
____
____
____

3) How does NGT differ from brain storming?

____
____
____
____
____
____

8.4 ADVANTAGES AND LIMITATIONS OF GROUP DECISION MAKING

Group decision making offers following advantages:

1. **Better quality of decision**: due to involvement of many persons during group decision making, many minds are at work. This leads to better pooling of knowledge and information which are used in decision making. Group presents expert contribution in defining variable and suggesting alternatives, which an individual is unlikely to come up with. This leads to better decision making in the organization.
2. **Enhancement of commitment and satisfaction**: while working in group, people discover similarities among themselves, this leads to group spirit. Attitudes also undergo change as result of discussions and learning from others' views and experiences. Participation in decision making also creates a sense of ownership among employees. All these factors result in increased satisfaction and commitment among employees which are important in implementation of decisions.
3. **Personal Development**: during group decision making, an individual's learning is enhanced by observing others, practicing what has been seen and experiencing positive rewards for successfully repeating the new behavior. Individuals also learn techniques of

data collection, evaluation of data, generating of alternatives, calculating risk involved and choosing the most suitable alternative. Due to enhanced learning, individuals develop in terms of knowledge and decision making. This can also solve the problem of succession in the organization.

4. **Attitude towards risk**: No decision is without traces of risk. Magnitude of risk is more with certain decisions as compared to others. Ability to take risk increases when individuals are united in groups. Thus risk taking increases during group decision making because

- Group has shared pool of knowledge and information, and members become more familiar with problem.
- In group, if the outcome of decision turn out to be negative, it is easy to pass the buck. But in individual decision making, all the liability to bear failure lies with the individual alone.

Limitations of group decision making

In spite of significant advantages, group decision making suffers from following limitations:

Time consuming and costly process: Group decision making is more time consuming and expensive than individual decision making.

- Group has mare ideas and needs more time to discuss these.
- Arrangements for group meeting place, stationery, seating arrangements and refreshments need to be made. This involves cost.
- There is cost associated with individuals‘ time spent on meetings which otherwise could have been used for other work.

Therefore group decision making should be opted for only when matter cannot be decided by individuals.

Problem of domination: some individuals tend to dominate group proceedings and may have considerable bearing on final decision. These individuals might be senior in age, experience, status or expertise. The final decision of the group may actually be individual decision. This is serious issue and may deteriorate quality of decision.

Problem of responsibility: In group decision making, no one can be held responsible if outcome of the decision comes out to be negative. A group‘s decision is no one‘s decision and a group decision‘s failure is no one‘s responsibility.

Problem of group think: group think is a sort of thinking which occurs when reaching at an agreement becomes more important for group members than arriving at a sound decision. it more commonly happens in cohesive group where pressure to confirm the group norms is very high. Group members avoid conflict as it is considered a threat to team spirit. Group think occurs in five stages.

- □ Group inflicted with group think, limit their search for possible solutions to few alternatives rather than all possible alternatives.
- □ Such groups fail to re examine chosen alternative, even if they receive new information.
- □ Group members spent little time considering non evident advantages of alternative courses of action.
- □ Group members do not make any effort to seek advice from experts either from inside or outside the organization.
- □ Group members show interest in those facts that support their chosen alternative and ignore the facts that fail to support it.

Sometimes groups ignore the barriers to their choice and fail to make contingency plans.

8.5 CREATIVITY IN DECISION MAKING

Creativity is the process of conceiving novel, original and unique alternatives for solving any problem related to the organization. Creativity plays a vital role in decision making. Development, enrichment and imagination of new ideas are carried out through creativity. Creativity is also necessary to solve non programmed, non repetitive and complex problems vital for the organization. The creative process can be imbibed in decision making. The creative process comprises of following five stages:

Stage 1. Knowledge and diffusion of problem: this is the first step towards creativity. Decision makers try to become familiar with problem through knowledge regarding nature, history, relationships, importance and consequences of the problem. This knowledge leads to better understanding of the problem. It is also called diffusion or saturation of mind with maximum knowledge about the problem.

Stage 2. Preparation: in this phase, decision makers start collecting more information regarding problem. Past experience is recalled and new material referred. Help of experts is also taken. If preparation stage lasts for long period of time, decision maker can suffer from anxiety and frustration. This stage has three steps; 1) analysis,2) building relationships and patterns, 3) looking for useful rearrangements and recombinations.

Stage 3. Incubation: if first two stages fail to provide any solution, the incubation stage begins. In this stage, the decision maker sidelines the problem and focuses his mind on other things. During this stage, the conscious mind is busy handling routine tasks, but subconscious mind is still working on the problem.

Stage 4. Illumination: it is the turning point in creative process as in this stage, spontaneous and sudden solution of the problem is generated in the mind of decision maker.

Stage 5. Verification and implementation: this is the last stage of creative process. The idea generated during illumination is verified, modified and tested for feasibility. Finally it is implemented to get the desired outcome.

Principles of creativity

Creativity revolves around following four principles.

Attentiveness and receptivity: the decision maker should be attentive of environment and its changes. He should be open and receptive towards suggestions and criticism by others.

Focus and flexibility: the decision maker should concentrate on problem and be adaptive and flexible towards environmental changes.

Pragmatic and optimistic: The decisions maker should be practical in thinking process. He should be optimistic and positive towards finding solution to the problem.

Realistic and emotionally intelligent: the decision maker needs to use both, mental ability and emotional strength to find solutions to the problem.

Check your Progress II

Note: Use the space given below for your answers

1) Is group decision making better than individual decision making? How?.

____

____

____

____

2) What is _groupthink‘? Explain its role in decision making.

3) What is –creativity in decision making‖? Explain illumination phase.

8.6 TECHNIQUES OF DECISION MAKING

Decisions are varied in nature. Some needs quantitative solutions; some need qualitative and judgmental solutions. Some decisions require opinions of group while others can be solved by an individual with help of fixed policy framework. Due to different types of decisions requirements, different techniques have been devised. A basic classification of different techniques is given below:

Non Quantitative techniques: these techniques are very old and are being used before trend of using quantitative techniques set in. these techniques are used when decision making involves qualitative variables. There are four commonly used non quantitative techniques.

1. **Intuition**: decision making based on intuitions symbolized by use of gut feeling, hunches or inner feeling of the decision maker. Here the subjective element is vital and decision

maker id influenced by his experience and past knowledge. Suggestions, influences, preferences and psychological makeup of decision maker play important role. An intuitive decision maker tries trial and error method instead of relying upon data gathering and its evaluation.

This method fully relies on intuition of the decision maker. If intuition is wrong, decision will turn out to be incorrect.

Techniques for decision making

Non Quantitative

1. Intuition
2. Facts
3. Experience
4. Considered Opinions

Quantitative

1. Operations Research
2. Linear Programming
3. Probability Theory
4. Game Theory
5. Queuing Theory
6. Network Techniques
7. Decision Tree

Modern Techniques

1. Heuristic Techniques
2. Participative Decision Making

2. **Facts:** Facts are the best basis for decision. A decision based on facts implies the premises on which the decision is based is sound, solid and to a great extent applicable to a particular situation. For such decision making, information must be available.

   But facts are not available all the time. To collect all the information about a problem involves very lengthy, time consuming and costly process. Therefore, most of the time, decision has to made with partial information i. e. under partial ignorance. In reality, facts alone are not sufficient for making decision. Other factors like experience, knowledge, training, intuition, suggestions and beliefs also play major role in decision making process.

3. **Experience**: past experience is likely to be a precious advantage in decision making especially when the decision maker has handled similar situations successfully in the past. The person sees and understands things in terms of familiar concepts. Experience based decisions are right only if experience is relevant to the problems. Newer problems need unique solutions and under such situations experience may be of little or no help at all. Therefore, experience should not be followed blindly. Along with experience, present situation should be analyzed and assessed properly, before taking a decision.
4. **Considered opinions**: in this technique, due weight age is given to opinions of other experts. Decision maker gathers relevant data and analyzes it. Results are presented before group and discussion follows. Things discussed with other persons lead to more knowledge, newer v viewpoints and more alternatives to chose from. This makes the quality of decision better.

Quantitative Techniques: in quantitative decision making, all decision variables are quantified and mathematical models are used to arrive at decision. The problems involving huge data are solved with quantitative techniques. Common quantitative techniques are:

1. **Operations Research**: operations research is essentially the collection of mathematical tools and techniques which in combination with the systems approach are applied to solve the practical decision problems especially in economics and engineering areas. It is most commonly used to solve complex, real world problems with aim of optimizing performance. It is a sub field of applied mathematics the operations research is interdisciplinary and methodological approach with wider perspective. It includes following steps:

- Formulation of problem
- Collection of relevant data
- Construction of mathematical model
- Solving the mathematical model
- Validating solution
- Implementation of solution
- Modifications in model (if needed)
- Controlling the model

Operations research uses well defined, well structured and logical approach for problem solving. It involves detailed analysis of problem followed by model formulation. This is more realistic approach. Operations research has wide scope and can be applied in all fields of management including; marketing, finance, production management, HRM and general management.

Major limitation of operations research is that it is based upon certain assumptions. If assumptions are wrong, both formulation as well as decision may turn out to be improper. Also all variables included in the problem cannot be quantified. It becomes a limitation of OR.

2. **Linear programming:** This is a widely used technique which is based on the assumption that a linear relationship exists between variables and the limits of variables can be established. This technique is used mainly to determine best use of limited resources for achieving given objectives i.e. for optimization of resources. Many practical problems in operations research can be expressed as linear programming problems. Linear programming is considered as the most fundamental of all management science tools because this model is suitable for making model of any practical problem and results are solvable in reasonable amount of time. Most common methods of linear programming are graphical method and simplex method.
3. **Probability theory**: this technique is based on the hypothesis that certain things are likely to happen in future. The mode of occurrence can be predicted to some extent by assigning various probabilities. In this technique, payoff matrices and decision trees are used to represent variables. Decision tree is an extension of pay off matrix and it helps to assign financial results to available alternatives, modifying the result probabilities and comparing them for selecting the appropriate alternative.
4. **Game Theory**: when two competitive conditions are available, game theory is used to choose benefitting situation. Game theory used to be meant for wars where army could plan action to counteract action of enemy. Term game means conflict between two parties. Game is governed by set rules. These rules clearly convey what each person has to do under certain circumstances. Players choose different actions in an attempt to maximize their returns. For each player, the outcome may be a gain, a loss or draw. There are three types of games:

- Symmetric and non symmetric: in symmetric game, the payoff for playing a strategy depends upon other‘s strategy and not who is playing them. If identities of players can be changed without changing the payoff to strategies, it is symmetric game. When there is no identical strategy for both players, game is non symmetric.
- Zero sum and non zero sum game: in zero sum game, the total benefit to all players (in every combination of strategies) is always zero i.e. winner wins at the expense of the loser. Non zero sum game is that in which some outcomes have net results less than or greater than zero i.e. here, gain by one player does not necessarily correspond with loss of another player.
- Simultaneous and sequential games: in simultaneous games, both players move simultaneously. If they do not move simultaneously, the later players are unaware of the actions of earlier players. In sequential games, the later players have some knowledge about the actions of earlier players.

5. **Queuing Theory:** Also known as waiting line theory, queuing theory is used in situations where customers arrive to avail some service, wait and leave the place after getting the service. Waiting lines develop because of lack of adequate service mechanism; the customer cannot be attended immediately and has to wait for his turn. During this, waiting lines are formed. The only way to meet the service demand is to increase the service capacity and raising the efficiency of existing capacity. But as waiting lines are formed only during peak hours of business, it is not economic to increase the capacity, because after peak hours, increased capacity lies unused. Queuing theory is used to decide an appropriate level of service which is neither too low (increase waiting time of customers), nor too high (costly affair). An effort is made to achieve balance between cost associated with waiting time and idle time with the help of this theory. Queuing theory helps to decide the optimum level of facilities.
6. **Network Techniques**: These techniques are used for preparing and controlling the project activities. PERT (project evaluation and review technique) and CPM (critical path method) are two such techniques. These techniques are used for planning, monitoring, implementing time bound projects. These technique help in deciding the logical sequence in which various activities are to be performed. Network techniques are of great use in large and complex projects which can be executed within stipulated time and cost.

7. **Decision tree:** Decision tree is a graph that uses a branching method to illustrate every possible outcome of a decision. Decision Tree is highly useful tool that helps to decide to choose most appropraiate alternative among several courses of action. Decision tree provides a highly effective structure within which options can be laid out and possible outcomes of choosing those options can be investigated. These also help to form a balanced picture of the risks and rewards associated with each possible course of action.

Modern Techniques: In the changing business environment, some new techniques have been adopted. Two such techniques are Heuristic techniques and participative decision making.

1. **Heuristic Techniques**: this technique is a refined version of hit and trial method. This technique is based on the assumption that in complex and ever changing business environment, the problems cannot be changed by applying scientific and rational techniques alone. In such situations, the problem is broken down into smaller components. Each component is studied individually. By studying each part separately, a decision can be arrived at. Computers are extensively used in these techniques.
2. **Participative decision making**: traditionally all decisions have been taken at the top management level. In participative decision making employees at lower levels are involved in making various decisions. This involvement helps in getting the benefit of employees experience and knowledge and also helps in better implementation of decisions. This mode of decision making motivates the employees‘ creates a feeling of ownership in them.

Check your Progress III

Note: Use the space given below for your answers

1) What is the difference between quantitative and non quantitative techniques?

____

____

____

____

____

2) How does _intuition' help in making decision?

3) Explain Queuing theory. Where is it applied in daily life?

8.7 FORECASTING

Forecasting is the systematic approach to explore the future with aim to recognize problems and opportunities and turn them into plans of action. Business forecasting helps in analyzing the economic, political and market information to reduce the risks involved in making business decisions and long range plans. In this process, a systematic attempt is made to look into all the influential factors (both past and present) affecting the working of the firm. Based upon the analysis of these factors and using sophisticated statistical and econometric techniques, a reliable calculation of probabilities about the future is made. Thus

- Forecasting is meant to predict future events. This is needed for planning process to devise future course of action.
- Forecasting describe the probability of occurrence of future events.
- Forecasting is made by analyzing the past and present relevant events.
- Analysis of various factors is done by using various statistical tools.

Planning and Forecasting: Planning is a futuristic activity. Future is full of uncertainty and risk. For planning certain assumptions and predictions are required to be made so as to create a future course of action. Forecasting helps in making these assumptions and predictions using different techniques. Forecasting thus provide significant information for successful planning. Forecasting is essential for successful planning and planning is in complete without forecasting. It can be concluded that

- Forecasting is an aid to planning.
- It provides information regarding future.
- It provides quality to planning process by minimizing errors.
- Prepares the organization for future contingencies.

Advantages of Forecasting: Advantages of forecasting are listed as under:

1. Forecasting provides business model to the organization. Forecasting provides information regarding probability and of circumstances and significant events in future. This makes the basis of existence of the organization and helps decide what business to do? How to do? In which area to do?
2. Forecasting makes basis of all planning done in the organization. Planning is in fact useless and incomplete without forecasting.
3. Forecasting helps in bringing better coordination (by focusing on future) and control (by focusing on weaknesses) in the organization.
4. Forecasting helps in better conduction of SWOT analysis of the organization.
5. Forecasting helps in decision making as it provides estimates about future happenings and risk factors associated with these events.

Disadvantages of Forecasting: Limitations of forecasting are listed as under:

1. Forecasting is mere estimates about future. This is not a predictor of actual; events.
2. Forecasting is based upon assumptions and not absolute truth. The reason is volatility of environment which is uncertain and nothing can be predicted for sure.
3. Forecasting is based upon assumption. If assumptions are wrong, forecasting will be faulty. Under such conditions, it can prove lethal to business.
4. Forecasting is time consuming and costly exercise.

Steps in forecasting: Process of forecasting comprises of following steps:

1. **Developing Groundwork**: this first step in forecasting process, it involves finding reasons behind changes in the environment that possibly may occur in near future. The past as well as present records and information is studied. Past data is generally taken as basis (it is available internally if MIS of organization is well in place).in addition to past data, other relevant facts are also taken into account.
2. **Estimations about future**: Based upon the past records and present information, the events that are likely to influence business in future are identified. Trend of the business as a whole as well as of the companies involved are determined. Various qualitative and quantitative techniques are used for this purpose. Trend is projected in step wise detail and information regarding every step is put for close scrutiny and analysis.
3. **Comparing actual and projected outcomes**: the outcomes of forecasting are analyzed. Future is uncertain and environment is dynamic as well as volatile. So there is always a probability of deviation between actual outcome and expected or projected outcome. Deviations must be recognized immediately and plans should be modified to rectify deviation. If deviation is very large, plans can be abandoned altogether.
4. **Refining the forecasting process**: Forecasting is a continuous process and is done regularly in the organization. Every deviation in forecasting provides a UNIT for decision makers to learn. Looking at previous forecasting processes, future processes can be refined by removing the errors previously done. Newer and more reliable quantitative techniques can be used to bring near accurate outcome. Time consumed and cost factors involved in forecasting process should be scanned and it should be executed in such a way that not much time and money is wasted on during the process.

TECHNIQUES OF FORECASTING

The major forecasting methods are discussed as under:

1. **Historical analogy method**: In this method, forecast in regards to a particular phenomenon is based on some analogous condition that took place in the past. For example company is planning to launch a new product in the market. If there is no information available for the new product, the organizations try to compensate the uncertainty by using data from product with similar characteristics, which is already

present in the market. With historical analogy method, a general forecast can be made about nature of events in economic system of the country.

2. **Survey method**: In this method, field survey is conducted to gather relevant information from concerned people. For example collecting information from consumers regarding preference for various parameters of toothpaste (before launching a new brand). Data collected is tabulated and analyzed. On the basis of results, forecasting is done.
3. **Opinion poll**: Opinion polls are conducted to assess outlook of prominent experts in the field. Opinions expressed by experts carry heavy weight age. Opinion polls are a popular method to predict the outcomes of election in many countries.
4. **Business barometers / index numbers**: Index numbers are used to measure seasonal fluctuations, trends and cyclic movements' etc. index numbers are combined with other relevant data to predict major economic trends.
5. **Time series analysis**: In time series analysis, historical is decomposed into smaller components (e.g. trends, seasonal variations etc.).When various components are separated, variation of a specific phenomenon about study becomes known. On this basis, projections can be made about future. Major assumption in time series analysis is that future is the extension of the past.
6. **Extrapolation**: This is also based upon timer series analysis except that this method does not isolate effects of various factors influencing problem under study, but takes into account, totality of their effects. It is assumed that effect of these factors is constant and stable and will continue as such in future.
7. **Regression Analysis**: This analysis is used to estimate changes in one variable as a result of certain changes in other variables. This analysis is used to build models which can be simple or complex depending upon the problem. Regression is used for processing statistical data and driving a mathematical relationship, which is used for forecasting purposes.
8. **Input output analysis**: In this method, forecast of output is based on given input (provided relationship between input and output is known). Similarly input requirement can be estimated on the basis of final output with a given input output relationship. The relationships are called coefficients. This technique is used for sector wise economic forecasting.

9. **Econometric Models**: These are mathematical models used to express relationships among variables. This is very complicated and long procedure carried out with computers. The construction of econometric models is very expensive and cannot be afforded by an individual organization. These models are developed by specific bodies and institutes.

8.8 Let us sum up

Organizational decisions are combination of individual and group decisions. Programmed decisions which are to be taken within a framework of set guidelines are best taken by an individual. But non programmed and strategic decisions need expertise from different areas. Such decisions are usually taken by a group of people. Group decision making involves use of different techniques including brain storming, nominal group technique, Delphi method and consensus mapping. Creativity plays a vital role in decision making. Development, enrichment and imagination of new ideas are carried out through creativity. Creativity is also necessary to solve non programmed, non repetitive and complex problems vital for the organization. The creative process can be imbibed in decision making. Decisions are varied in nature. Some needs quantitative solutions; some need qualitative and judgmental solutions. Some decisions require opinions of group while others can be solved by an individual with help of fixed policy framework. Due to different types of decisions requirements, different techniques have been devised. Forecasting is the systematic approach to explore the future with aim to recognize problems and opportunities and turn them into plans of action. Business forecasting helps in analyzing the economic, political and market information to reduce the risks involved in making business decisions and long range plans. In this process, a systematic attempt is made to look into all the influential factors (both past and present) affecting the working of the firm. Based upon the analysis of these factors and using sophisticated statistical and econometric techniques, a reliable calculation of probabilities about the future is made.

8.9 Key Words

- Group decision
- Delphi
- Consensus mapping
- Creativity

- Brain storming
- Groupthink
- Heuristic Techniques
- Intuition
- Forecasting

8.10 Short Answer Questions.

1. What are limitations of group decision making?
2. What is business forecasting? What is its relationship with planning?
3. What are steps in creative decision making?
4. Classify different decision making techniques.

Long Answer Questions

1. Define *group decision making.* Discuss various techniques of group decision making.
2. Explain the process and techniques of business forecasting.
3. Write brief notes on following:

(a) Intuition (b) Consensus mapping (c) Delphi (d) Modern techniques in decision making

4. Write notes on following:

(a) Advantages and limitations of group decision making

(b) Advantages and limitations of forecasting

8.11 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi

Activity 1

How do programmes and strategies help in achieving the organizational objectives?

Activity 2

Explain the meaning, types and limitations of policies?

UNIT 9

Fundamentals of Organizing

Structure

9.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Basic concept of organizing and organization
- Various principles that govern the organizing process
- Significance of effective organizing
- Impediments in function of organizing
- Span of control and its utility

9.1 INTRODUCTION

When the through basic managerial function (planning), the common objectives of the organizations are set, all the resources are mobilized to facilitate the achievement of common objective. The work is then allocated down the line i.e. at different levels of management and likewise in different departments, to different teams and finally to individuals. During work allocation to different persons, it needs to be seen that what is breakdown of activities to be performed for attaining the objectives, grouping of these activities into different departments, assigning the activities to different individuals, who will do what and what will be the relationship among these persons, This feature of management is known as **organizing**. Organizing also involves delegating the authority to individuals to enable them to finish the assigned work. This chapter will highlight the basics of organizing function.

9.2 CONCEPT OF ORGANIZING AND ORGANIZATION

Dictionary meaning of organizing is ‗to put in order' and meaning of organization is ‗orderliness'. So before we start discussing this concept, let us understand that words organizing and organization are used interchangeably by researchers and organization is an outcome of organizing process.

Organizing is the function of management which follows planning. In this function, the synchronization or organization and grouping of human, physical and financial resources takes place. As these three resources are essential to get results, organizing function helps in achievement of results.

Organizing is the function by which the concern/enterprise is able to define the role positions, the jobs related and the co- ordination between authority and responsibility.

-Chester Barnard

Organizing is the establishment of authority relations among people with the provision for coordination between them, both vertically and horizontally in the enterprise structure.

-Koontz and O' Donnel

Organizing is the establishing of effective authority relationships among selected work, persons and work places in order for the group to work together efficiently.

-G. Terry

Organization is the process of combining the work which individuals or groups have to perform with the facilities necessary for its execution so that the duties so performed provide the best channels for the efficient, systematic, positive and coordinated application of available effort.

-Oliver Sheldon

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

-Louis Allen

From above definitions it is clear that terms _organizing‘ and _organization‘ have been used interchangeably. Both of these terms convey that organization is about allocation of work and delegation of authority to the people in the organization.

For any organizational role to exist meaningfully three elements are mandatory; verifiable objectives, a clear idea of activities to be performed and a well understood area of discretion authority to help the person achieve goals.

There are two concepts associated with _organization‘:

Static Concept: According to this concept, the organization is a group of people who are bound together in a formal relationship and work together to achieve common objectives. This concept put emphasis on position and not on individuals.

Dynamic Concept: According to this concept, organization is a process of organizing work, people and systems. It is concerned with determining, grouping and sequencing the activities necessary to achieve objectives. This concept lays emphasis on individuals and considers organization as a continuous process.

Going by above discussions, the term organization can be referred in the following contexts:

- □ Organization as an Entity
- □ Organization as a group of people
- □ Organization as a structure and
- □ Organization as a process.

1. **Organization as an Entity:** in this context, organization is referred to as a body (an enterprise, a company, a corporation or partnership firm etc.). As an entity. Organization possess following features:

- □ An organization is an identifiable aggregation of people. All these people are inter related to each other.
- □ An organization is a deliberate and planned creation. Relationship of organization and its members is contractual i.e. organization exist much longer than its members.
- □ An organization is created for a purpose. In business organization, purpose is usually the profit maximization. The common organizational goals are set to achieve the purpose.
- □ An organization is a collection of activities, which are performed by its members to achieve objectives. All these activities are interrelated and are coordinated together.

- An organization has a specific structure in which its members are fitted. There are superior subordinate relationships along with flow of authority and responsibilities.
- Every organization exhibits rationality in coordination of activities and in behavior of people. Every organization has certain norms and standards of behavior which are designed by its members. All the people working in an organization must conform to these norms and standards.

2. **Organization as a group of people:** When organization is referred to as a group of people, it points towards different groups created formally and informally within the organization.

- An organization always means a group of people.
- People are social being and interact with each other.
- Interactions occur through formal or informal structures.
- Interactions are aimed at achieving certain goals.

3. **Organization as a structure:** It is clear from above discussion that organization has people interacting with each other. People have different positions and relationships. To determine these positions and relationship. A formal structure of the organization is made.
4. **Organization as a process**: Organization is the process of organizing through which organization structure is designed. Organizing process has following elements:

- **Identification of activities:** All the activities which are necessary have to be performed in order to achieve organizational objectives are identified first. For example, recruitment and selection, housekeeping, preparation of accounts, making sales, record keeping, quality control, inventory control, etc. are some of the activities done on routine basis. All these activities have to be grouped into jobs and jobs are classified to avoid confusion, duplication of work and wastage of resources.
- **Departmentation:** In this step, all the similar and related jobs are grouped together to ensure smooth flow of work. This leads to creation of departments. The organization of dividing the whole enterprise into independent units and departments is called departmentation.
- **Allocation of work:** Once the departments are made, there is allocation of work to different levels and to each individual at each level of management. The top

management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen

- **Classifying the authority -** Once the departments are made and work allocation is complete, the classification and extent of powers to be given to people at different level is decided. This activity of giving a rank in order to the managerial positions is called hierarchy. This is also called delegation of authority and it goes parallel with allocation of work. The clarification of authority helps in bringing efficiency in the running of the enterprise. This results in avoiding wastage of time, money, effort, in avoidance of duplication or overlapping of efforts and this leads to smooth working.
- **Synchronizing authority and responsibility -** Relationships are established among various groups to enable smooth interaction toward the achievement 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.
- **Coordinating:** After clarifying authority and responsibility relationships, coordination between different departments is ensured. Sometimes a department may tend to function too independently that the ultimate objective of the organization as a whole is lost. To avoid such situation, all the departments and positions in the organization are to be coordinated in such a manner that the inter dependence and inter relations are clearly defined. All departments should be in perfect sync and coordination with each other.

Check your Progress I

Note: Use the space given below for your answers

1) Define ‗Organizing‘.

____

____

____

____

____

____

____

2) Discuss organization as a group of people.

____
____
____
____
____
____

3) Elaborate any two concepts of organization.

____
____
____
____
____
____

9.3 CHARACTERISTICS OF ORGANIZATION

Going by above discussions, it can be said that an organization has following features/ characteristics:

- ***Common objectives***: an organization is created and designed in such a way so as to facilitate the achievement of common goals or objectives. Goals of various departments and units are allocated in such a way that total objectives of the organization are achieved. The organization structure is also build around these objectives.
- ***Division of work:*** The total work of the organization is divided into activities and functions (also called jobs). These activities are assigned to different people to be accomplished. This leads to division of work. Division of works means dividing the work on the principle that different people are best fitted for different jobs depending upon personal aptitude and skills. Division of work leads to specialization which is necessary to improve one‘s efficiency. An organization helps to divide the work and creates expertise while enhancing the efficiency of people.
- ***Coordination***: coordination is an important function in organization. It is as important as division of work. Coordination helps maintaining synchronization among various

departments. It helps in integrating and harmonizing different activities. This avoids duplication and delays. As all persons and departments in the organization are inter related with each other and performance of one influences the other, all of them must be properly coordinated, otherwise the performance is adversely affected. Organization is therefore aims to maintain effective coordination among all parts.

- ***Clearly established authority- responsibility relationships***: in an organization, various positions are arranged in order of hierarchy. There is well defined relationship of authority and responsibility among all positions. The hierarchy also defines the lines of communication and pattern of relationships. There exists a central authority from which chain of authority relationships extends throughout the organization.
- ***Co-operative relationships***: Organization is not made up of a single person. It is an entity where many people collectively work together to achieve organizational objectives. For cordial relationship among people, co operation is must. An organization is a system which helps creating cooperative relationships among its members. The relationships are both, vertical and horizontal. The structure of the organization is designed in manner so as to motivate people to perform work together.

9.4 PRINCIPLES OF ORGANIZATION

The purpose of organization revolves around the common objectives. All people work together for achievement of these objectives. There needs to be proper work allocation, role clarity, communication directions, well defined structure and rules etc. A scientifically designed organization aims to minimize conflicts and maximize effectiveness. Years of long research by management thinkers, has resulted into certain important principles of organization. Taylor, Fayol, Bernard, Urwick etc are the major contributors. The organizing process can be done efficiently if these principles are followed while taking decisions. To organize in an effective manner, the following principles of organization can be used as guidelines:

1. **Principle of common objectives**

   An enterprise should be set with certain aims for which all departments should work together. In the absence of the common goals, every department shall fix its own objectives and there will be chaos and lack of common direction. This situation will bring nothing but conflicts, wastage of resources and lack of organizational effectiveness. An organization, therefore, must have some common objective to set the direction of the business.

2. **Principle of Specialization**

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

3. **Principle of Functional Definition**

   This principle states that all the functions in the organization should be completely and clearly defined to the all people i.e. 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 help in achieving co-ordination. Clarification in the authority-responsibility relationship helps in efficient organization.

4. **Principle of coordination**

   Principle of coordination is an important principle. There must be some activity devoted to coordinate the functions of different departments. In the absence of coordination, the departments tend to set up their individual goals which fail the purpose of attaining common organizational objectives.

5. **Principles of Span of Control/Supervision**

   Span of control is an extent 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 from a wide or narrow span. Disproportionate span of control will adversely affect the efficiency of workers due to impaired communication with the superior.

   Principle of authority and relationships

6. The authority and responsibility should be clearly delegated. Authority flows in the downward direction in the organization. Authority can be delegated, but the responsibility lies with the person who has been given the assignment. If a superior delegates the authority to his subordinate, the superior is not freed of his responsibility,

although the subordinate becomes accountable to his superior. The responsibility cannot be delegated under any circumstances.

7. **Principle of balance**

   This principle states that work allocation should be done in such way so that every individual get only that much work which he can handle well. Work should be equally distributed. If some people are overworked and some are under worked, the balance will go astray and work will suffer.

8. **Principle of uniformity**

   During work allocation, uniformity should be maintained. Each officer should be in charge of his specific area to avoid dual subordination and hence overlapping and conflicts.

9. **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. As the authority flows from top to bottom, it clarifies the authority positions to people at all level and that facilitates effective organization.

10. **Principle of exception**

    According to this principle, top management should only interfere in managerial affairs at lower levels, when it is absolutely necessary. If things are moving as planned, there is no need of interference. Routine things should be left for lower cadres to be managed. It is only under exceptional situations that top managements‘ attention is sought. This relieves top management from routine work allows them to concentrate on planning and policy formulation.

11. **Principle of simplicity**

    The organization structure should be simple enough for everybody to understand. There should be job clarity, role clarity and clarity about authority-responsibility relationship. Simplicity avoids duplication of work and unnecessary conflicts.

12. **Principle of efficiency**

    The common organizational objectives should be achieved with cost effectiveness. There should be minimum cost and wastages. Standards of cost and revenue should be pre determined and performance should be according to these standards. The employees too should be able to achieve maximum job satisfaction.

13. **Principle of continuity**

    The environments (internal and external) always change. The organization should be able to adjust to these changes. There should always be scope for amendments. Changes can be in technology, in market competition, changing preference of consumers or handing human resources in varied ways. To survive, organization should be dynamic and not static.

14. **Principle of Unity of Command**

    It implies one subordinate-one superior relationship. Every subordinate should be answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. If a person is under control of more than one person, there is a likelihood of confusion and conflict. Unity of command helps in effective combination of resources and co- ordination and controlling.

Check your Progress II

Note: Use the space given below for your answers

1) List three features of an organization?

____

____

____

____

____

____

____

2) What is principle of functional definition?

____

____

____

____

3) Discuss the importance of principle of continuity.

9.5 PROBLEMS IN EFFECTIVE ORGANIZING

Organizing is a vital function of management. If it is done wrongly, results can be detrimental to the organization.

Following problems can crop up which can defy the purpose of organizing:

- **Poor planning**: Planning is the primary function of management and like all other functions, organizing is dependent on planning. Planning is modified according to changes in the environment. Along with planning; objectives may also be modified in the long run. To facilitate achievement of objectives and implementation of planning, organization structure may need to be modified. If this is not done, this will prove to be a road block. Therefore proper synchronization between planning and organizing is very essential.
- **Uncertainty about relationships**: a prerequisite of effective organizing is clarity of authorities, relationships and roles. If there is ambiguity among these elements, the disastrous results may occur. Lack of clarity leads to lack of understanding of roles that individuals need to play and this results into politics, friction, conflict and inefficiencies.
- **Failure to delegate**: managers are often reluctant when it comes to delegation. They fear to lose the authority of decision making while delegating. This trend is more prevalent in smaller organization where decentralization is not preferred. But in bigger organizations, this tendency leads to complications in the long run. This increase ther workload of managers and keep them occupied in routine tasks whereas these tasks can be easily handled by people down the line and managers can use their precious time in more

constructive activities like planning etc. This also leads to red tapism and delayed decision making.

- **Excessive delegation**: this is the opposite of the above situations. When there is too much delegation, excessive decentralization occurs and most of the authority is pushed down to the lower levels of management. People may start misusing the authority and become strong headed and arrogant. This leads to serious problems in coordinating the enterprise and may result into total chaos and organization failure.
- **Delegation of authority without responsibility**: whenever authority is delegated, both the superior (delegant) and subordinate (delegatee) are to be faithful and exacted with responsibility. Superior continues to be responsible for the proper utilization of authority by subordinate and the subordinate also bears the responsibility of results of the task to be accomplished. It is only authority that is delegated and not the responsibility. But in the absence of such setup, nobody will accountable for any action or result which can prove fatal.
- **Exacting responsibility without authority**: this is another serious mistake that can occur in the organizing function. Whenever somebody is assigned a task, he is also vested with authority to carry over the allotted work. If a subordinate is allotted work without giving any authority to do it and is still held responsible for outcome; it poses a very tricky situation. Without authority, the work is either not accomplished or partly accomplished. Therefore authority must be delegated while giving responsibility to do something. This situation arises when organizational lines and role clarity are not clearly set and conveyed to people.

9.6 PREREQUISITES OF AN EFFECTIVE ORGANIZATION

For the effectiveness of an enterprise, efficient organization is essential. An effective organization has following prerequisites:

Competent organizers: Success of an organization depends on the people sitting on the top i.e. top management. The organizing is secondary function whereas planning is the primary function. If the planning is done well and in meticulous detail, the organizing part will be better. A well defined organizational set up helps in smooth running of business. The top management should be competent enough, well versed in affairs of business understand the environmental changes.

Sound Policies: the business policies should be sound and clear. These should be clearly designed for different levels and departments. Members of the organization should be well versed with policies. Policies should not be conflicting or overlap with each other.

Adequate supervision and control: after allocation of work and goals to employees, role of supervision comes assumes importance. If supervision is proper, chances of deviation becomes less. If control is proper, deviations can be rectified in no time. Proper implementation of supervision and control ensure attainment of objectives to a large extent.

Proper cooperation and coordination: The organization always has common goals and everybody works to achieve them. To minimize conflicts, the employees should have attitude of cooperation with each other. This attitude can be brought about by creating team spirit among employees. Function of coordination is equally important. In the absence of coordination every department tends to set up its own goals which lead to chaos and purpose of common organizational objectives is defied.

Efficient personnel management: It has been discussed in detail in last few chapters that human are the most important resources of the organization and utilization of all other resources depend upon human element. It is therefore very important for a successful organization to have efficient human resource management which can take care of recruitment and selection of right man at right job at right time. It also takes care of training and development, motivation, morale, compensation, performance appraisal, industrial relations and labor laws etc. having happy and satisfied workforce leads to lower turnover and better productivity.

Capacity to expand: the organization structure should be such that it allows increase or decrease of production, as the case may be, without disturbing rest of the organization. If some change in production and sales requires changes in organizational set up, the growth of the enterprise shall be discouraged.

9.7 IMPORTANCE OF ORGANIZING

Effective organizing offers following benefits:

1. **Achievement of organizational goals**: organizing provide necessary support for implementation of plans. It also creates an organizational structure suitable for achievement of common goals. All organizing activities are assembling resources and clarify when, where and how these resources are to be used. Clear roles, authorities and responsibility structures are established to eliminate conflicts and overlapping.

Coordination further ensures that everything moves in same directions. All these activities facilitate attainment of organizational goals.

2. **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.
3. **Facilitates staffing**: Organizational structure helps in staffing because it clearly defines existing jobs, job specification (attributes of a particular job) and job description (attributes required in a person to handle a particular job). This greatly helps in putting right men on right job at right time by selecting people for various departments according to their qualifications, skill and experience.
4. **Clarifies authority:** Organizational structure helps in clarifying the role positions to every manager (status quo). This is done by role clarity and power and authority associated with a role. This prevents the interference in others' area of work, work duplication and misuse of power and resources.
5. **Establishes formal relationships:** Organizing defines authority-responsibility relationship among superiors and subordinates, horizontally as well as vertically, in the organization. Position of an individual in terms of independence and interdependence on others is also made clear. Well defined relationships result into mutual understanding and cooperation. It also minimizes conflict.
6. **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.
7. **Growth and diversification -** A company's growth is totally dependent on how efficiently and smoothly an enterprise operates. Efficiency is 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 grows. This is possible only when the organization's formal structure is well-defined. This is possible through organizing.
8. **Establishes communication flow**: Communication among people in enterprise is basis for success of an organization. Effective organizing establishes formal channels of communication through scalar chain and related organizational links.

9. **Sense of security -** Organizational structure clarifies the job positions. The roles assigned to every employee are clear. Coordination 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.
10. **Better coordination**: Effective organizing leads to well defined roles and relationships. This avoids overlapping, duplication and conflict. This results in better coordination.

Check your Progress III

Note: Use the space given below for your answers

1) How does poor planning affect the organizing process?

2) How does organizing establish formal relationships in an organization?

3) Write any three prerequisites of an effective organization.

9.8 SPAN OF MANAGEMENT

Span of management is also called as span of control or span of supervision. It refers to the number of subordinates which should be put under one superior i.e. span of control depicts the number of employees that can be handled and controlled effectively by a single manager. Span of management has two important propositions;

1. It helps to determine the degree of complexity of a manager's job.
2. It defines the shape of an organization. Fewer are the number of people reporting to a manager, larger is the number of managers required. Therefore the number of people reporting to a manager should be fixed.

There are two types of span of management:

1. **Wide span of control:** In wide span a manager supervises and controls effectively a large number of subordinates at one time. Wide span leads to flat organizational structure. In flat structure, there is lesser number of management levels.
2. **Narrow span of control:** In narrow span of control, a manager supervises a selected number of employees at one time. In 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. Narrow span leads to tall organization structure with many level of management.

Depending upon the type of span, two different kinds of organization structures exist.

Tall Structure: Tall structure is the result of narrow span.

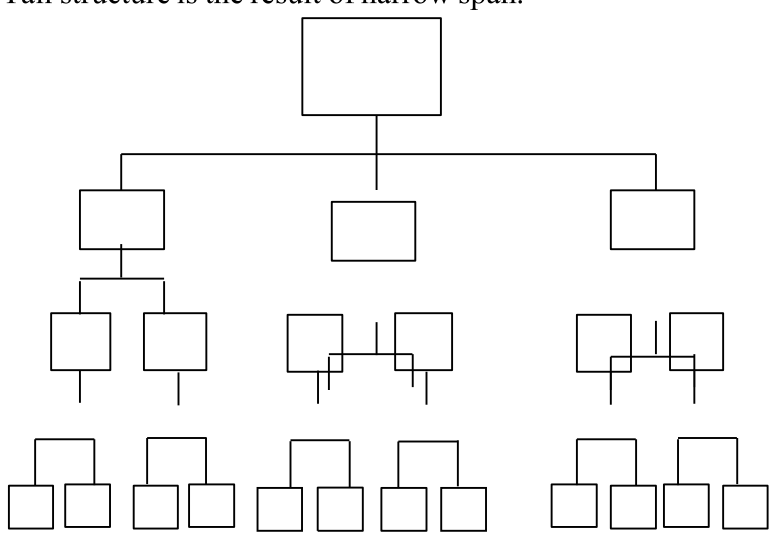


Fig 9.1 Organization with narrow span and tall structure

Advantages of tall structure and narrow span	*Disadvantages of tall structure and narrow span*
Close supervision	Superior tends to get involved in subordinate‘s work
Close control	Many levels of management
Fast Communication between superior and subordinate	High cost due to many levels
Specialization work can be achieved	Excessive distance between top level and lowest level
	Co-ordination is difficult to be achieved
	Problems regarding communication gap can surface

Tab 9.1 Advantages and disadvantages of Tall Structure

Flat Structure: Flat structure is the result of wide span.

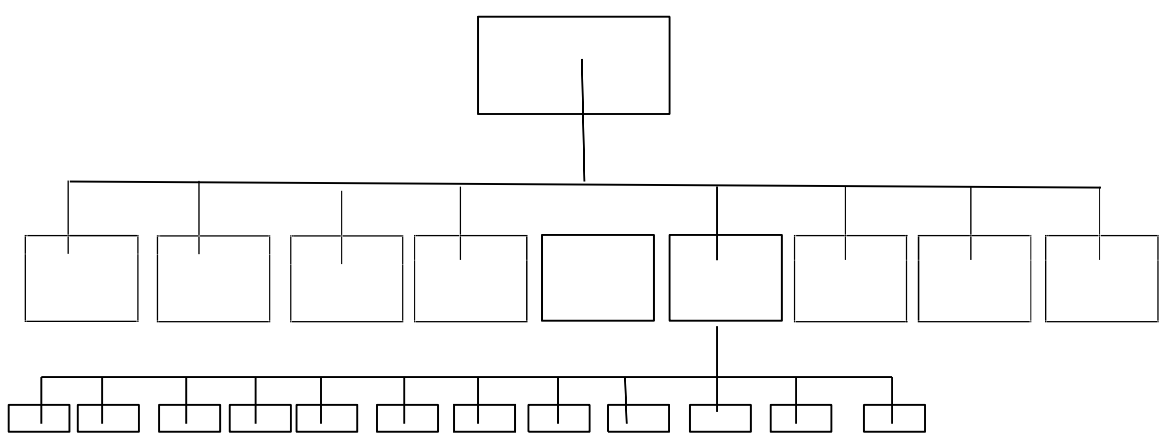


Fig 9.2 Organization with wide span and flat structure

Advantages of flat structure and wide span	*Disadvantages of flat structure and wide span*
• Superiors are forced to delegate • Less overhead cost of supervision • Better communication • Better supervision • Better co-ordination • Prompt response from the subordinates • Suitable for repetitive jobs • Need for the formation of clear policies • Subordinates should be carefully selected	• Superior are overloaded with work • Tendency of superiors to become bottlenecks in decision making due to work overload • Danger of superiors loss of control • Requires exceptional quality of managers

Tab 9.2 Advantages and disadvantages of Flat Structure

FACTORS INFLUENCING SPAN OF MANAGEMENT

1. **Managerial abilities**: When managers are capable, qualified and experienced and aggressive, wide span of control is always helpful. When managers are submissive by nature, narrow span is preferred.
2. **Competence of subordinates:** When the subordinates are capable and competent, efficient, trained and their understanding levels are proper, 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. **Degree of decentralization-** Decentralization is done in order to achieve specialization in which authority is shared by many people and managers at different levels. When degree of decentralization is high, higher degree of span is appropriate. Under such

conditions wider span is preferred and a flat structure is helpful. But if degree of decentralization is low, narrow span is preferred.

5. **Degree of planning**: Higher is the degree of plans (especially standing plans with clear rules and procedures), higher degree of span is desirable i.e. wider span. In such cases subordinates can take decisions at their own and less supervision is required. Opposite of this condition is true for narrow span.
6. **Communication techniques**: More is the prevalence of face to face communication, more time will be consumed, lesser people will be handled, and narrow span shall be preferred. Likewise, lesser extent of face to face communication will lead to requirement of wider span.
7. **Use of staff assistance**: More use of staff assistance means more free time available with manager. Hence he can handle number of people. Here wider span will be more useful.
8. **Supervision from others**: This is an uncommon situation. But in case the subordinates is receiving supervision from several other persons besides his direct superior, the work load of manager will lessen and he will have more time for disposal, hence wider span of control will be more suitable.

9.9 Let us sum up

Organizing is the function of management which follows planning. In this function, the synchronization or organization and grouping of human, physical and financial resources takes place. As these three resources are essential to get results, organizing function helps in achievement of results. Concept of organization is same as organizing. Organizing is the establishing of effective authority relationships among selected work, persons and work places in order for the group to work together efficiently. Whereas Organization is the process of combining the work which individuals or groups have to perform with the facilities necessary for its execution so that the duties so performed provide the best channels for the efficient, systematic, positive and coordinated application of available effort. An organization can be considered as an entity, as a group of people, as a structure and as a process. An organization is characterized by common objectives, division of work, coordination, authority-responsibility relationship and cooperative relationship among employees.

A scientifically designed organization aims to minimize conflicts and maximize effectiveness. Years of long research by management thinkers, has resulted into fourteen important principles of organization. Poor planning, uncertain relationships, failure to delegate, excessive delegation, delegation without responsibility and authority are the major impediments in effective organizing. For an effective organization; competent organizers, sound policies, adequate supervision and control, proper cooperation and coordination and efficient personnel management are key requirements. Effective organizing offers numerous benefits. Span of management is also called as span of control or span of supervision. It refers to the number of subordinates which should be put under one superior. A narrow span leads to tall organizational structure, whereas a wide span results in flat organizational structure. Span and structure vary as per organization‗s size and philosophy.

8.9 Key Words

- Organizing
- Organization
- Organizing principles
- Organization as an entity
- Organizing as a process
- Span of control
- Wide span
- Narrow span
- Tall organization Structure
- Flat organization Structure

9.10 Short Answer Questions.

1. ‗Organizing and organization are same.‗ Do you agree? Why?
2. What is the need of effective organizing?
3. Discuss characteristics of organization.
4. Define span of control. What are its types?

Long Answer Questions

1. Discuss concept of organization in detail.
2. Explain the principles of organizing.
3. Why organizing is considered an important function.

4. What is difference between tall and flat organizational structure? What factors influence span of control?

9.11 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi

Activity

A company has four major division – production, personnel, finance and marketing. Each division is headed by divisional manager designated as general manager. Each general manager reports to managing director who, in turn, reports to the chief executive officer of the company. The company has spread its offices in different geographical areas- south, east, north and west. The managers of southern and eastern regions have further diversified their operations into consumer and industrial use of its products while the other two regions meet only industrial demand for their products.

Questions

1. Draw the organization chart of this company. What is the basis of preparing this chart?

2. What is the objective of organization chart? State its merits and limitations.

UNIT 10

Organization Structure

Structure

10.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Basic concept of organization structure
- Line and staff conflict
- Various types of organizations
- Advantages and Disadvantages of different type of organizational set up

10.1 INTRODUCTION

Organization structure is pattern of relationships among various components and parts of the organization. This includes relationships among various activities and positions. Because positions are held by people, therefore the structure is relationships among people in the organization. Design of the organization‘s basic structure revolvers around certain issues like how the organization will be divided and assigned among various positions, groups, divisions, departments and how the coordination necessary to accomplish common organizational goals will be achieved. Structure also represents hierarchical positions, communication patterns, allocation of authority and responsibility. Adoption of particular form of organization structure to a large extent depends upon the nature, scale and size of the business.

In this chapter we will study the concept of formal and informal organization. We will also learn following forms or types of organizations.

1. Formal and informal organization
2. Line Organization
3. Functional or Staff Organization
4. Line and Staff Organization
5. Committee form of Organization
6. Matrix Organization

10.2 FORMAL AND INFORMAL ORGANIZATIONS

Let us first understand the concept of both forms of organization. In an established organization structure, people create relationships independent of formal. These relationships are called informal organization. An organization structure includes formal and informal components and both of these components exist together.

Formal Organization is consciously designed structure of well defined jobs, each with authority, responsibility and accountability, created to achieve specific organization objectives. Formal organization is based upon four pillars; division of labor, scalar and functional processes, structure and span of control. Features of formal organization are:

- Formal organization structure is designed by top management with the thought of attaining common organizational objectives.
- Formal organization structure is based on principles of division of work and efficiency.
- Formal organization structure concentrates on job performance and not on the individuals who actually perform the job.
- A job holder has to conform to the authority and responsibility associated with each job. Hierarchies are created according to flow of authority and responsibilities.
- In formal organization structure, coordination and control process are well specified and are carried out as per the pre set rules and procedures.

Informal organization refers to natural groupings of people in the work place. These groupings are not specified in the blue print of the formal organization structure. People, who work together, come close on the basis of some similarities. It can be said that informal organizations are about social relationships among people. This complex system of social relationship co exists with formal organization. Features of informal organization are:

- Informal organization is a natural outcome at work place. It is not consciously created by management.
- Informal organization is created on the basis of certain similarities among members of an organization. Similarity can be due to age, gender, caste, religion, likes, dislikes and related personality characteristics.
- Membership of an informal organization is voluntary and purely a personal choice.
- Behavior of members is coordinated and controlled by group norms.

Difference between formal and informal organization: Based upon above explained features, the differences between formal and informal organization are listed in the table below:

Table 10.1 Difference between formal and informal organization

	Formal Organization	**Informal Organization**
1.	The formal organization is created deliberately by top management	Informal organization is created due to social and psychological needs of people.
2.	Purpose of formal organization is to achieve organizational goals.	Informal groups are created by people for their social and psychological satisfaction.
3.	Formal groups can be very large in size.	Size of informal groups is usually small. This maintains the cohesiveness o f the group.
4.	Formal groups are stable and continue for a long period of time (indefinitely), their members keep on changing.	Informal groups are quite unstable in nature and they disappear quickly due to change in membership. This is because existence of such groups is due to personality features of the members concerned.

	Formal Organization	Informal Organization
5.	The number of formal groups is decided by the management per the requirement.	A large number of informal groups may exist in the organization. There is no limit on their number.
6.	In formal groups, authority flows in hierarchy i.e. from higher level to lower level. Thus, authority is derived through formal source (delegation).	In informal groups all people are equal. Some people command more authority by virtue of their personality. People give more authority to a person, who is likely to meet members' needs most.
7.	Behavior of members of formal groups is governed by formal rules and regulations.	Behavior of members of informal groups is governed by norms, beliefs and values of group. Members who confirm to these three elements are liked and those who challenge these are disliked by group.
8.	In formal groups, communication flows through formal chain of command.	In informal groups, communication flows through informal channels.
9.	The formal groups can be dissolved or abolished any time by management. Creation and dissolution of formal groups is done through organizational process.	It is very difficult to dissolve informal groups organization process. If management tries to suspend the informal groups, it is meat by lot of resistance and revolt and many more informal groups are formed.

Why do informal organizations exist?

Most of the time, formal organization is inadequate to meet the social and psychological needs of its employees. Jobs also create some sort of mental pressure. Informal organizations provide a vent to release the stress. Some reasons which lead to formation of informal organizations are:

- **Socializing needs**: man has certain social and ego needs which cannot be satisfied by set up of formal organization. These needs are quite important and propel the people to interact with each other. People are drawn to each other due to many factors like caste, religion, place, gender or common interests.

- **Fatigue and boredom**: due to emphasis on specialization, a person has to perform a unique job every day. Performing routine tasks generates boredom and mental fatigue. To overcome fatigue and boredom, they try to socialize. This socialization also helps them to release their tensions. Thus informal groups fill the psychological vacuum created by monotonous jobs.
- **Hierarchical control**: in formal organization structure, there exists hierarchical communication and control. There are superior subordinate relationships where control is naturally exercised by superiors. Subordinates do not like control all the time and tries to find an association where this control does not exist. So they join informal organization.
- **Additional benefits**: informal organizations provide many advantages to its members. It protects their interests and cultural values. It provides validation of beliefs and an outlet for releasing frustration and bitter experiences of job. It is a medium of communication and source of information. Informal groups fill gaps of managerial abilities. All these benefits make people join informal groups.

FUNCTIONING OF INFORMAL ORGANIZATION

Informal organizations have three pillars; authority, leadership and communication.

Authority: The informal organization is the outcome of people‘s social and psychological needs. The formal relationships do not play any part. Thus there is no delegation of authority from superiors. Authority in here is purely personal and is not derived from positions. Informal organizations function on the basis of mutual understanding and acceptance of others. The authority is automatically given to a person who can handle the group effectively. Because power is given permissively by group members and not delegated, so it does not flow officialy fro top level to lower level of hierarchy. Informal groups do not have hierarchy and the power comes from peers rather than superiors.

Leadership: Leadership is the ability to influence others and persuade them towards achievement of certain goals. In a formal organization, the leadership role is assigned because of one‘s position in hierarchy. In informal organization, the person who emerges as a leader is perceived to be the one who is best able to satisfy group needs. There exist informal leaders.

Communication: Unlike formal organization where communication is through formal channels, the informal organization has its own media and channels of communication. Communication is mostly oral and carries the information which cannot be obtained through formal communication. Informal communication network is also called grapevine.

DISADVANTAGES OF INFORMAL ORGANIZATIONS

Existence of informal organization produces both functional and dysfunctional effects. If informal organizations are not handled properly, they can give rise to many harmful effects.

1. **Resistance to change:** Every group promotes values and norms desirable to it. With passage of time, group members guard these norms and values resulting in *status quo*. Most dynamic organizations want change in work methods and routines to accommodate changes occurring in the external environment; informal group have tendency to perpetuate the status quo. Each group tries to maintain equilibrium. In trying to maintain equilibrium, a group develops responses to return to its supposed best way of life whenever any change occurs. Though people perceive the outcome of a change individually if the outcome of change is precise and definite, often they show their reaction in group, and since informal groups are bound by convention, custom, and culture, often they resist any change. And resistance coming from a group is very effective. If informal groups are not handled effectively, it becomes very difficult to accommodate changes.
2. **Role conflict**: An individual perceives role conflict when he has to fulfill conflicting requirements of both his group as well as of organization as a whole. Since informal organizations try to meet the social needs of their members there is a natural tendency to produce role conflict. Such a conflict may be dysfunctional from organization‘s point of view as it may come in the way of performing official duties. Much of the role conflict can be avoided by carefully cultivating mutual interests with informal groups. Interests, goals, methods, and evaluation system of formal and informal organizations should be integrated, to achieve productivity and satisfaction.
3. **Rumor**: Rumor is essentially an incident of social communication that supplements the transmission of information through formal communication. Rumor is a specific intention for belief, passed from person to person, usually by word of mouth, without secure standards of evidence being present. Rumor deals with temporary events in a way that implies that whatever is said is true even though there is not much information to

circumstances and relieving of emotional tensions felt by people in those ambiguous situations. Since most of the time rumors carry false information, they become detrimental to organizational functioning. The best course of action to deal with rumor is the identification of their source and course. It is important to find causes. When people feel secure, understand the relevant things and exhibit team spirit; the rumors get reduced to a great extent, because there is very little ambiguity in the situation.

4. **Conformity**: The informal groups exert strong pressures for conformity. The members identify so much with the informal group that it becomes a part of their everyday life. They barely recognize the powerful pressures conformity exerts to group. The pressure is so strong that members become subject to willful control of an informal leader who may manipulate the group towards selfish or undesirable ends. The informal leader exercises group power without the official control, weight of responsibility, and public regulations that formal leader has. In this way, the informal group can become an instrument of irrational sources of conflict or non-responsible gang using the group for their own selfish end.
5. **Social Costs**: informal groups can be quite unproductive at times. This may result in wastage of time and resources. Groups may engage in gossiping, jock telling and idle conversations. These activities result in operating costs because deadlines are not met within stipulated period of time.

Check your Progress I

Note: Use the space given below for your answers

1) Define ‗Organization Structure'.

____

____

____

____

____

____

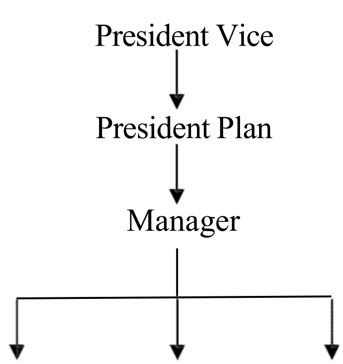
____

2) Why do informal organizations exist?

3) Describe functioning of an informal organization.

10.3 LINE ORGANIZATION

The oldest form of organization this is known by different names; military, vertical, scalar and departmental, organization. All other types of organization structure have been modified forms of line organization. The concept of line organization states that in any organization derived from a scalar process, there must be a single head that commands it and bear the critical accountability for results. McFarland defines line organization as, "Line structure consists of the direct vertical relationship which connect the positions and tasks of each level with those above and below it." Line organization is suitable to a) Small businesses where there are few subordinates; b)Organisations where there is largely of routine nature and methods of operations are simple.



Foreman 1 Forman 2 Foreman 3

Fig 10.1 Line Organization

Types of line organization:

Line organization is of two types:

(a) Simple or Pure Line Organization:

In the ‗Pure Line organization' the activities (at any level of management) are the same with each man performing the same type of work and the divisions primarily exist for the purpose of control and direction. In reality, such type of organization rarely exists.

(b) Departmental line organization:

When an organization is divided into various departments headed by different departmental heads, it is called departmental line organization. All the departments operate under the ultimate control of general manager. The orders flow directly from the general manager to all the departmental heads who in turn pass these on to their respective subordinates. Likewise, the subordinates, in turn, communicate the orders to their subordinates (workers). The departmental heads are independent of each other and enjoy equal status. Formation departments is based upon the concept of unity of control and line authority and responsibility from the top to the bottom departments and not on unrelated functions.

Characteristics of line organization

1. Number of levels of management varies in each organization according to the scale of its business and decision-making ability of managers. Each level of management has equal rights.

2. There is vertical flow of authority and responsibility. The lower positions derive authority from the positions above them.
3. Principle of unity of command is widely applicable. Every person is accountable to only one superior and none else. A person receives orders only from his immediate boss.
4. There is scalar chain in line organization. The flow of orders, communication of suggestions and complaints etc. are made as it is in the case of a ladder. One cannot defy the claim.
5. There is limit on number of subordinates under one manager. A manager can exercise control only over the subordinates of his department.

Merits of line organization

1. **Simplicity**: It is the simplest form of all types of organizations. It can be easily established and easily understood by the workers.
2. **Clarity of authority and responsibility**: the authority and responsibility of each person is clearly defined. Everyone knows whom to issue orders and to whom he is accountable. it is also easier to trace the responsibility if there is any lapse in the performance of activities.
3. **Maintenance of strict Discipline**: Because of direct authority-responsibility relationships, discipline can be maintained more effectively. Direct supervision and control also helps in maintaining strong discipline among the workers.
4. **Unified control**: as the orders are given by one superior, there is no confusion among the subordinates. This ensures better understanding and quick action.
5. **Timely Decisions**: As the superiors enjoy full authority, they are able to take and implement decisions quickly.
6. **Flexibility**: Since each departmental head has exclusive responsibility for his department, he can easily make adjustments to the organization to changes .

Demerits of line organization

1. **Excessive workload**: Since the departmental heads have to look after all the activities of their respective departments, they are over burdened with work. This workload increases

with expansion of business. This may lead to neglect of some of the duties and thus can result in inefficient management.

2. **Concentration of authority**: line organization is dictatorial in nature as all important powers are concentrated in the hands of a few top executives. Therefore the ability of the business to succeed depends upon their level of competence.
3. **Lack of specialization**: Line organization suffers from lack of specialized skill of experts. It is difficult for a person to handle activities of diverse nature. In line organization, it is not possible to achieve the advantage of expertise in all fields. This leads to poor quality of decision. a manager may have to depend upon opinions of subordinates .
4. **Lack of communication** -There is failure to get correct information and to act upon it due to lack of communication. There is only downward communication (top to bottom), but not upward communication (from the lower ranks to higher ranks). Subordinates are not provided with an opportunity to express their view point / problems / suggestions to the top level. Eventually they lose their capacity for independence thinking. This lack of communication (upward) creates problems in smooth running of business.
5. **Possibility for favoritism**: in line organization, the departmental head is ultimate authority for the activities of his department. This creates tendency towards favoritism. There may be a good deal of nepotism and jobbery and personal prejudices. The executive may appoint and promote his own men in various positions ignoring the claim of efficient persons.
6. **Instability**: the control lies in the hands of selected few. Sudden disappearance of these key persons can create instability in the business scene. There is also lack of grooming of persons from lower levels due to their inability to take part in decision making. This leads to problems in managerial growth and hence instability.

10.4 FUNCTIONAL OR STAFF ORGANIZATION

To overcome the limitations of line organization, concept of functional organization was devised. Line officer is overburdened with work and is unable to devote time to each and every activity.

He cannot be an expert in every field of business. Large scale business necessitates the use of experts in different fields.

F.W. developed the concept of functional organization. He suggested division of work into two groups Office specialists and Shop specialists. Taylor recommended the following staff to direct their workers in their functional areas:

Office specialists:

1. Route clerk (He plans the route from which work will pass from machine to machine).
2. Time and cost clerk (He checks the time and cost in all the activities).
3. Instruction card clerk (He deals with the maintenance and orderliness of the instructions being carried out).
4. Disciplinarian (He maintains discipline in the organization).

Staff specialists:

1. Gang boss (He procures tools and arranges for set-ups).
2. Speed boss (He supervises the speed of the machine and feeds the worker performance).
3. Inspector (He checks the quality).
4. Repair boss (He looks after the maintenance of the machinery and see that it is in order).

Characteristics of functional / staff organization

1. Under this system, the task of management and direction of subordinates is divided according to type of work involved.
2. All the activities are grouped together according to basic functions like production, marketing, finance, personnel, research and development.
3. Each function is handled by a specialist in that particular field.
4. All persons dealing with a particular function are put under the charge of a person controlling that particular function.
5. The person in charge of a function is an expert.
6. If a person performs a number of functions, he is accountable to all those persons who are in charge of those functions.
7. In addition to the line authority a specialist possesses functional authority over other functional activities in other areas.

Merits of functional organization

1. **Specialization:** The whole organization is divided into many departments on the basis of major activities to be performed. Each department is headed by an expert manager. This results in more and better work being accomplished in much lesser time. Hence, the benefits of specialization become available.
2. **Coordination:** All the persons working within a department are experts of their respective fields. It makes coordination easier at the departmental level.
3. **Increased Managerial Efficiency:** There is division of labor and separation of planning and execution. It helps in increasing managerial efficiency .the workers also get guidance from expert supervisors. This enhances their performance too.
4. **Minimal Duplication of Efforts:** In functional organization unnecessary duplication of efforts is eliminated. For example, the function of finance is only carried out by the finance department. There is no need to establish two or more departments. It makes it possible to utilize the human and other resources effectively.
5. **Training is facilitated:** It facilitates the training of personnel as the focus is only on a limited range of skills. For example, the employees of finance department are given training of financial issues.
6. **Flexibility**: functional organization allows changes in organization without disturbing the whole work. The span of control can also be adjusted as per the requirement.
7. **Democratic control**: Functional organization eliminates one man control. There is joint control and supervision in the organization. This boosts the morale of employees and increases cooperation among them. The democratic approach encourages worker to analyze their work and make suggestions regarding work improvement.
8. **Better supervision and economy**: Use of experts help reducing wastage of resources, leading to economy in operations. Every supervisor being expert in his area , is able to plan better and also helps to improve supervision.
9. **Relief to top management**: In line organization, top executives are overburdened with work. This is eliminated in functional organization, where experts take care of their respective fields and relive top executives from this work.

Demerits of functional organization

1. **Conflict in authority:** Due to supervision from than one boss, the principle of unity of command is violated. Every superior feels that his work is more important and workers should give priority to his work. This creates conflict among superiors. Workers also get confused as to how to justify more than one boss. This also leads to poor discipline as workers' loyalty gets divided among bosses.
2. **Difficulty in fixing responsibility**: Since there is no unity of command, it becomes difficult to fix responsibility for slackness in work. Because everybody's responsibility is nobody's responsibility.
3. **Delayed decision making**: Involvement of more than one person in division of authority, slows down the process of decision making.
4. **Ignorance of Organizational Objectives:** Each departmental head works according to his sweet will. They always give more importance to their departmental objectives.
5. **Difficulty in coordination:** All departmental heads may work as per their own wish. No doubt this facilitates coordination within the department but it makes interdepartmental coordination difficult.
6. **Conflict of interest:** Every departmental head wants to become a functional empire. To satisfy their ego every one demands maximum resources for their department. This situation leads to conflicts among the various departmental heads.
7. **Hurdle in development:** This system is a hurdle in the way of the complete development of the employees. Each employee specializes only in a small part of the whole job.

Check your Progress II

Note: Use the space given below for your answers

1) What are the merits of line organization?

____

____

____

____

____

____

____

2) Describe the features of functional organization.

____

____

____

____

____

____

3) What are the repercussions of *principle of unity of command* in functional organization?

____

____

____

____

____

____

10.5 LINE AND STAFF ORGANIZATION

Both line as well staff organizations suffer from certain demerits. Line and staff organization aims to eliminate the drawbacks of both. It is a blending of line and staff organizations. This type of organization owes its origin to army where a commander is assisted by staff officers in planning and executing the war strategies.

Features of Line and Staff Organization

1. The whole organization is divided into different functional areas to which staff specialists are attached.
2. Power of command remains with the line executive and staff serves only as counselors.
3. A line manager is vested with executive authority. He is responsible for making important decisions and is accountable for their implementation.
4. Line officers are responsible for accomplishment of objectives.
5. The authority flows vertically: from top to bottom.
6. Staff officers are experts in their fields.
7. Staff officers are attached to line managers to advice them in their field of specialisation. Their role is advisory in nature.

8. The staff organization facilitates the accomplishment of organizational objectives by providing valuable advice and expert knowledge to staff officers. Line officers may ask staff officers to suggest solutions to prevailing problems.
9. Staff officers have no authority to command the line staff but exercise control within their own organization.
10. The line officers may or may not rely upon the advice of staff officers
11. Division of work and specialization takes place in line and staff organization.
12. Efficiency can be achieved through the features of specialization.
13. There is three types of staff:
    a. Personal staff: this staff is attached to individual line officers (e.g. personal assistant and personal secretary). They help in routine work of line officers.
    b. Specialist Staff: these are technically qualified persons and provide service to whole organization. They help line staff in planning, organizing and coordinating their work. Their knowledge is an asset to the organization. E.g. legal advisor.
    c. General staff: this staff consists of persons attached to the key executives. They have the same background as that of the line officers. E.g. deputy managers, assistant managers and special assistants etc.
14. There are two lines of authority which flow at one time in a concern :
    a) Line Authority , b) Staff Authority

Difference between line organization and staff/ functional organization

- Staff organization advices, line organization executes.
- Staff organization has authority of line; line organization has authority of command.
- Staff organization has no fixed responsibility, but line organization has.
- Staff organization is more expensive than, line organization.
- Staff organization is suitable to big business; line organization is more suitable to small business.
- Staff organization is less flexible than line organization.

Merits of Line and Staff Organization

1. **Relief to line of executives:** In a line and staff organization, the advice and counselling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
2. **Expert advice:** The staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff expert and line officers can concentrate on implementation of plans.
3. **Specialization:** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. **Better co-ordination:** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing coordination in work as every official is concentrating in their own area.
5. **Research and Development:** Through the advice of specialized staff, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
6. **Balanced and quick decisions:** The factor of specialization achieved by line staff helps in bringing coordination. This relationship helps the line official to take better, quick and balanced decision.
7. **Unity of action:** Unity of action is a result of unified control. Control and its effectivity take place when co- ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

Demerits of Line and Staff Organization

1. **Lack of understanding:** In a line and staff organization, there are two authorities flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.

2. **Lack of sound advice:** The line official get used to the expertise advice of the staff. At times the staff specialists also provide wrong decisions. This can affect the efficient running of the enterprise.
3. **Line and staff conflicts:** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co ordination which hampers a concern's working.
4. **Costly:** In line and staff concern, the concerns have to maintain the high remuneration of staff specialists. This proves to be costly for a concern with limited finance.
5. **Assumption of authority:** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
6. **Staff takes credit -** In a line and staff concern, the higher returns are considered to be a product of staff advice and counselling. The line officials feel dissatisfied and a feeling of distress is there. The satisfaction of line officials is very important for effective results.

Line and Staff Conflict

The purpose and assumption behind establishing line and staff organization is cooperation with each other and facilitating the work. But due to some misunderstandings, conflict arises between both parties.

The staff managers have following complaints against line managers

1. Since the staff generally advises and the line decides and acts, the staff manager often complaint that they lack authority to have their ideas executed. This creates frustration among them.
2. Staff employees may be opposed because of their specialized knowledge and expertise.
3. Staff has generally easier access to top management, which is resented by the line management.
4. Staff feels that the line managers do not make a proper use of staff. In many companies the advice and help of staff is sought only as a last resort.
5. Line managers often resist the new ideas given by the staff specialists and are sometimes not prepared to listen to the arguments of staff specialists.
6. Line managers generally do not make a proper use of the services of the staff specialists.

Line managers have following complaints against the staff managers

1. Line managers feel that the staff manager interferes in their work and unnecessarily try to tell them how to do their work.
2. Many line managers also feel that staff specialists are academicians and theoretical rather than practical and can never give sound practical advice.
3. There is a conflict about the degree of importance between the line and staff as far as the contribution towards the growth of the organization is concerned.
4. Since staff men are not directly accountable for any result, they are generally overzealous and recommend a course of action which is not practicable.
5. The line usually complains that if things go right then the staff takes the credit and if things go wrong then the line gets the blame for it.
6. Line managers generally complain that the staff fails to see the whole picture and tends to operate only in terms of their own specialized area. For example a cost accountant may think only in terms of money costs and an engineer may think only about excellence in designing.

Check your Progress III

Note: Use the space given below for your answers

1) List features of line and staff organization.

____

____

____

____

____

____

____

2) Tabulate differences between line and staff organization.

____

____

____

____

3) What are reasons of _staff‘ to disagree with _line‘ managers?

10.6 COMMITTEE ORGANIZATION

Committee organization is used for the purpose of performing advisory functions of the management. Committees are found in different levels of organization. A committee is a group of people who meet by plan to discuss or make a decision on a particular subject. For example, Management committee consisting of General Manager and Departmental heads.

Committees are used for the following purposes:

- To get view-point and consultation of various persons in the organisations.
- To give participation and representation to different groups or interests;
- To coordinate the activities of different departments;
- To review the performance of certain units;
- To facilitate communication and co-operation among diverse groups.

Committee can be of three types:

- Formal and informal: if a committee is formed as a part of organizational structure and is delegated duties and authorities, it is formal committee. If it is formed to tackle a problem, it is informal committee.
- Advisory committee: This type of committees is formed to provide advice to line managers. But it cannot force line managers to accept its guidelines.
- Line Committee: Committees having managerial powers are line committees. These help in designing company policies etc.

Merits of committee organisation

1. It facilitates co-ordination of activity of various departments.

2. Pooled knowledge and judgment become available to the business thus its efficiency increases.

3. It is a good platform of training and educating employees.

4. It helps to improve the motivation and morale of employees.

5. It promotes mutual understanding, teamwork and co-operation among employees.

Demerits of Committee Organisation

1. It is not only costly in terms of time it consumes, but also in terms of money involved.
2. Difficulty in reaching agreement results in indecision.
3. In case of a bad or wrong decision, no individual accountability can be fixed.
4. Indecision may lead to a breakdown of group action.
5. Committee management is slower in reaching decisions than a one-man rule.

10.7 MATRIX ORGANIZATIONAL STRUCTURE

In a matrix structure (also named as grid/ project organization), each employee answers to two immediate supervisors: a functional supervisor and a project supervisor. The functional supervisor oversees employees in a functional area. Project supervisors manage a specific and often non permanent project. They absorb employees from various functional areas to complete their project teams.

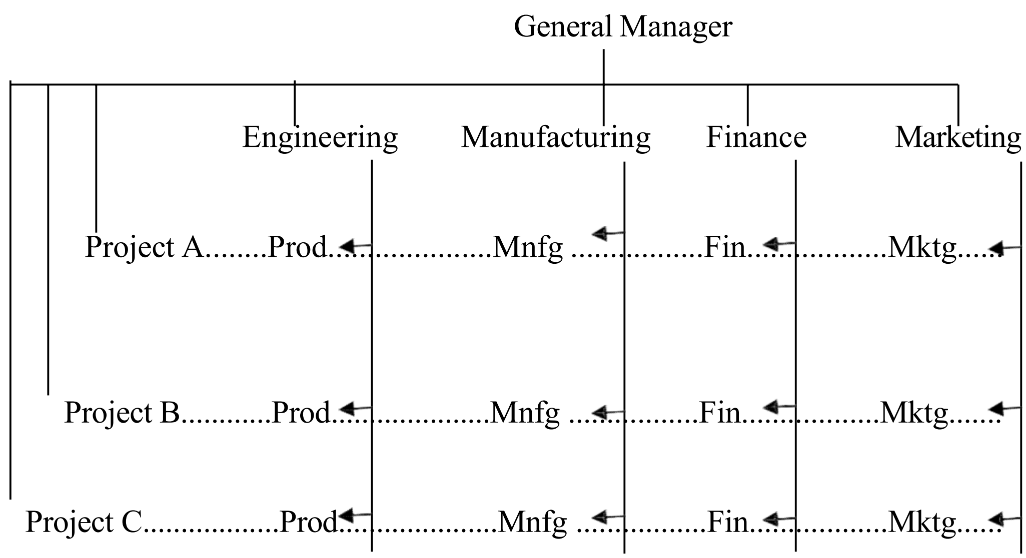


Fig 10 Matrix Organization

____________Line authority

......................Staff authority

Matrix organizational structure offers several advantages.

1. **Resource Coordination is facilitated**: The matrix structure allows supervisors to focus on their areas of expertise. Functional supervisors focus on hiring, training and managing employees in their field, while project supervisors can focus on achieving the goals of their specific projects or products.
2. **Specialization**: Placing employees in functional areas allows them to specialize in a particular field.
3. **Skill improvement**: In a matrix structure, employees have constant contact with members of other functional areas because of their membership in project teams. Through the project team, employees have the opportunity to develop a wider set of skills than they would in a purely functional structure.
4. **Communication**: Due to interaction among members of different functional areas, the matrix structure allows for information and resources to travel more fluently between those functional areas.
5. **Flexibility**: The matrix structure allows for human resources to be shared flexibly across different projects or products. To facilitate this, functional areas maintain a stock of talented employees to meet projects' requirements

Disadvantages of matrix structure

1. As there are limited financial and human resources, a state conflict often exists between functional and project managers about sharing these resources.
2. An imbalance of authority and power, as well horizontal and vertical influence of the project and functional managers can lead to problems.
3. Because of potential conflicts, managers want to protect themselves against blame by putting everything in waiting. This creates administrative problems.
4. Design of matrix organization puts lot of pressure and stress on individual employees. Dual unity of command also creates role conflict and role ambiguity.
5. This type of organization requires frequent meetings which are highly time consuming.

10.8 Let us sum up

Organization structure is pattern of relationships among various components and parts of the organization. Design of the organization‘s basic structure revolvers around certain issues like how the organization will be divided and assigned among various positions, groups, divisions, departments and how the coordination necessary to accomplish common organizational goals will be achieved. Structure also represents hierarchical positions, communication patterns, allocation of authority and responsibility. Adoption of particular form of organization structure to a large extent depends upon the nature, scale and size of the business. Organizations are of six types; Formal and informal organization, Line Organization, Functional or Staff Organization, Line and Staff Organization, Committee form of Organization and Matrix Organization. Every structure has its exclusive merits and demerits. In spite of difficulties and conflicts, line and staff organization is most popular.

10.9 Key Words

- □ Organization structure
- □ Line
- □ Staff
- □ Formal organization
- □ Informal organization
- □ Committee
- □ Matrix organization
- □ Line and Staff conflict

10.10 Short Answer Questions.

1. Discuss the concept of organization structure?
2. What are limitations of informal organization?
3. What is Committee? What are the merits of committees?
4. Write a note on matrix organization?

Long Answer Questions

1. What is an informal organization? What are its merits and demerits?.
2. What are the causes of conflict between line and styaff? How can these be overcome?
3. Discuss features, advantages and limitations of matrix form of organization.

4. Discuss functional organization, its merits and demerits.

10.11 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity

MR. arya is the senior manager of production department of Sunglass Co. Ltd. One of his subordinates, Mr. Gupta, is an intelligent, hardworking and conscientious worker. His knowledge of various subjects makes him popular amongst employees of the organization. People come to him for solving their official and personal problems, so much so that they surpass their hierarchical superiors,. Managers of other departments get offended and report the matter to the managing director.

Questions

1. What type of organization is this? State its features.

2. Can the managing director stop the employees from approaching Mr. Gupta for getting their problems solved? If not, how best can he manage such an organization?

UNIT11

Departmentation

Structure

11.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Basic concept and benefits of departmentation
- Basis of creating departments
- Various aspects of delegation of authority
- Centralization versus decentralization

11.1 INTRODUCTION

Departmentation is the process of grouping of operating tasks into jobs, the combining of jobs into effective work groups and the combining of groups into divisions. These divisions are often termed as ‗Departments‘. Grouping of activities into departments is essential part of the process of setting up organization. The creation of a series of smaller departments enables the employees to acquire specialization within a narrower range of activity. Departmentalisation helps the executive to direct and control the work to be done under his department. The executives tend to exhibit better skill and experience while handling problems within department. This leads to effective coordination and control.

In this chapter we will study about the process of departmentation. We will also discuss concept of centralization and decentralization and delegation of authority i.e. how the authority flows vertically in the organization.

11.2 DEPARTMENTATION

Koontz and O'Donnell defines department as, ―A department is a distinct area, division or branch of an enterprise over which a manager has authority for the performance of specified activities‖.

Louis Allen explains, ―Divisionalisation is a means of dividing the large and monolithic functional organization into smaller flexible administrative units.‖

It can be inferred that departmentation is the process of classifying and grouping all the activities of an enterprise into different units and sub-units. This is done to facilitate the functioning of the activities efficiently for achieving overall results. The management of the organization becomes more effective by departmentation. A large undertaking is very difficult to manage without departmentation. Departmentation aims at following areas:

- Specialization of activities for efficient performance;
- Simplification of task of management within a workable span;
- Maintaining coordination and control of various activities.

Importance of Departmentation

The importance of departmentation can be ascertained from following points:

1. **Specification**: Departmentation helps to develop specification in various activities which leads to improving the efficiency of operation.
2. **Autonomy**: Departmentation provides independent charges of respective departments to managers. This autonomy brings satisfaction and increases their efficiency.
3. **Fixation of responsibility**: As the authority and responsibility of each department is defined precisely, through departmentation, responsibilities of the work can be precisely and accurately fixed.
4. **Fixation of accountability**: As the activities are well defined and responsibilities are clearly laid in a department, it becomes easy to fix the accountability for results.
5. **Development of Managers**: The managers of each department perform specialized functions. Due to autonomy, they are able to take independent decision and thus develop

themselves for higher positions. Departmentation facilitates the development of managerial personnel by providing them such opportunities for exercising initiatives.

6. **Facilitates Appraisal**: Departmentation facilitates administrative control as standards of performance are laid down separately for each department. This makes appraisals easier.
7. **Good Supervision**: As the authority for making decisions is diffused to the heads of the departments and works are assigned to each individual department wise, supervision and control become easier.
8. **Conducive environment**: Departmention facilitates successful operation of activities and creates an environment for effective performance. Grouping of activities and employees into departments also makes it possible to expand an organization to a large extent.
9. **Increases effectiveness**: It enables the organization to recapture some of the advantages of the small functional organization while minimizing the disadvantages of that which comes with increasing size, diversity and dispersion.

Principles of Departmentation

Departmentation is based upon following principles:

1. **Principle of attainment of organizational objectives**: It implies that departments are created and designed to provide all the facilities to achieve organizational objectives in an effective and efficient manner.
2. **Principle of comprehensive departmentation**: It implies that the entire functions of the enterprise are to be covered while creating and designing various departments.
3. **Principle of inter-departmental cooperation**: this principle means that departments should be designed to maximize inter-departmental cooperation.
4. **Principle of promotion of specialization**: Departmentation should focus on enhancing both managerial and operational specialization to achieve organizational efficiency.
5. **Principles of cost-benefit analysis**: Departments should be designed and developed in such a way so that maximum benefit can be gained with lowest possible costs.
6. **Principle of special attention to key result areas**: Key result areas (profitability, market standing, public relation etc.) are those areas which determine the long term growth and survival of an organization. While creating departments, these areas should be given preference and special focus.

7. **Principle of flexibility**: It implies that there should be sufficient scope to change the design or set of departments to accommodate the requirements of changing situation.
8. **Principle of human consideration**: Human factor is most important factor in the organization. This principle states that while creating departments, human consideration (e.g. needs, values, attitudes, expectation, feelings etc.) should also be taken into consideration along with technical or financial considerations.

Dangers of Departmentation

Departmentation poses following dangers:

1. **Departmentation makes coordination difficult**. As the number of departments and hierarchical levels increases, the task of coordination gets more difficult. To achieve individual efficiency, one department may work against the interest of other departments. The overall managerial efficiency and output would be fall due to poor coordination.
2. **Communication across different departments usually gets difficult**; making functions like control, supervision and planning even more difficult. This increase the cost of managing an enterprise
3. **The possibility of direct contact between top management and operative personnel becomes remote** because of the layering of executives at different levels. This leads to communication gap and filtration of information. This results in lower morale among subordinates. Also, levels are expensive in terms of money and effort and undermine operating efficiency of the business.

Bases of Departmentation

Following are the most widely used bases on which various departments are created in an organization.

1. Departmentation by Function
2. Departmentation by Product
3. Departmentation by Territory or Geographic Area
4. Departmentation by Customer or Market
5. Departmentation by Process or Equipment
6. Composite or Combined Departmentation

1. **Functional Departmentation:** This is the simplest form of departmentation. In this category the grouping of departments is done on the basis of functions such as production, finance, marketing, purchase and personnel etc. Further sub divisions of functions may also be formed, for example marketing can be divided into advertisement and sales. So the functional departmentation can be of two types; Basic functions (it is based upon primary functions like Production Marketing Finance and Personnel and Secondary Functions (it is based on sub parts of basic functions ,for example secondary function of production functions can be product planning, R&D, quality control and material handling).

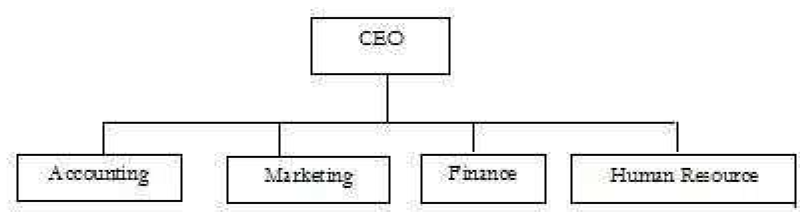


Fig 11.1 Functional Departmentation

Advantages:

- □ It promotes specialization
- □ Facilitates easy control over functions
- □ Highlights training needs of manager
- □ It is very simple, natural and logical way of grouping activities.

Disadvantages:

- □ Lack of responsibility for the end result
- □ Overspecialization in one field and hampers overall development
- □ It leads to increase conflicts and coordination problems among departments.
- □ Leads to excessive centralization and hence delayed decision making.

2. **Product wise departmentation:** When grouping of activities is done on the basis of products manufactured in an organization, it is called product based departmentation. When there are several product lines and each product line consists of a variety of items, functional classification fails to give balanced emphasis on each product. It is suitable in

large organizations where different products are made. Product or services are the basis of departments in departmental store, banking concerns and insurance companies. An example of such organization is diversified manufacturing unit dealing toiletries and food like soap, toothpaste, blades and milk powder etc.

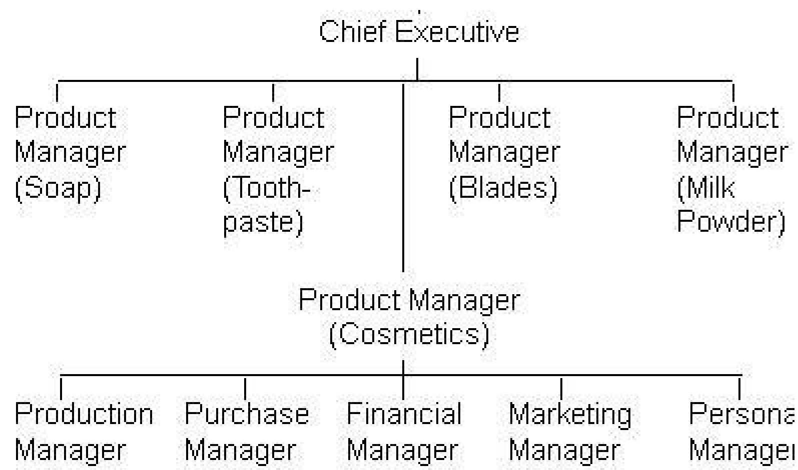


Figure 11.2 Product wise Departmentation

Advantages

- It ensures better customer service
- Unprofitable product lines may be easily determined
- It assists in development of all around managerial talent
- Makes control and coordination effective
- It is flexible and new product line can be added easily.

Disadvantages

- It is expensive as duplication of service functions occurs in various product divisions
- Customers and dealers have to deal with different persons for complaint and information of different products.
- It may cause difficulty in apportioning general expenses incurred by organization as whole.

3. **Territorial or geographical departmentation:** When activities of an organization are physically dispersed in different locations, territorial departmentation is adopted. All activities related to a particular area are grouped together. This form of departmentation

can be useful where business is on national or international level. E.g. Unilever India is geographical department of Unilever.

Figure 11.3 Territory wise Departmentation

Advantages

- Help to cater to the needs of local people better.
- Helps enterprise to make use of locational advantages
- It facilitates effective control
- It facilitates coordination of activities within an area
- Assists in development of all-round managerial skills

Disadvantages

- Communication problem between head office and regional office due to lack of means of communication at some location
- Coordination between various divisions may become difficult.
- Distance between policy framers and executors
- It leads to duplication of activities which may cost higher.

4. **Customer wise departmentation: -** When departments are formed to cater different kind of customers it is known as customer departmentation. This basis of classification is widely followed in subdividing activities of the marketing department. When the products are offered to market through various channels and outlets, it has the special merit of supplying goods in accordance with the peculiar needs of customers. Customers may be classified according to buying capacity or nature like whole sale, retail and export or government or general public.

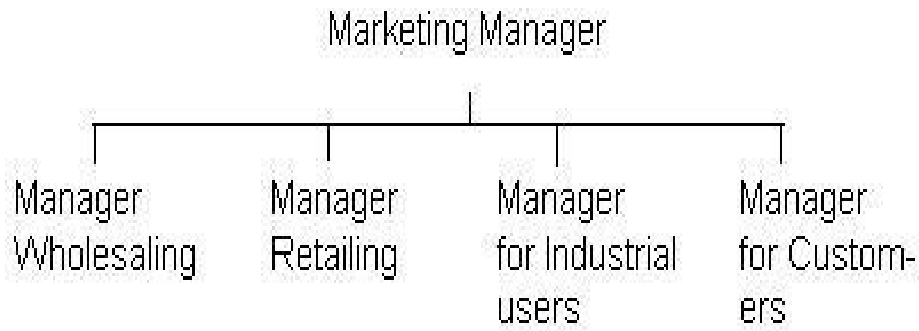


Fig 11.4 Customer wise Departmentation

Advantages

- It focused on customers who are ultimate suppliers of money
- Better service to customer having different needs and tastes
- Development in general managerial skills

Disadvantages

- Sales being the exclusive field of its application, co-ordination may appear difficult between sales function and other enterprise functions.
- Specialized sales staff may become idle with the falling sales to any specified group of customers.

5. Process or equipment wise Departmentation

When the activities are grouped under the basis of production process involved, it is called process wise departmentation. For example a textile mill has many departments such as ginning, spinning, weaving, etc. This type of departmentation is generally used in a manufacturing unit and at a lower level enterprise such as textile, oil, engineering and production industry. When departments are created on the basis of equipment used, it is said to be equipment wise departmentation. E. g. milling, grinding, lathe departments etc. The main objective of this type of departmentation is to achieve efficiency and economy in operation.

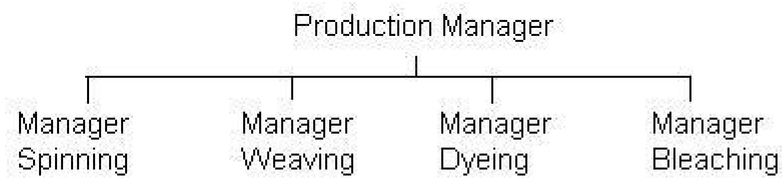


Figure 11.5 Process wise Departmentation

Advantages:

- □ This type of departmentation uses specialized technology.
- □ There is no duplication of activities.
- □ There is economy in operation.
- □ There is no interruption of departments or processes.

Disadvantages:

- □ Coordination of departments is difficult.
- □ More specialists are needed for each process.
- □ Conflicts among managers may arise.
- □ No special training is given to the staff members.

6. Combined or composite departmentation

It is a hybrid type of departmentation which tries to combine the advantages of different types of departmentation. For example, there may be a combination of Functional and Product departmentation. The combination of different type of departments depends upon the suitability of organization.

Check your Progress I

Note: Use the space given below for your answers

1) List features of departmentation.

____

____

____

____

____

____

____

2) What are principles of departmentation?

____

____

____

____

____

____

3) Explain _departmentation based on functions'?

____

____

____

____

____

____

11.3 DELEGATION OF AUTHORITY

Delegation is about handing over someone else to do parts of one's job. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation of authority can also be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

There are three elements of delegation: Authority, Responsibility and Accountability.

Responsibility:

Responsibility means the work assigned to an individual. It includes all the physical and mental activities to be performed by the employees at a particular job position. The process of delegation begins when manager passes on some of his responsibilities to his subordinates which imply that responsibility can be delegated.

Features:

- Responsibility is the obligation of a subordinate to properly perform the assigned duty.
- It arises from superior subordinate relationship because subordinate is bound to perform the duty assigned by his superior.

- Responsibility flows upward because subordinate will always be responsible to his superior.

Authority

Authority means power to take decision. To carry on the responsibilities every employee need to have some authority. So, when managers pass their responsibilities to the subordinates, they also pass some of the authority to the subordinates. Delegating authority is the second step of organizing process. While sharing the authority managers keeps in mind that the authority required for responsibility should only be delegated, they should not pass all their authority to their subordinates.

Features:

- Authority refers to right to take decision by virtue of managerial position.
- Authority determines superior subordinate relationship. Subordinate communicates his decisions to subordinate expecting compliance from him as per his directions.
- Authority is restricted by laws, rules and regulations of the organization.
- Authority arises from the scalar chain which links various job positions.
- Authority flows upward as we go higher up in management hierarchy the scope of authority increases.
- Authority must be equal to Responsibility i.e., Authority = Responsibility

Accountability:

To make sure that the employees or subordinates perform their responsibilities as expected by superior, the accountability is created. Accountability implies that subordinates will be answerable for the non-completion of the task. Creating accountability is the third and final step in the process of delegation.

The accountability cannot be passed or delegated. It can only be shared with the subordinates which means even after delegating responsibility and authority the managers will be accountable for non-completion of task. For example If the production manager is given the target of producing 20 machines in one month‘s time and he divided this target between four foremen working under him, i.e., 5 machines to be produced by each foreman but one foreman could not achieve the target and at the end of the month only 17 machines are manufactured, then production manager will be held accountable for non-completion of target as accountability cannot be transferred or shared: it is an absolute term.

Features:

- □ Accountability refers to answerable for the final output.
- □ It cannot be delegated or passed.
- □ It enforced through regular feedback on the extent of work accomplished.
- □ If flows upward, i.e., subordinate will be accountable to his superior.

PROCESS OF DELEGATION OF AUTHORITY

This process forms 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. The results expected from the subordinates are also discussed. 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 obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Because responsibility gives effectiveness to authority. 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 (delegator) has to follow a system to finish up the delegation process. Subordinate‘s (delegate) role is equally important which means his responsibility and accountability is attached with the authority.

Relationship between Authority and Responsibility

Authority is the legal right of a 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. For example 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, 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.

PRINCIPLES OF DELEGATION

Delegation of authority is governed by following principles:

1. **Principle of result expected:** This principle suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly.
2. **Principle of parity of authority and responsibility:** According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand. if a subordinate is given a responsibility to perform a task, then at the same time he should be given enough independence and power to carry out that task effectively. This principle does not provide excessive authority to the subordinate which at times can be misused by him. The authority should be given in such a way which matches the task given to him. Therefore, there should be no disparity between the two.
3. **Principle of absolute responsibility:** This principle says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates i.e. the responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers. It

does not means that he can escape from his responsibility. He will always remain responsible till the completion of task. Every superior is responsible for the acts of their subordinates and is accountable to his superior. Therefore a superior cannot pass the blame to the subordinate even if he has delegated certain powers to him.

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

Importance of Delegation

1. **Effective management:** In the delegation process routine work is passes on to the subordinates. This makes executive free to concentrate on other important matters. The main job of managers is to get the work done effectively and by delegating the authorities and responsibilities managers can get the work done effectively and efficiently from the subordinates.
2. **Employees' Development:** As a result of delegation employees get more opportunities to utilize their talents. It allows them to develop relevant skills to enable them to perform complex tasks. Delegation helps in making better future leaders by giving them chance to use their skills, gain experience of work related to higher job position.
3. **Motivation of employees:** In the delegation the manager's sharing of responsibilities and authority with the subordinates motivates the subordinates as they develop the feeling of belongingness and trust which is expressed for them by their managers. Many employees can be motivated by such kind of non-financial incentives.
4. **Facilitates organizational growth:** In the process of delegation when the managers are passing their responsibility and authority to the subordinates they keep in mind the qualification and capability of all the subordinates. This leads to division of work and specialization, an important factor for organizational growth.

5. **Basis of Hierarchy:** Delegation establishes superior-subordinate relationship which is the base for hierarchy of managers. The extent of power delegated to subordinates decides who will report to whom, and the power at each job position forms the Management Hierarchy.
6. **Effective Coordination:** In delegation systematically responsibility and authority is divided and employees are made answerable for non-completion of task. This systematic division of work gives clear pictures of work to everyone and there is no duplication of work. Clarity in duties assigned and reporting relationship brings effective coordination in the organization.
7. **Relieving the work load of managers:** In the process of delegation, the managers are allowed to share their responsibilities and work with the subordinates which helps the managers to reduce their work load. With the process of delegation the managers can pass all their routine work to the subordinates and concentrate on important work. Without delegation managers will be overburdened with the work.
8. **Basis of superior-subordinate relationship:** In the delegation process only two parties are involved that is superior and subordinate. If superiors share or pass their responsibilities and authorities to the subordinates it indicates good relationship between the superior and subordinate because superiors will transfer their responsibility and authority to their subordinates only when they have trust in them. So delegation improves the relations between superiors and subordinates.

Check your Progress II

Note: Use the space given below for your answers

1) Define delegation of authority.

____

____

____

____

____

____

____

2) ‗one can delegate the authority, but not responsibility‘. Justify the statement.

____

____

____

____

____

____

3) Write a note on authority.

____

____

____

____

____

____

11.4 CONCEPT OF CENTRALIZATION AND DECENTRALIZATION

Every organization is made up of different managerial levels. Executives work at each level. The main managerial function is concerned with the responsibility of decision-making. Centralization and decentralization explain the method in which decision-making responsibilities are divided among executives at different hierarchical levels. Both, centralization and decentralization form a controversial problem in an organization and convey whether authority should be concentrated or dispersed throughout the organizational structure:

Henry Fayol has explained very concisely, ―Everything that goes to increase the importance of subordinate‘s role is decentralization, everything that goes to reduce it is centralization‖.

Centralization and decentralization are both complimentary to each other. There can neither be complete decentralization nor centralization. For example, if a manager delegates all his authority, his status as a manager would cease to exist but if he keeps the whole authority at central point, there would be no subordinates and no organization will exist. Therefore, equilibrium between the two is always necessary for efficient functioning of an enterprise.

Centralization

According to Allen, ―Centralization is the systematic and consistent reservation of authority at central points within an organization‖. Fayol explains, ―Centralization is that organization where the role of the subordinates is reduced‖.

Thus in centralization, the executive reserves the authority with himself instead of delegating it to his subordinates. in centralization decisions regarding the work are made not by those doing the work, but by higher authorities in the organization.

Advantages of centralization

- **Standardization of procedures:** Centralization brings standardization of procedures and systems. It facilitates smooth working on day to day basis. It helps in improving customer services too.
- **Facilitates Personal Leadership:** In a small company, centralization is desirable since the leader has to take quick decisions
- **Less Skilled Subordinates:** An enterprise following centralization need not have highly skilled subordinates. It results in the economy of wages and salaries.
- **Efficient Handling of Emergencies:** In the centralized organization, emergencies can be handled promptly. The more acute the emergency or the more competitive the situation, the greater is the need for centralized decision-making.
- **Complete Integration of Operations:** centralization can keep all the departments of a company integrated which helps it move harmoniously towards a common objective.
- **Uniformity of Action:** Centralization of decision-making is indispensable in case of multi-units of an organization, to sustain uniformity of action. If all units are required to do the same thing in the same way, there must be centralization.

Limitations

- Centralization of authority increases the burden on the top executives and little time is left for attending to important functions of administration like planning, organization, motivation, etc.
- Centralization hampers the growth and development of subordinates as they are not given any authority to take independent decisions. The sense of ‗Oneness' disappears from the subordinates.
- Centralization tends to slow up the operations as most of the decisions are not taken at a point where the work is carried out but at a point higher in the organization.

- It reduces the scope for specialization as the persons taking decisions at the top level are not all round experts.

DECENTRALIZATION

Decentralization can be considered as an extension of delegation. When a part of the work is entrusted to others, it is known as delegation. According to Allen, ―Decentralization refers to tire systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points.‖

Newman, Summer and Wairen describe it as, ―Decentralization is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills.‖

Decentralization is therefore concerned with the decentralization of decision-making authority to the lower levels in managerial hierarchy.

Degree of Decentralization:

The degree of decentralization is measured by four tests (suggested by Dale):

1. **Number of decisions**: Greater is the number of decisions made at lower levels, greater is the degree of decentralization.
2. **Importance of decisions**: If important decisions are taken at lower levels, degree of decentralization is more. And if only insignificant decisions are taken at lower levels, degree of decentralization is much less.
3. **Effect of decisions**: If decisions affecting more functions (e.g. finance) are taken at lower levels, degree of decentralization is more. And if only operational decisions are taken at lower levels, degree of decentralization is less.
4. **Checking of decisions**: When decisions are subject to approval from superiors, degree of decentralization is more. If subordinates are free to take decisions of their own, decentralization is less.

The degree of decentralization is determined by:

- Nature of the authority delegated,
- How far down in the organization it is delegated,
- How consistently it is delegated.

Advantages of Decentralization

- **Relieving the top executives:** Decentralization relieves the top executives of the burden of performing various functions. Centralization of authority puts the whole responsibility on the shoulders of an executive and his immediate group. This reduces the time at the disposal of top executives who should concentrate on other important managerial functions. So, the only way to lessen their burden is to decentralize the decision-making power to the subordinates.
- **Facilitates diversification:** As decentralization provides enough authority to persons at lower levels to carry out required tasks, thus under decentralization, the diversification of products, activities and markets etc., is facilitated. But a centralized enterprise with the concentration of authority at the top will find it difficult and complex to diversify its activities and start the additional lines of manufacture or distribution.
- **To provide product and market emphasis:** A product loses its market when new products appear in the market on account of innovations or changes in the customers demand. In such cases if authority is decentralized to the regional units to render instant service taking into account the price, quality, delivery, novelty, etc., prompt response is ensured.
- **Executive Development:** When the authority is decentralized, executives in the organization will get the opportunity to develop their talents by taking initiative which will also make them ready for managerial positions. The growth of the company greatly depends on the talented executives.
- **Promotes motivation:** As said by Allen, ―Decentralization stimulates the formation of small cohesive groups. Since local managers are given a large degree of authority and local autonomy, they tend to weld their people into closely knit integrated groups.‖ This improves the morale of employees as they get involved in decision-making process.
- **Better control and supervision:** Decentralization ensures better control and supervision as the subordinates at the lowest levels will have the authority to make independent decisions. As a result they have thorough knowledge of every assignment under their control and are in a position to make amendments and take corrective action.

- **Quick Decision-Making:** Decentralization brings decision making process closer to the scene of action. This leads to quicker decision-making of lower level since decisions do not have to be referred up through the hierarchy.
- **Facilitates growth:** Decentralization grants more autonomy to lower level. This helps the subordinates to do the work in the manner best suited for their department. When each department is doing to their best then productivity increases and it generates more revenue which can be used for expansion.
- **Promotes initiative and creativity:** The initiative directly depends on the authority. When the employees at every level are given greater degree of autonomy and authority according to their responsibilities, this helps them to take initiative. On the other hand, when lower and middle level executives are performing the task of top level executives then it brings creativity.
- **Improved team work:** In decentralization all the managers and employees share the decision-making powers, some kind of autonomy and freedom of action. This sharing of decision and freedom of action integrates the employees as one team and develop team spirit among them.

Disadvantages of Decentralization:

Decentralization can be extremely beneficial. But it can be dangerous unless it is carefully constructed and constantly monitored. Some disadvantages of decentralization are:

Lack of uniformity in policies: Under decentralization, it is not possible to follow uniform policies and standardized procedures. Each manager works and frames policies according to his requirements and talent.

Lack of Co-Ordination: Decentralization creates problems of co-ordination as authority lies dispersed widely throughout the organization.

Difficulty in control: since departments function independently, it becomes difficult to control their activities. Top management cannot exercise effective control as it gets out of touch with day to day activities of different departments.

Competent Personnel: Decentralization can be exercised when people in the organization are intelligent, capable and competent. Otherwise it becomes useless exercise.

Costly: As decentralization requires the employment of trained personnel to accept authority, it involves more financial burden and a small enterprise cannot afford to appoint experts in various fields.

Conflict: Decentralization puts more pressure on divisional heads to realize profits at any cost. This creates stress and brings conflicts among managers.

Check your Progress III

Note: Use the space given below for your answers

1) What is centralization? What are its merits?

____

____

____

____

____

____

____

2) Define decentralization? Is it better than centralization? Why?.

____

____

____

____

____

____

3) How will you measure the degree of centralization in an organization?

____

____

____

____

____

____

11.5 RELATION BETWEEN DELEGATION AND DECENTRALIZATION

Decentralization is extension of delegation. In delegation the authority is multiplied with two whereas in decentralization the authority is multiplied by many. Organized and systematic delegation taking place at every level leads to even distribution of authority and responsibility at each level and results in decentralization. If delegation is restricted to certain levels only then decentralization will be incomplete.

For example, the directors give the responsibility to production head to complete the target of 50,000 units per annum and authorize him to hire the required workers, decide their salaries and working conditions. The production head further shares his responsibility and authority with the production manager to achieve the target and select the workers. The production manager shares his authority and responsibility with the supervisors who directly deal with the workers and authorize them to select the workers. This sharing of authority and responsibilities between directors and production head, managers and subordinates will result in systematic distribution of authority at every level automatically. This is how the systematic delegation leads to decentralization. In delegation the authority is shared between two persons only, i.e., manager and subordinate whereas in decentralization many people at every level are involved.

Delegation is Necessary in Every Organization but Decentralization is Optional. Delegation is an essential part of every organization. No organization can work without using the concept of delegation as there is no individual who can do all the work himself only. Delegation is a tool to get the work done effectively and efficiently through others whereas decentralization is required when an organization grows and expands and only top level cannot manage it. Decentralization is a matter of choice and preference of top level management and not compulsory.

11.6 Let us sum up

Departmentation is the process of grouping of operating tasks into jobs, the combining of jobs into effective work groups and the combining of groups into divisions. These divisions are often termed as _Departments'. The creation of smaller departments enables the employees to acquire specialization within a narrower range of activity. Departmentalization helps the executive to direct and control the work to be done under his department. The executives tend to exhibit better skill and experience while handling problems within department. This leads to effective coordination and control. Departmentation can be done on the basis of Function, Product, Territory or Geographic Area, Customer, Process or Equipment or Composite.

Delegation is about handing over someone else to do parts of one‘s job. Delegation of authority can also be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results. There are three elements of delegation: Authority, Responsibility and Accountability. Responsibility means the work assigned to an individual. Authority means power to take decision. Accountability implies that subordinates will be answerable for the non-completion of the task. In centralization, the executive reserves the authority with himself instead of delegating it to his subordinates. In centralization decisions regarding the work are made not by those doing the work, but by higher authorities in the organization. Decentralization can be considered as an extension of delegation. When a part of the work is entrusted to others, it is known as delegation.

Systematic delegation leads to decentralization in an organization.

11.7 Key words

- □ Departmentation
- □ Delegation
- □ Authority
- □ Responsibility
- □ Accountability
- □ Centralization
- □ Decentralization

11.8 Short Answer Questions.

1. What is the significance of _departmentation‘?
2. How are delegation and decentralization related to each other?
3. Explain elements of delegation?
4. List the differences between centralization and decentralization?

Long Answer Questions

1. Define departmentation. What are different bases of creating departments?
2. Explain the process of delegation of authority. Discuss its merits and demerits.

3. What are basic principles of delegation of authority? How can delegation be made effective.
4. Discuss decentralization. What are its merits and demerits? Is it possible to have complete decentralization in an organization? Why?

11.9 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity

Sun Plastics Co.
Ltd.

Sun Plastics Co, Ltd. has four major functional departments – production, marketing, finance and personnel. It is currently selling plastic goods in Northern India. It wishes to diversify geographically (sell in southern region also) and product wise (sell chemicals also). The company appoints you as a consultant to guide it on designing a suitable organization structure.

Questions:

1. What kind of departmentation do you advise to the company?
2. What factors have you considered before advising this form of departmentation?
3. State the merits and limitations of this form of departmentation.

UNIT 12

Staffing

Structure

12.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Basic concept and Significance of staffing
- Role of manpower planning
- Distinction between recruitment and selection
- Various methods of imparting training

12.1 INTRODUCTION

We have covered basic managerial functions like planning, decision making, organizing and department ion so far. It is now clear how moving step by step an organization is established with common objectives, different plans and decisions. The organizing, coordination and departmentation complete the structure and decide the hierarchies. These functions are succeeded by a very important aspect of management; staffing. As we know that human resources are the most crucial resources of the organization, it is very important to hire right men, at right time, at right job and in right number. Shortage and surplus of people are not desirable conditions as both will make work suffer. Therefore importance of staffing cannot be under estimated. The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personnel to fill the roles assigned to the employers/workforce.

This function is so important and continuous that a separate department called Human Resource Management is created exclusively for this purpose. In this chapter we shall go through major aspect of staffing viz. manpower planning, recruitment and selection, orientation and training of manpower.

12.2 STAFFING: AN OVERVIEW

Staffing can be defined as the function by which managers build an organization through the recruitment, selection, and development of individuals as capable employees. Its features can be judged from following points.

1. **An important managerial function**: Staffing is the most important managerial function along with planning, organizing, directing and controlling. The operations of these four functions depend upon the manpower which is made available through staffing function.
2. **Pervasive activity**: Staffing is pervasive in nature as this function is carried out by all mangers and in all types of concerns where business activities are carried out.
3. **Continuous activity**- Staffing is an ongoing process. This is because staffing function continues throughout the life of an organization due to the recruitment, selection, turnover, transfers and promotions that take place.
4. **Involves efficient management of personnel**- Staffing is a function that manages human resources efficiently in all walks of organization. It takes care of recruitment, selection, placement, training and development, compensation, performance appraisal, industrial relations and compliance with labor laws etc.
5. **Helps in placing right men at the right job**: It can be done effectively through proper job analysis, recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.
6. **Performed by all managers**: All mangers are a part of this function. All departmental heads participate in manpower planning and selection procedures according to the requirements of their respective departments. The way staffing function is carried out; depends upon the nature of business, size of the company, qualifications and skills of

managers etc. In small companies, the top management generally performs this function. In medium and large scale enterprise, it is performed especially by the personnel department of that concern.

Staffing Principles

Staffing assists in acquiring the right talent and also nurturing it. Heinz Weihrich and Harold Koontz have developed some staffing principle for the efficient functioning of the enterprise as far as manpower is concerned. These are as under:

1. **Principle of the objective of staffing:** The objective of managerial staffing is to ensure that organizational roles are filled by qualified personnel who are able and willing to occupy them.
2. **Principle of role clarity:** The clearer the definition of organizational roles and their human resource requirements, and the better the techniques of manager appraisal and training employed, the higher the managerial quality.
3. **Principle of job definition:** The more precisely the results expected of managers are identified, the more the dimensions of their positions can be defined.
4. **Principle of managerial appraisal:** The more clearly verifiable objectives and required managerial activities are identified, the more precise can be the appraisal of managers against these criteria.
5. **Principle of open competition:** The more an enterprise is committed to the assurance of quality management, the more it will encourage open competition among all candidates for management positions.
6. **Principle of management training and development:** The more management training and development is integrated with the management process and enterprise objectives, the more effective the development programs and activities will be.
7. **Principle of training objectives:** The more precisely the training objectives are stated, the more likely are the chances of achieving them.
8. **Principle of continuous development**: The more an enterprise is committed to managerial excellence, the more it requires that managers practice continuous self-development.

PROCESS OF STAFFING

The staffing process is sequence of well planned steps.

Manpower planning: The very first step in staffing is to assess and plan the manpower inventory required by the organization in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower requirements of the concern.

Recruitment: Once the requirements are notified, the organization invites and solicits applications according to the invitations made to the desirable candidates.

Selection: This is the screening step of staffing in which the solicited applications are screened out, interviews are conducted and suitable candidates are appointed as per the requirements.

Orientation and Placement: After the selection is over, the selected candidates join they are made familiar to the work units and work environment through the orientation programmes. Placement takes place by putting right man on the right job.

Training and Development: Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of in depth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyse their performances.

Remuneration: It is compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental etc. Remuneration forms an important monetary incentive for the employees.

Performance Evaluation: In order to keep a track or record of the behaviour, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employees in a concern.

Promotion and transfer: Promotion is said to be a non- monetary incentive in which the employee is shifted to a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

We will discuss these steps in detail.

Check your Progress I

Note: Use the space given below for your answers

1) Define _staffing‘. What is its significance?

2) What is the principle of _role clarity‘ in staffing?

3) What is the scope of staffing? Is it limited to a single department?

12.3 MANPOWER PLANNING

Manpower Planning also called as Human Resource Planning can be defined as the process by which a management determines how an organization move from its current manpower position to its desired manpower position. Through planning, a management strikes to have the right number and the right kind of people at the right places, at the right time to do things which result in both the organization and the individual receiving the maximum long range benefit.

Manpower planning may be viewed as foreseeing the human resources requirement of an organization and the future supply of human resources and (i) making necessary adjustments between these two and organizational plans and (ii) foreseeing the possibility of developing the supply of manpower resources in order to match it with the requirements by introducing necessary changes in the functions of human resources management.

Human Resource Planning has to be a systems approach and is carried out in a set procedure.

Analyzing the corporate and unit level strategies.

- Demand Forecasting: Forecasting the overall human resources requirements in accordance with the organizational plans.
- Supply Forecasting: Obtaining the data and information about the present inventory of manpower and forecast the future changes in the human resources inventory.
- Estimating the net manpower requirement.
- In case of future surplus than plan for redeployment.
- In case of future deficit, forecast the future supply of manpower from all sources with reference to plans of other companies.
- Plan for recruitment, development and internal mobility if future supply is more than or equal to net manpower requirements.
- Plan to modify and adjust the organizational plan if future supply will be inadequate with reference to future net requirements.
- Degree of uncertainty and length of planning period

1. Demand Forecasting

The existing job design and analysis are thoroughly reviewed keeping in view the future capabilities, knowledge and skills of present employees. Further the jobs are redesigned and reanalyzed keeping in view the organizational and unit wise plans and programmes, future work quantum, future activity or task analysis, future skills, values, knowledge and capabilities of present employees and future employees. The jobs are generally designed and analyzed revealing the future human resources and are based on future organizational plans. Job analysis and forecast about the future components of human resources facilitate demand forecasting. One of the important aspects of demand forecasting of the quantity of human resources (skill, knowledge values, capabilities etc) in addition to quantity of human resources. Various methods are used for forecasting the demand of people in the organization. Some of these are listed below.

i. Expert Forecasts: This includes informal decisions, formal expert surveys and Delphi technique.
ii. Trend Analysis: Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).
iii. Work Load Analysis: It is dependent upon the nature of work load in a department, in a branch or in a division.
iv. Work Force Analysis: Whenever production and time period has to be analysed, due allowances have to be made for getting net manpower requirements.
v. Other methods: Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.

2. Supply Forecasting

The first step of forecasting the future supply of human resources is to obtain the data and information about **the present human resources inventory**.

Existing Inventory: The data relating to present human resources inventory is obtained from every department. It includes:

1. Head counts regarding total, department wise, sex-wise, designation-wise, skill-wise, pay roll wise etc.
2. Job Family Inventory: It includes number and category of employees of each of following:

   Job family i.e. all jobs related to the same category like clerks, cashiers;

   Sub job family i.e. all jobs having common job characteristics (skill, qualification, similar operations) like production engineer (mechanical) and maintenance engineer (mechanical) and

   Broad families like general administration, production etc.
3. Age Inventory: It includes age-wise number and category of employees. It indicates age wise imbalances in present inventory, which can be correlated in future selections and promotions.

3. Estimating the Net Man Power Requirements: Net manpower requirements in terms of number and components are to be determined in relation to the overall manpower requirements for a future date and supply forecast for that date. The difference between overall manpower and future supply of manpower is to be found out. This difference is the net manpower requirement.

4. Action Plan for Redeployment, Redundancy/Retrenchment: If future surplus is estimated, the organization has to plan for redeployment (relocation or transfer), redundancy (removal from jobs) etc. If surplus is estimated in some jobs/departments, employees can be redeployed in other jobs/departments where the shortage of employees is estimated. The organization also plans for training or re-orientation before redeployment of employees. Redeployment takes place in the form of transfers. If the deficit is not estimated in any job/department and surplus is estimated for the entire organization, the organization, in consultation with the trade unions has to plan for redundancy or retrenchment.

5. Recruitment and Selection Plan: Recruitment and selection plan comprise the number and type of employees required, when they are required for the job, time necessary for recruitment and selection process, recruitment sources, recruitment techniques to be used, selection procedure to be adopted and selection techniques to be used to subsequently recruiting the required candidates. It also includes the time factor for induction, preliminary training and placement.

Importance of manpower planning

Manpower Planning is a two-phased process because manpower planning not only analyses the current human resources but also makes future manpower forecasts and thus draw employment programmes. Manpower Planning is advantageous to firm in following manner

1. Manpower planning is used to recruit and retain the manpower of required quality and quantity.
2. It helps to foresee the employee turnover (people leaving the organization due to retirement, marriage, resignation etc.) and make the arrangements for minimizing turnover and filling up of consequent vacancies.
3. All the recruitment and selection programmes are based on manpower planning.
4. It helps to reduce the labour cost as excess staff can be identified and thereby overstaffing can be avoided.

5. It also helps to identify the available talents in a concern and accordingly training programmes can be chalked out to develop those talents.
6. It helps in growth and diversification of business. Through manpower planning, human resources can be readily available and they can be utilized in best manner.
7. It helps the organization to realize the importance of manpower management which ultimately helps in the stability of a concern.
8. Management uses it to foresee the impact of technology on work, existing employees and future human resource requirements.
9. It plays important role in improving the standards, skill, knowledge, ability, discipline etc.
10. Manpower planning Important functions like assessing the surplus or shortage of manpower are done with the help of manpower planning and measures are taken accordingly.
11. It is used to maintain congenial industrial relations by maintaining optimum level and structure of human resources.
12. It aims to minimize the imbalances caused due to non-availability of human resources of the right kind, right number in right time and right place.
13. It facilitates to make the best use of human resources in the organization.
14. By analyzing the results obtained from manpower process, it is easy to estimate the cost of human resources.

Check your Progress II

Note: Use the space given below for your answers

1) What do you mean by human resource planning?

____

____

____

____

____

____

____

2) What is demand forecasting?

3) Discuss the importance of man power planning.

12.4 RECRUITMENT

Recruitment is the process to discover the sources of manpower to meet the requirements of the staffing schedule and employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force. It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization. It is often termed positive in that it stimulates people to apply for jobs to increase the hiring ratio i.e. the number of the applicants for a job.

Recruitment is of 2 types

1. **Internal Recruitment**: This is a recruitment which takes place within the organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - transfers, promotions and re-employment of ex-employees. Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also. Major sources of internal recruitment are listed below:

- **Present Employees**: Organizations consider the candidates present employees for higher level of jobs due to availability of most suitable candidates for jobs, to meet the trade union demands and due to the policy of the organization to motivate the present employees.

- **Retrenched or Retired Employees**: Employees retrenched due to lack of work are given employment by the organization due to obligation, trade union pressure etc. Sometimes they are re-employed by the organization as a token of their loyalty to the organization or to postpone some interpersonal conflicts for promotion.
- **Dependents of Deceased, Disabled, retired and present employees**: Some organizations function with a view to developing the commitment and loyalty of not only the employee but also his family members.
- **Employee Referrals**: Present employees are well aware of the qualifications, attitudes, experience and emotions of their friends and relatives. They are also aware of the job requirements and organizational culture of their company. So they are able make preliminary judgment regarding the match between the job and their friends and relatives. People found suitable through referrals are considered.

Advantages of Internal recruitment:

1. Motivates present employees when they are upgraded internally
2. Retrenched workers get an opportunity to work again.
3. Dependents of the deceased get a job easily
4. Morale of employees is improved
5. Loyalty, commitment, security of present employees can be enhanced
6. Cost of recruitment, training, induction, orientation, etc is reduced
7. Trade unions can be satisfied

Disadvantages of Internal recruitment

1. Trade union pressure may not always give the right candidate for the job. The management may have to consider some concessions.
2. It refrain the organization from hiring new talent from outside. The organization becomes dull without innovations, new ideas, excellence and expertise
3. It is not always possible meet all the manpower requirements through internal recruitment. Hiring from outside has to be done

2. External Recruitment: When it is not possible to fill vacancies through internal recruitment, people are hired from outside the organization. This hiring of people from outside is called external recruitment. External sources of recruitment have to be solicited in such cases. External sources are external to a concern.

External recruitment aims to hire new talent from outside. Sources of external recruitment are:.

- **Campus Recruitment:** These candidates are directly recruited by the organization from their college/educational institution. They are inexperienced as far as work experience is concerned.
- **Consultants**: Public employment agencies or consultants perform recruitment functions on behalf of a client company by charging fees. They can be hired by organization for process of recruitment.
- **Employment Exchanges**: The Government set up Public Employment Exchanges in the country to provide information about vacancies to the candidates and to help the organization in finding out suitable candidates. As per the Employment Exchange act 1959, makes it obligatory for public sector and private sector enterprises inIndia to fill certain types of vacancies through public employment exchanges.
- **Data Banks**: The management can collect the bio-data of the candidates from different sources like Employment Exchange, Educational Training Institutes, candidates etc and feed them in the computer. It will become another source and the co can get the particulars as and when required.
- **Casual Applicants**: Depending on the image of the organization its prompt response participation of the organization in the local activities, level of unemployment, candidates apply casually for jobs through mail or handover the application in the Personnel dept. This becomes a suitable source for temporary and lower level jobs.
- **Similar Organizations:** Generally experienced candidates are available in organizations producing similar products or are engaged in similar business. The Management can get potential candidates from this source.
- **Trade Unions**: Generally unemployed or underemployed persons or employees seeking change in employment put a word to the trade union leaders with a view to getting suitable employment due to union's connection with the management.
- **Walk In**: when busy organization and rapid changing companies do not find time to perform various functions of recruitment, they inform the potential candidates to attend

for an interview directly and without a prior application on a specified date, time and at a specified place. This is walk in interview.

- **Consult In:** the busy and dynamic companies encourage the potential job seekers to approach them personally and consult them regarding the jobs. The companies select the suitable candidates and advise the company regarding the filling up of the positions. Head hunters are also called search consultants.
- **Body Shopping**: Professional organizations and the hi-tech training develop the pool of human resource for the possible employment. The prospective employers contact these organizations to recruit the candidates. Otherwise the organizations themselves approach the prospective employers to place their human resources. These professional and training institutions are called body shoppers and these activities are known as body shopping. The body shopping is used mostly for computer professionals. Body shopping is also known as employee leasing activity.
- **Mergers and Acquisitions**: Business alliances like acquisitions, mergers and take over help in getting trained and experienced human resources. In addition the companies do also alliances in sharing their human resource on ad hoc basis.
- **E_recruitment:** The technological revolution in telecommunications helped the organizations to use internet as a source of recruitment. Organizations advertise the job vacancies through the World Wide Web (www). The job seekers send their applications through e-mail using the internet.
- **Outsourcing**: Some organizations have recently started developing human resource pool by employing the candidates for them. These organizations do not utilize the human resources; instead they supply HRs to various companies based on their needs on temporary or ad-hoc basis.
- **Employment at Factory Level**: This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the factory or at the gate. This kind of recruitment is applicable where factory workers are to be hired.
- **Advertisement:** Organizations give ads in newspapers (local newspaper for lower level jobs and national newspaper for higher level jobs). The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Ads are also given on television.

- **Labour Contractors:** Contractors supply manpower to the factory or manufacturing plants. Through these contractors, workers are appointed on contract basis. Under conditions when these contractors leave the organization, such people who are appointed have to also leave the concern.

Advantages of External recruitment:

1. The candidates with skill, knowledge talent etc is generally available
2. Cost of employees can be minimized
3. Expertise, excellence and experience in other organizations can be easily brought into the organization
4. Existing sources will also broaden their personality
5. Increase in the selection ratio i.e. recruiting more candidates

Disadvantages of External recruitment:

1. It involves lot of time and money.
2. Campus recruited employees lack work experience
3. Specified vacancies have to be filled by candidates referred by employment exchanges which do not allow other candidates to be eligible.

PROCESS OF RECRUITMENT

Recruitment process involves following steps:

1. **Identifying the HR Requirement**

The first step of recruitment is to assess the requirement of human resource in an organization to carry out the organizational objectives. The requisite number and kinds of people needed for the organizational performance are identified. It is done through the information obtained from manpower planning and job analysis. This provides information on the current availability of human resources and anticipates the future requirement of manpower for organization.

2. **Identifying Sources of manpower Supply**

After the assessment of HR requirement, the probable sources are identified for generating a pool of qualified candidates. Major sources of HR supply are internal sources and external sources. Along with the resources, the suitable method of recruitment is also identified. The sources and methods are adopted in such a way that so that the best and qualified human resource can be recruited at a minimum cost.

3. **Communicating the Information**

In this step, the potential candidates are informed about vacancy. information about the job requirement is conveyed to the potential candidates about the job and required number of employees to be recruited through different media print media; electronic media, internet etc.

4. **Receiving Application**

Recruitment process ends by generating a pool of qualified candidate to fill organizational vacancies. Under it, a recruiter receives the application forms dropped by different applicants who are interested to apply for a job. It provides a pool of candidates for selection. After recruitment, selection process begins, which chooses the best applicant for the job who is supposed to perform well in the actual work situation. After receiving application forms, they are evaluated to check whether the basic requirement is maintained or not.

12.5 SELECTION

Employee Selection is the process of putting right men on right job. It is a procedure of matching organizational requirements with the skills and qualifications of people. Effective selection can be done only when there is effective matching of the job and the candidate. By selecting best candidate for the required job, the organization gets quality performance of employees. The problems of absenteeism and employee turnover are reduced. By selecting right candidate, organization saves time and money. Proper screening of candidates takes place during selection procedure. All the potential screened from the data pool generated through recruitment are tested and interviewed. The best ones are selected.

THE EMPLOYEE SELECTION PROCESS takes place in following order:

1. **Preliminary Interviews**: It is used to eliminate those candidates who do not meet the minimum eligibility criteria laid down by the organization. The skills, academic and family background, competencies and interests of the candidate are examined during preliminary interview. Preliminary interviews are less formalized and planned than the final interviews. The candidates are given a brief up about the company and the job profile; and it is also examined how much the candidate knows about the company. Preliminary interviews are also called screening interviews.

2. **Application blanks**: The candidates who clear the preliminary interview are required to fill application blank. It contains data record of the candidates required by the organization; such as details about age, qualifications, reason for leaving previous job, experience, etc.
3. **Written Tests**: Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate. The type of test to be conducted depends upon the requirement of the job and the organization.
4. **Employment Interviews:** It is a one to one interaction between the interviewer and the potential candidate. It is used to find whether the candidate is best suited for the required job or not. Interviews consume time and money both. Interviews should be conducted properly. An ideal interview should not be biased. There should be an honest communication between candidate and interviewer. The candidates who qualify the interview are considered for the next stage.
5. **Medical examination**: Medical tests are conducted to ensure physical fitness of the potential employees. It decreases chances of employee absenteeism.
6. **Reference Checking**: information about selected candidates is verified from the references given by the candidates. Referees can be previous employers or persons of authority and repute. Selected candidates are retained.
7. **Appointment Letter**: Finally selected candidates are appointed by giving a formal appointment letter.

Differences between recruitment and selection

1. Recruitment is an activity of establishing contact between employers and applicants.
   Selection is a process of picking up more competent and suitable employees.
2. Recruitment encourages large number of Candidates for a job.
   Selection attempts at rejecting unsuitable candidates.
3. Recruitment is a simple process.
   Selection is a complicated process
4. During recruitment the candidates do not have not to cross many hurdles.
   Many hurdles have to be crossed by candidates during Selection process.

5. Recruitment is a positive approach.
   Selection is a negative approach.
6. Recruitment is an economical method
   Selection is an expensive method.
7. Recruitment is less time consuming.
   Selection needs more time.

Check your Progress III

Note: Use the space given below for your answers

1) Define _recruitment‘ and _selection‘.

2) Is selection a positive process? Why?

3) What are merits and limitations of internal recruitment?

12.6 ORIENTATION AND PLACEMENT

The freshly appointed candidates are then given orientation in order to familiarize and introduce the company to him. He is made aware of his department in particular and the whole organization in general. He is provided relevant information like his place of sitting, job profile, departmental hierarchy, and departmental goals, organizational layout and structure, the nature of operation of the organization, policies and programmes of the organization, general rules and regulations, standing orders and grievance procedure.

The main aim of conducting orientation is to build up confidence, morale and trust of the employee in the new organization, so that he becomes a productive and an efficient employee and contributes to the organizational success.

The nature of orientation program varies with the organizational size, i.e., smaller the organization the more informal is the orientation and larger the organization more formalized is the orientation programme.

Once the candidates are selected for the required job, they have to be fitted as per the qualifications. Placement is said to be the process of fitting the selected person at the right job or place, i.e. fitting square pegs in square holes and round pegs in round holes. Once he is fitted into the job, he is given the activities he has to perform and also told about his duties.

Proper Placement of employees lowers the chances of employee‘s absenteeism. The employees also feel more satisfied and contended with their work.

12.7 TRAINING

Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job. Training is crucial for organizational development and success. It leads to quality performance of employees. Training is continuous and never ending in nature. It is fruitful to both employers and employees of an organization. An employee will become more efficient and productive if he is trained well.

Importance of Training

Training is provided for following reasons:

1. New candidates who join an organization are given training.
2. The existing employees are trained to refresh and enhance their knowledge 9 refresher training)

3. Advancements in technology also requires that training be given to employees. For instance, purchasing new equipment, changes in technique of production or computerisation are some of the reasons for employees' training about use of new equipments and work methods.
4. Training also enhances chances of employee's promotion and career growth. Training prepares them to share the responsibilities of the higher level job.

The benefits of training can be summed up as:

1. Increases Job satisfaction: training makes an employee more effective and efficient, employees is able to perform same job in far better way after undergoing training. This leads to job satisfaction.
2. Improves morale of employees: Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.
3. Monetary gains: learned and well trained employees work together efficiently to achieve higher productivity. This results in effectiveness and brings financial gains to the organization.
4. Less supervision- A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.
5. Fewer accidents- Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the less are the chances of committing accidents in job and the more proficient the employee becomes.
6. Chances of promotion- Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.
7. Reduced turnover: well trained, motivated and satisfied employees finds pleasure in the work. This leads to lesser turnover.
8. Increased productivity- Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

MODES OF TRAINING

There are two different modes of imparting training to employees:

1. On the job training- training imparted at the place of work of employee is called on the job training. It is a simple and cost-effective training method. The proficient as well as semi-proficient employees can be well trained by using such training method. These methods are less disruptive as employees are always on the job, training is given on the same machines The motto of such training is ―learning by doing.‖

On-the-job training methods:

- **Coaching:**

  Coaching is a one-to-one training. It helps in identifying the weak areas and tries to focus on them. It also offers the benefit of transferring theory learning to practice. In India most of the scooter mechanics are trained only through this method.

- **Mentoring:**

  Always done by a senior inside person , this training is on the development of attitude and is used for managerial employees.

- **Job Rotation:**

  It is the process of training employees by rotating them through a series of related jobs. It makes a person well acquainted with different jobs alleviates boredom and allows to develop rapport with a number of people.

- **Job Instructional Technique (JIT):**

  It is a structured training in which a suitable trainer prepares a trainee with an overview of the job, its purpose, and the results desired. The trainees are presented the learning material in written or by learning machines through a series called _frames‘.

- **Apprenticeship:**

  This method of training is in vogue in those trades, crafts and technical fields in which a long period is required for gaining proficiency. The trainees have to work in direct association under supervision of their masters.

- **Understudy:**

  In this method, a superior gives training to a subordinate as his understudy like an assistant to a manager or director (in a film).

2. Off-the-job Training

It is generally used in case of new employees. Training is conducted in separate place away from the job environment, study material is supplied, there is full concentration on learning rather than performing, and there is freedom of expression.

Off the job training methods:

- **Lectures and Conferences:**

  These are the traditional and direct method of instruction. It‘s a verbal presentation for a large audience. In the colleges and universities, lectures and seminars are the most common methods used for training.

- **Vestibule Training:**

  In vestibule training, the workers are trained in a prototype environment on specific jobs in a special part of the plant.

  An attempt is made to create working condition similar to the actual workshop conditions. After training workers in such condition, the trained workers may be put on similar jobs in the actual workshop.

  This enables the workers to secure training in the best methods to work and to get rid of initial nervousness. It prevents trainees to commit costly mistakes on the actual machines.

- **Simulation Exercises:**

  Simulation is creation of any artificial environment exactly similar to the actual situation. There are four basic simulation techniques used for imparting training: management games, case study, role playing, and in-basket training.

- **Sensitivity Training:**

  Sensitivity training is also known as laboratory or T-group training. This training is about making people understand about themselves and others reasonably, which is done by developing in them social sensitivity and behavioral flexibility. It is ability of an individual to sense what others feel and think from their own point of view.

- **Transactional Analysis:**

  In every social interaction, there is a motivation provided by one person and a reaction to that motivation given by another person. This motivation reaction relationship between two persons is known as a transaction. Transactional analysis can be done by the ego states. (System of feelings accompanied by a related set of behaviors states of an individual).

12.8 Let us sum up

Human resources are the most crucial resources of the organization, it is very important to hire right men, at right time, at right job and in right number. Shortage and surplus of people are not desirable conditions as both will make work suffer. Therefore importance of staffing cannot be under estimated. The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personnel to fill the roles assigned to the employers/workforce. Staffing is all pervasive and continuous process. Process of staffing includes systematic planning of various sequenced activities viz; manpower planning, recruitment, selection, orientation, placement, training, compensation and performance appraisal. Through manpower planning, a management strikes to have the right number and the right kind of people at the right places, at the right time to do things which result in both the organization and the individual receiving the maximum long range benefit.

Recruitment is the process to discover the sources of manpower to meet the requirements of the staffing schedule and employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force. It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization. It is often termed positive in that it stimulates people to apply for jobs to increase the hiring ratio. Selection is a procedure of matching organizational requirements with the skills and qualifications of people. Proper screening of candidates takes place during selection procedure. All the potential screened from the data pool generated through recruitment are tested and interviewed. The best ones are selected. Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job. All the selected persons undergo training to increase their skills for better performance at work.

12.9 Key Words

- Staffing
- Manpower planning
- Recruitment
- Selection
- Training
- Orientation
- Placement

12.10 Short Answer Questions.

1. Describe the nature of staffing.
2. How are recruitment and selection different from each other?
3. Write a note on orientation and placement.
4. Define training? What are its benefits to organization?

Long Answer Questions

1. Explain the process of manpower planning.
2. What are various sources of recruitment? Discuss merits and limitations of each.
3. Explain the process of selection. Its merits and demerits.
4. Discuss various methods of training. What are benefits of training?

12.11 Suggested Readings

- Ashwathapa, K.(2010) *Human Resource Management*, Tata McGraw Hills , New Delhi
- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity 1

Explain the process of staffing.____

____
____
____
____
____
__--

Activity 2

What is job analysis? What are areas covered under job analysis?

____
____
____
____
____
_

____
--

UNIT 13

PERFORMANCE APPRAISAL AND BASICS OF CONTROLLING

Structure

13.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Fundamentals of controlling function of management
- Process of exercising control function
- Essentials of an effective control system
- Methods and limitations of performance appraisal.

13.1 INTRODUCTION

After strategies are set and plans are made, the management's primary task is to take steps to ensure that these strategies and plans are carried out as per expectations; or if external environmental conditions are changing and deviations are traced in expected outcomes, then management has to closely monitor that earlier set plans are modified or in extreme conditions changed. All these actions are needed to be taken well within time, so as to ensure timely attainment of objectives. This is essence of controlling function of management. Since, management involves directing the activities of others; a major part of the control function is making sure other people do what needs to be done. In this UNIT we shall learn about basics of controlling function, its need, relevance, process and types etc.

Continuing the last UNIT of Unit 13, performance appraisal is a major function of staffing. After people are hired, trained and are allocated jobs, it becomes imperative to assess their behaviors at work i. e. their performance at jobs. For this purpose, performance appraisal is conducted. Appraisal helps in identification of training needs, promotions, demotions and incentive allocation. This UNIT will also cover this aspect of staffing process.

13.2 PERFORMANCE APPRAISAL

Performance appraisal is a formal, structured system that compares employees‘ performance to established standards. It is a developmental tool used for all round development of the employee and the organization. The performance is measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, and versatility

Performance appraisal is an activity which is undertaken for following purposes:

1. Promotions
2. Confirmations
3. Training and Development
4. Compensation (salary and wages) reviews
5. Competency building
6. Improve communication
7. Evaluation of HR Programs
8. Feedback & Grievances

TECHNIQUES / METHODS OF PERFORMANCE APPRAISALS

There are two categories of methods of performance appraisal:

- Past Oriented Methods
- Future Oriented Methods

Past Oriented Methods

1. **Rating Scales**: Rating scales consists of several numerical scales representing job related performance criterions such as dependability, initiative, output, attendance, attitude etc.

Each scales ranges from excellent to poor. The total numerical scores are calculated and final conclusions are derived. Rating scales have the advantages of

Adaptability; Are easy to use; Economical; Can be used to evaluate every type of job; Large number of employees can be covered; No formal training required for appraiser to learn the use of these scales;

Disadvantages: Rater's bias.

2. **Checklist:** in this method, checklist of statements of traits of employee in the form of Yes or No based questions is prepared. Role of rater is only to tick yes or no; HR department does the actual evaluation.

   Advantages offered by this method are: Economy; Ease of administration; Limited training required; Standardization.

   Disadvantages are

   Rater's biases; It does not allow rater to give relative ratings.

3. **Forced Choice Method**: The series of statements arranged in the blocks of two or more are given. The rater has to indicate which statement is true or false. Here the appraiser is forced to choose appropriate statement, hence the name forced choice. HR department does actual assessment.

   Advantages: Chances of personal biases are eliminated because of forced choice;

   Disadvantages: Statements may be wrongly framed.

4. **Forced Distribution Method**: In this method, it is assumed that the performance corresponds to normal distribution. The appraiser is forced to give some employees low ratings, some high ratings and the rest moderate ratings. Thus Rater is compelled to distribute the employees on all points on the scale.

   Advantages: Eliminates bias

   Disadvantages: Assumption of normal distribution is unrealistic; errors of central tendency.

5. **Critical Incidents Method**: This approach is focused on certain critical behaviors of employee that makes all the difference in the performance. Supervisors record such incidents as and when they occur.

Advantages: Evaluations are based on actual job behaviors; Ratings are supported by descriptions; Feedback is easy; Reduces recency effect; Increase the chances of subordinate improvement.

Disadvantages: Negative incidents can be prioritized; Forgetting incidents; excessively close supervision to record the incidents which can be uncomfortable for employees; Feedback may be too much and may appear to be punishment.

6. **Behaviorally Anchored Rating Scales (BARS):** statements of effective and ineffective behaviors related to a particular job are made. They are said to be behaviorally anchored. The rater is supposed to declare, which behaviors on according to theses statements portray the employee performance.

   Advantages: helps overcome rating errors.

   Disadvantages: Suffers from deformation which is natural in most rating techniques.

7. **Field Review Method**: In this method, the appraisal is done by someone outside employees' own department usually from corporate or HR department.

   Advantages: Useful for managerial level promotions, when comparable information is needed, Disadvantages: As the outsider is generally not familiar with employees work environment, the observation of actual behaviors not possible.

8. **Performance Tests and Observations**: The tests are conducted to check the knowledge or skills. The tests can be written or an actual presentation of skills. Tests must be reliable and validated to be useful.

   Advantage: Tests might be appropriate to measure potential more than actual performance. Disadvantages: It is not economical especially if costs of test development or administration are high.

9. **Confidential Records**: This method is mostly used by government departments, however its application in industry is not ruled out. In this method the report is given in the form of Annual Confidentiality Report (ACR) and may record ratings with respect to attendance, self expression, team work, leadership, initiative, technical ability, reasoning ability, originality and resourcefulness etc of the employee. This system is highly secretive and confidential. Feedback to the assessee is given only in case of a bad entry. Disadvantage of this method is that it is highly subjective. Therefore the ratings can be manipulated because the evaluations are linked to HR actions like promotions etc.

10. **Essay Method**: In this method the rater writes down the employee performance description in the form of an essay.

    Advantage: It is extremely useful in filing information gaps about the employees that often occur in a better-structured checklist.

    Disadvantages: It its highly dependent upon the writing skills of rater and its success depends on the memory power of raters.

11. **Cost Accounting Method**: in this method, the performance is evaluated in terms of the monetary returns yielded by the employee to the organization. Cost to keep employee, and benefit the organization derives is established. Hence this method is more dependent upon cost and benefit analysis.

12. **Comparative Evaluation Method (Ranking & Paired Comparisons):** These are collection of different methods that compare performance of an employee with that of co-workers. The Commonly used techniques are:

- Ranking Methods: Superior ranks his worker based on merit, from best to worst. How best and why best are not detailed in this method. It is easy to administer and explanation.
- Paired Comparison Methods: In this method each employee is compared with another employee in the form of pairs in terms of required traits. This method is not suitable when number of employees is large.

Future Oriented Methods

1. **Management by Objectives**: MBO process is already discussed in detail in previous UNITs.

   Advantage of MBO is that it is more useful for managerial positions.

   Disadvantages are that it is not applicable to all jobs; allocation of merit pay may result in setting short-term goals rather than important and long-term goals.

2. **Assessment Centers**: An assessment center is a central location where managers may arrive together to have their participation in job related exercises evaluated by trained observers. It is more focused on observation of behaviors across a series of select exercises or work samples. Assessees are asked to participate in in-basket exercises, work groups, computer simulations, role playing and other similar activities which require same qualities for successful performance as in actual job. The characteristics are

assessed by experts. Major drawbacks of this system are high cost; ratings are strongly influenced by assessee‘s inter-personal skills. Solid performers may feel suffocated in simulated situations. Those who are not selected for this exercise may also get affected.

Advantages: Well-conducted assessment center can achieve better forecasts of future performance and progress than other methods of appraisals. Also reliability, content validity and predictive ability are high in assessment centers. The tests also make sure that the wrong people are not hired or promoted. It helps to clearly define the criteria for selection and promotion.

3.**360-Degree Feedback**: It is a technique in which performance of a candidate is evaluated by a number of people. These are subordinates, peers , customers, supervisors and self. In fact anyone who has useful information on how an employee does a job may be one of the appraisers. This technique is highly useful in terms of broader perspective, greater self-development and multi-source feedback. 360-degree appraisals are useful to measure inter-personal skills, customer satisfaction and team building skills. However on the negative side, receiving feedback from multiple sources can be threatening etc. Multiple raters may be less adept at providing balanced and objective feedback.

LIMITATION OF PERFORMANCE APPRAISAL

Although performance appraisal process aims to evaluate the work done by employees, but due to certain limitation, outcomes of appraisal are not expected. Many errors creep in which are either due to appraiser‘s lack of understanding of technique adopted for appraisal or due to bias towards employees. Motto of performance appraisal is to assess the work, not the person. But due to biasness and influence of personal judgment of appraiser, an employee may get negative feedback. Following are the major problems linked with appraisal process:

Leniency and strictness: The leniency bias crops when some raters have a tendency to be liberal in their rating by assigning higher rates consistently. If appraiser is strict, most employees are low on performance consistently. Both of these are not desirable as the performance of an employee is not judged fairly.

Central tendency: Some raters appraise all the employees around the middle point of the rating scale and they avoid rating the people higher or lower level i.e. the performance is rated average rather than low or high. Appraiser tends to play safe due lack of knowledge about the job and person he is rating or least interest in his job.

Personal favoritism: If the rater personally dislikes any employee, he may rate his performance at the lower end. This misrepresents the rating purpose and affects the career of these employees.

Halo effect: In halo effect, appraiser tends to judge a person on the basis of a single trait. This trait is positive. E.g. an employee is very punctual but not efficient. While rating, the appraiser may only focus on punctuality trait instead of low efficiency. This again distorts the rating.

Horn Effect: This is similar top halo effect except here the single chosen trait is negative.

Recency effect: Here the raters tend to assess the recent performance of the employee ignoring the previous one.

Check your Progress I

Note: Use the space given below for your answers

1) Define _performance appraisal‘. Why is it conducted?

____

____

____

____

____

____

____

2) What is BARS?

____

____

____

____

____

____

3) Differentiate between _Halo‘ and _Horn‘ effect.

____

____

____

13.3 CONTROLLING

Controlling is a procedure of verifying whether everything is taking place in agreement with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

Brech has defined controlling as, ―Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.‖

In management, various authors have used the terms control and controlling interchangeably.

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

Features of controlling:

Control has following features:

1. **An end function**: Controlling is an end function which comes into play all other managerial functions are planned, implemented and everything is set to work.
2. **A pervasive function**: Controlling is a pervasive function because it is performed by managers at all levels and in all type of firms.
3. **Forward looking**: Effective control involves study of past performance, analysing the deviations and suggesting corrective action so that in future, further deviations are not made. Controlling always looks to future so that follow-up can be made whenever required.
4. **Dynamic process**: as business functions are ongoing, so control is always exercised. Control methods also keep on changing as per the changes in plans.
5. **Controlling is closely related with planning**: Planning and controlling are two inseparable functions of management. Without planning, controlling is a meaningless

exercise and without controlling, planning is useless. Planning presupposes controlling and controlling succeeds planning.

Principles of the Controlling:

Controlling is governed by following principles: are

Goals: The establishment of the measurable goals is a prerequisite to the controlling. For establishing goals, planning is done as the first step. After planning the conceptual objectives are converted into measurable goals.

Establishment of the standards: The measurable goals that are created have to be converted into the standards. For each standard the measures of the efforts, time, and cost are fixed. The performance is judged by setting the minimum standards. A minimum performance is expected for each standard depending on the given efforts and the time.

Nature of the controls: The controls must be economical in the nature not only in the implementation but also in correcting the deviation by getting a signal on time.

Selection criteria of the critical points: To keep the costs of the control down, it is not possible to have a control over each stage in the process. For this purpose, it is very important to select certain control points. The selection of critical points largely depends on the individual testing skills, group output and its criticality to the operation in the total activity. The selected critical points can be changed on a rotational basis and after the feedback that is obtained from the results of the process.

Feedback system: The feedback system should be very efficient and meaningful in the nature. Control points should be well supported by the control systems. These points at any stage should undergo feed forward as well as backward control. Feedback system helps in the determination of the fact that whether any type of the rework or correction is required or not.

Discipline and flexibility: Discipline and the flexibility are very much required in the process of the controlling Discipline can be achieved, if it is assured that the same process will be carried on during the existence and various activities involved remain totally unchanged.

But sometimes such circumstances (especially the environment present in and around the organization) undergo major changes and then it becomes very necessary for the control system to possess the flexibility.

Development of the controls: The controls should be tailored in such a way that the whole organization is able to read the feedback reports. The results of the control should be communicable and also actionable in the nature. Deviations should be pointed out easily by control system.

Corrections: With the help of the controls, the deviations in the planned performance can be easily found. It is very necessary to direct the controls towards the corrections and then suitable corrective actions should be taken.

13.4 CONTROL PROCESS

Control process involves following steps:

1. Establishment of standards: Standards are the targets and are criterions for judging the performance. Standards generally are classified into two-

Measurable/ tangible: Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.

Non-measurable or intangible: There are standards which cannot be measured monetarily. For example: performance of a manager, deviation of workers, their attitudes towards a concern etc.

The standards should be:

- Clear and understandable;
- Measurable and quantifiable;
- Specified and not vague;
- Formulated as per desired end results;
- Realistic in nature;
- Easy to communicate;
- Easy to be evaluated.

2. Measurement of actual performance: The second major step is to measure the actual performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Performance of a manager cannot be measured in quantities. It can be measured only by knowing:

- Attitude of the workers;
- Their morale to work;

- Their communication with the superiors.

Peter Drucker recommends that the measurements for measuring tangible and intangible performance should be:

- Clear, simple and rational;
- Relevant;
- Reliable, self announcing and understandable without complicated interpretations;
- Should pay direct attention to efforts.

3. Comparing actual and standard performance: Comparison of actual performance with the planned targets provides the information regarding existence of deviations. Deviation can be defined as the gap between actual performance and the planned targets. This step involves two stages:

- Finding out the extent of deviation;
- Indentifying the causes of the deviations found.

Extent of deviation means whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. Deviations which are critical and important are to be found. Minor deviations can be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked into carefully. Once the deviation is identified, various cause which has led to deviation need to be found. The causes can be: flawed planning slackened coordination, faulty implementation of plans, ineffective supervision and poor communication etc. The summary of these findings is prepared and is handed over to the concerned personnel.

4. Correction of deviations: This is the last step of control process. After knowing the causes and extent of deviations, remedial measures are designed to rectify these. Following alternatives are chosen:

1. Taking corrective measures for deviations which have occurred;
2. After taking the corrective measures, if the actual performance is still not in agreement with plans, the additional actions are required:

- Targets can be revised;
- Plans can be reviewed;
- Changes in the assignments of the tasks;
- Changes in the existing techniques of direction;

- □ Changes in the organizational structure;
- □ Provisions for new facilities.

Relationship between Planning and Controlling

Planning and controlling are two separate functions of management, yet they are closely related. In scale of activities, both functions overlap each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by planning. Therefore, planning and controlling reinforce each other. Relationship between the two can be summarized in the following points

1. Planning and controlling are inseparable functions of management
2. Planning precedes controlling and controlling succeeds planning.
3. Planning puts activities in action and controlling keeps them at right place
4. Planning and controlling reinforce each other. Both of these functions are interdependent.

In the present dynamic environment, the strong relationship between the planning and control has become ever more critical and important. It is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it provides stimulus for better planning.

Check your Progress II

Note: Use the space given below for your answers

1) Define ‗control' in management.

____

____

____

____

____

____

____

2) Describe objectives of control function in an organization.

____

____

____

____

____

____

3) Write note on control process.

____

____

____

____

____

____

13.5 LEVELS, TYPES AND AREAS OF CONTROL

Levels of Control

There are three levels of control, which correspond to the three principal managerial levels: strategic planning by top managers, tactical planning by middle managers, and operational planning by first-line (supervisory) managers.

1. **Strategic Control (exercised by Top Managers)**
   Strategic control is monitoring performance to ensure that strategic plans are being implemented and taking corrective action as needed. Strategic control is mainly performed by top managers, those at the CEO and VP levels, who have an organization-wide perspective. Monitoring is accomplished by reports issued published regularly at the interval of three/ six/ twelve months.
2. **Tactical Control (practiced by Middle Managers)**
   Tactical control is monitoring performance to ensure that tactical plans—those at the divisional or departmental level—are being implemented and taking corrective action as needed. Tactical control is done mainly by middle managers, like ―division head,‖ ―plant manager,‖ and ―branch sales manager.‖ Reporting is done on a weekly or monthly basis.

3. **Operational Control (exercised by First-Level Managers)**

   Operational control is monitoring performance to ensure that operational plans—day-to-day goals—are being implemented and taking corrective action as needed. Operational control is done mainly by first-level managers, such as –department head,‖ –team leader,‖ or –supervisor.‖ Reporting is done on a daily basis.

Types of Control

Within the strategic and operational levels of control, there are different types of control. On the basis of proactivity, control can be categorized into three groups:

1. **Feed forward 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 feed forward control; it addresses what can be done ahead of time to help plans succeed. For example, feed forward controls include preventive maintenance on machinery and equipment and due diligence on investments.
2. **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, concurrent control is described as real-time control because it deals with the present. An example of concurrent control can be adjusting the color of the fluid which is being used for dying the fabric.
3. **Feedback Controls**: 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.

Six Areas of Control

The six areas of organizational control are physical, human, informational, financial, structural, and cultural.

1. Physical Area: The physical area includes buildings, equipment, and tangible products. Examples: There are equipment controls to monitor the use of computers, cars, and other machinery. There are inventory-management controls to keep track of how many products are in stock, how many will be needed, and what their delivery dates are from suppliers. There are quality controls to make sure that products are being built according to certain acceptable standards.

2. Human Resources Area: The controls used to monitor employees include personality tests and drug testing for hiring, performance tests during training and performance evaluations to measure work productivity, and employee surveys to assess job satisfaction and leadership.

3. Informational Area: Production schedules. Sales forecasts. Environmental impact statements. Analyses of competition. Public relations briefings. All these are controls on an organization's various information resources.

4. Financial Area: Are bills being paid on time? How much money is owed by customers? How much money is owed to suppliers? Is there enough cash on hand to meet payroll obligations? What are the debt-repayment schedules? What is the advertising budget? These are some of the aspects of the organization's financial controls which are very important as they can affect the preceding three areas.

5. Structural Area: This area pertains to organizational arrangement from a hierarchical or structural standpoint. This control is of two types: bureaucratic control and decentralized control.

- **Bureaucratic control** is an approach to organizational control that is characterized by use of rules, regulations, and formal authority to guide performance. This form of control attempts to elicit employee compliance, using strict rules, a rigid hierarchy, well-defined job descriptions, and administrative mechanisms such as budgets, performance appraisals, and compensation schemes (external rewards to get results). The foremost example of use of bureaucratic control is perhaps the traditional military organization.
- Bureaucratic control works well in organizations in which the tasks are clear and certain. While rigid, it can be an effective means of ensuring that performance standards are being met. However, it may not be effective if people are looking for ways to stay out of trouble by simply following the rules, or if they try to beat the system by manipulating performance reports, or if they try to actively resist bureaucratic constraints.
- **Decentralized control** is an approach to organizational control that is characterized by informal and organic structural arrangements, the opposite of bureaucratic control. This form of control aims to get increased employee commitment, using the corporate culture,

group norms, and workers taking responsibility for their performance. Decentralized control is found in companies with a relatively flat organization structure.

6. Cultural Area: The cultural area is an informal method of control. It influences the work process and levels of performance through the set of norms that develop as a result of the values and beliefs that constitute an organization‘s culture. If an organization‘s culture values innovation and collaboration, then employees are likely to be evaluated on the basis of how much they engage in collaborative activities and enhance or create new products.

13.6 MERITS OF THE CONTROLLING FUNCTION:

The Controlling function helps the organization in various ways.

1. **It provides insurance against disappointing performance**. The controlling function eliminates the risk of non-agreement of actual performance with the desired/expected performance. By continuous reviews of work progress and by making necessary adjustments in operations, ensures the achievement of the pre-determined objectives.
2. **Controlling facilitates co-ordination**. It facilitates co-ordination by keeping the routine activities and efforts within their fixed boundaries set by pre-determined goals. It also guides members of the organization to move towards common goals through coordinated directives. It enables executives to oversee the work till its successful completion and ensures that orderly performance takes place in each section of the entire enterprise. Various control tools enable the management to avoid wastage of time, money and efforts.
3. **It forms basis for future action**. Controlling process gives a correct picture of the nature of the corrective action that is required by enabling the management to make a proper evaluation of final results on the completion of work. This evaluation supplies facts and information necessary for taking corrective action and to suitably modify planning, organizing and directing in future. It enables the management to take suitable steps to check the repetition of the mistakes in future.
4. **Controlling is an extension of decentralization**. The system of control enables the top management to extend the borders of decentralization without losing ultimate control throughout the organization. Modern management control enables the management to keep control in its hands with enough tools to assess whether the authority is being used

properly under the decentralized set-up that allows the dispersion of the authority of decisions-making throughout the organization.

5. **It facilitates timely recognition of both managerial weaknesses and significant deviations**. The control function of management reveals and provides feeds back regarding managerial weaknesses / deviations and to remove them by remedial actions. It simplifies the function of supervision by:

- Indicating significant deviations correctly and promptly;
- Keeping the subordinates under check
- By bringing discipline among them

Check your Progress III

Note: Use the space given below for your answers

1) Describe different types of control with suitable examples.

____

____

____

____

____

____

____

2) Explain _Structural area' of control.

____

____

____

____

____

____

3) What are advantages of control function?

____

____

____

13.7 LIMITATIONS OF CONTROL

Controlling function may suffer from the following limitations especially when the management fails to comply with the basic requirements that are considered as the essentials of a sound and effective control system.

1. Lack of suitable standards: Activities involving intangible performances like results of management development, human relations, public relations, research, etc., cannot be accurately indicated by any predetermined standards. This is because such activities cannot be quantified, making it difficult to set some suitable, quantitative and measurable standard.

2. Lack of accuracy in measurements: Besides the problems of lack establishment of proper standards in the case of the activities involving intangible performance, they also complicate the task of measuring results for evaluation in quantitative or qualitative terms.

3. Deficiency in corrective actions: There are times when corrective actions remain deficient. e.g. sudden change in the operating conditions of a business due to external forces which are beyond the control of management ; the likelihood of by passing certain minor deviations within the organization on the ground of practical suitability, lack of authority and absence of timely information etc. Such problems may make the corrective actions irrelevant in quality.

4. Resistance from subordinates: Since management control interferes with their individual actions and thinking, the subordinates may resist certain control devices.

The pressure of work imposed through controlling may result in following malpractices:

- Reduction of the quality of work
- An attempt to ignore long-range goals in favor of the short-range goals
- Avoidance of reprimand through falsifying reports
- Efforts to cover up inefficiencies through questionable practices and so on

Control system which is very close and very detailed in nature may frequently create more adverse effects among lower level managers.

Just because there is a possibility of some of these limitations reducing the efficacy of the control techniques, no management can ever think of totally doing away with the control function. As a matter of fact, Managerial Control constitutes the last, but the most essential management function.

13.8 PREREQUISITES OF EFFECTIVE CONTROL SYSTEM

In designing a good and effective control system the following basic requirements must be kept in consideration:

1. Focus on objectives and needs: An effective control system should emphasize on accomplishment of organizational objectives. It should function in agreement with the needs of the organization. For example, the HR department may use feed forward control for recruiting a new employee, and concurrent control for training. At the shop level, control has to be easy and broad ranging controls may be developed for higher level managers. Thus, controls should be tailored to plans and positions.

2. Immediate caution and well-timed action: In an ideal control system, there should be speedy reporting of variations. An ideal control system should detect deviations and block these. The deviation must be reported as promptly as possible so that necessary corrective action may be taken well in time. This needs an efficient system of evaluation and timely flow of information. Suggestive for corrective action: in addition of point out to deviations, control system should also suggest corrective action that is supposed to check the recurrence of variations or problems in future. Control is justified only deviations found from plans are corrected through appropriate planning, organizing, staffing and directing. Control should also lead to making valuable forecasts to the managers so that they become aware of the problems likely to confront them in the future.

3. Simple, understandable, objective, and economical: Controls should be simple and easy to understand. The standards of performance should be quantified to appear unbiased. Specific tools and techniques used should be comprehensive, understandable, and economical. Managers must know all the details and critical points in the control device as well as its usefulness. If complex statistical and mathematical techniques are to be adopted, then proper training has to be imparted to managers. The benefits of controls should outweigh the costs. Expensive and elaborate control systems are usually not suitable for small organization.

4. Focus on Functions and Factors: Control should highlight the functions, such as production, marketing, finance, human resources, etc and focus on four factors – quality, quantity, timely use and costs. Multiple controls should be adopted for better outcomes.

5. Strategic Points Control: Control should be selective and concentrate on key result areas of the organization. Certain strategic and critical points should be identified along with the expectations and appropriate control devices should be designed and imposed at those points. Controls are applied on those points or areas where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points should include all those areas of organizational operations that directly affect the success business.

6. Flexibility: Control system must be environment friendly and be able to make modifications demanded by the rapidly changing and complex business environment. Flexibility in control system is generally achieved by the use of alternative plans or flexible budgets.

Attention to Human Factor: Excess control causes problems and resistant among people. Good control system should not provoke negative reactions but positive feelings among people through its focus on work, not on people. The aim of control should be to create self-control and creativity among members through imbibing it into the organizational culture. Employee involvement in the design of controls can increase acceptance.

7. Suitability: Controls have to be consistent with the organization structure, where the responsibility for action lies, position, competence, and needs of the individuals who have to interpret the control measures and exercise control. The higher the quality of managers and their subordinates, the less will be the need for indirect controls.

13.9 Let us sum up

After strategies are set and plans are made, the management‘s primary task is to take steps to ensure that these strategies and plans are carried out as per expectations; or if external environmental conditions are changing and deviations are traced in expected outcomes, then management has to closely monitor that earlier set plans are modified or in extreme conditions changed. All these actions are needed to be taken well within time, so as to ensure timely attainment of objectives. This is essence of controlling function of management. Controlling function is governed by eight principles ; goals, establishment of the standards, nature of the controls, selection criteria of the critical points, feedback system, discipline and flexibility, development of the controls and corrections . Planning and controlling are two separate functions of management, yet they are closely related. In scale of activities, both functions overlap each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by planning. Therefore, planning and controlling reinforce each other. There are three levels of control, which correspond to the three principal managerial levels: strategic planning by top managers, tactical planning by middle managers, and operational planning by first-line (supervisory) managers. On the proactivity, control can be feed forward control; concurrent control and feed backward control. The six areas of organizational control are physical, human, informational, financial, structural, and cultural. An effective control system should be clear, well communicated to employees, regular, objective oriented and flexible.

13.10 Key Words

- Performance Appraisal
- BARS
- Critical Incidents
- Assessment Centre
- Control
- Controlling
- Control Deviations
- Strategic Control
- Tactical Control
- Operational Control
- Feed forward control
- Concurrent control
- Feed back control

13.11 Short Answer Questions.

1. Discuss paired comparison method of performance appraisal.
2. ‗Planning and controlling reinforce each other'. Justiy the statement.
3. How does control provide basis for performance measurement?
4. What is the role of control in modern management?

Long Answer Questions

1. (i)Discuss methods of performance appraisal.

   (ii)What are limitations of performance appraisal?

2. What are merits and demerits of controlling?
3. Describe various prerequisites of an effective control system.
4. What are features of control? Discuss its principles. Is control and controlling same? How?

13.12 Suggested Readings

- □ Kinicki, A. and William, B. (2010) *Management-A Practical Introduction*, Fifth ed., McGrw- Hill Publishing Co. NY.
- □ Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- □ Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- □ Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity

‒Our problems of control are over,‖ said Venkatesh, the director of information System, to Ramajayan, president of Elumalai Enterprises Ltd. ‒With our new computer installation, data gathering, departments and plant terminal, high speed printers, and cathode-ray-tube display stations, every responsible manager can find out what is happening in his or her area as it happens. Delayed reports can now be a thing of the past. I am sure you will find that the investment we have made in these systems is the best expenditure this company over made. We will soon have real time control and we can manage to a desired standard, in exactly the way a thermostat keeps our offices at a desired temperature.

‒I hope you are right,‖ responded Ramajayan. ‒But I

wonder.‖ Questions:

1. Exactly what is real-time control?

2. Was Venkatesh right? Why or why not?

3. What would you suggest to be done?

UNIT 14
TECHNIQUES OF CONTROL

Structure

14.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Difference between operational and overall control
- Various techniques used for inventory control.
- Techniques of Overall Control; their advantages and limitations.

14.1 INTRODUCTION

Every organization aims to make optimum use of resources available. As discussed in previous chapter, to achieve this objective, control system is devised. We have seen how planning is very important for control and control is complementary to planning. Function of control is carried out with the help of certain tools and techniques. Some of these may be similar to that of planning but different in the mode of implementation. For example in planning, budgeting is used for allocation of resources; in controlling it is used to evaluate the performance and calculate the deviations. The tools and techniques used in controlling function are known as control techniques/ control tools/ control aids. As seen in previous UNIT, control is exercised at different areas of organization. Broadly these areas can be divided into two distinct categories: Operational control and overall control. Operational control is exercised at different levels of operating units by concerned managers. Overall control is exercised by top management for the organization as a whole. In this UNIT we shall study control techniques and the levels at which these are practiced. A broad classification of control technique is given in following table. We shall study each technique in detail.

Table 14.1 Overview of techniques of control

Controlling Techniques	**Types**	**Sub types**
Operational Control	Financial Control	1. Budgetary Control 2. Control through costing 3. Break even analysis 4. Responsibility accounting 5. Internal audit
	Operating control	1. Quality Control 2. Quality control through quality circles
	Inventory control	1. ABC analysis 2. EOQ 3. CPM/ PERT
Overall control techniques	1. Financial Ratio Analysis 2. Control through ROI 3. Management Audit 4. Human Resource Accounting 5. Management Information Systems	

14.2 FINANCIAL CONTROL

This type of control is for those areas of business whose outcomes can be expressed in monetary terms. This control is exercised at operating as well as at overall organizational level. Techniques used are different for both levels. At operating level, financial control is applied through following techniques:

14.2.1 Budgetary Control: Budgets are the most widely used control system. Budgeting is the formulation of plans for a given future period in financial / numerical terms. By stating plans in terms of numbers and breaking them into parts of an organization, budgets correlate planning and allow authority to be delegated without loss of control. Budgetary control is a process of comparing the actual results with the corresponding budget data in order to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of difference. Most organizations develop and make use of three different types of budgets: *operating budgets*, *capital expenditures budgets*, and *financial budgets*.

Operating Budgets: An operating budget is a statement that presents the financial plan for each responsibility centre (explained alter) during the budget period and reflect operating activities involving revenues and expenses. The most common types of operating budgets are expense, revenue, and profit budgets.

Expense Budget: Expense budget is an operating budget that documents expected expenditure during the budget period. Three different kinds of expenditure are evaluated in the expense budget - fixed, variable and discretionary

Revenue Budget: A revenue budget identifies the revenues required by the organization. It is a budget that *projects future sales*.

Profit Budget: A profit budget combines both expense and revenue budgets into one statement to show gross and net profits. Profit budgets are used to make final resource allocation, check on the adequacy of expense budgets relative to anticipated revenues, control activities across units, and assign responsibility to managers for their shares of the organization's financial performance.

Financial Budgets: Financial Budgets outline how an organization is going to obtain its cash and how it plans to use the cash. Three important financial budgets are the cash budget, capital expenditure budget and the balance sheet budget.

- **Cash budget**: Cash budgets are forecasts of how much cash the organization has on hand and how much it will need to meet **expenses**.

- **Capital Expenditure Budget**: **Investment in property**, **buildings** and **major equipment** are called capital expenditure. Such capital expenditure budgets allow management to forecast capital requirements, to on top of important capital projects, and to ensure the adequate cash is available to meet these expenditures as they come due.
- **The balance sheet budget**: The balance sheet budget plans the amount of assets and liabilities for the end of the time period under considerations. A balance sheet budget is also known as a pro forma (projected) balance sheet. Analysis of the balance sheet budget may suggest problems or opportunities that will require managers to alter some of the other budgets.

Variable Budgets: While fixed budgets express that individual costs should be at one specified volume, variable budgets are cost schedules that show how each cost should vary as the level of activity or output varies. There are three types of costs that are considered when variable budgets are being developed: fixed, variable, and semi-variable costs. The problem in devising variable budgets is that cost variability is often difficult to determine and that they are often quite expensive to prepare.

Zero-base Budgets

The conventional budgeting process has one major disadvantage. Managers tend to prepare new budget requests by adding an incremental amount to their previous year's budget requests, rather than re-evaluating the need for things already included. Zero-base budgeting (ZBB), in contrast, enables the organization to look at its activities and priorities a fresh. Zero-base budgeting assumes that the previous year's budget is not a valid base from which to work. It forces department managers to thoroughly examine their operations and justify their departments activities based on their direct to the achievement of organizational goals.

The specific steps used in zero-based budgeting are as follows:

1. Break down each of an organization's activities into "decisions packages". The decision package includes written statements of the department's objectives, activities, costs, and benefits; alternative ways of achieving objectives; and the outcomes expected if the activity is not approved.
2. Evaluate the various activities and rank them in of decreasing benefits to the organization. Rankings for all organizational activities are reviewed by top managers.

3. Allocate resources. Budget resources are distributed according to the activities rated as essential to meeting organizational goals. Some departments may receive large budgets and others nothing at all. The principal advantage of this technique is the fact that it forces managers to plan each program package. However, it demands more time and energy than conventional budgeting.

The Budgeting Process

Many traditional companies use **top-down** budgeting. This is a process of developing budgets in which top management outlines the overall figures and middle and lower-lever managers plan accordingly. The top-down process has certain advantages: top managers have comprehensive knowledge of the organization and its environment, including their familiarity with the *company's goals*, *strategic plans*, and overall *resources availability*. Thus, the top-down process enables managers set budget targets for each department to meet the needs of overall company revenues and expenditures.

Other organizations use **bottom-up** budgeting. This is a process of developing budgets in which lower-level and middle managers anticipate their departments' resource needs, which are passed up the hierarchy and approved by top management. The bottom-up approach builds on the specialized knowledge of operating managers about environment and marketplace, which they have assembled from day-to-day operations.

In reality, the budgetary process usually involves a mixture of both styles.

Merits and demerits of budgetary control

Budgetary control offers several advantages. Some of these are:

- The major strength of budgeting is that it coordinates activities across departments.
- Budgets translate strategic plans into action. They specify the *resources*, *revenues*, and activities required to carry out the strategic plan for the coming year.
- Budgets provide an excellent record of organizational activities.
- Budgets improve communication with employees.
- Budgets improve resources allocation, because all requests are clarified and justified.
- Budgets provide a tool for corrective action through reallocations.

However, budgets control can also create problems. The demerits of budgetary control are:

- The major problem occurs when budgets are applied mechanically and rigidly.

- Budgets can demotivate employees because of lack of participation. If the budgets are arbitrarily imposed top down, employees do not understand the reason for budgeted expenditures, and are not committed to them.
- Budgets can cause perceptions of unfairness.
- Budgets can create competition for resources and politics.
- A rigid budget structure reduces initiative and innovation at lower levels, making it impossible to obtain money for new ideas.

These dysfunctional aspects of budgets systems may interfere with the attainment of the organization's goals. One generally accepted guideline for effective budgeting is to establish goals that are difficult but attainable.

14.2.2 Control through standard costing: When budgets are prepared, the costs are usually computed at two levels, in total amount so an income statement can be prepared, and cost per unit. The cost per unit is referred to as a standard cost. A standard cost can also be developed and used for pricing decisions and cost control even if a budget is not prepared. Thus, standard costing is a method of cost accounting in which standard costs are used in recording certain transactions and the actual costs are compared with the standard costs to find out the amount and reasons of variations from the standards. Standard costing system provides standard cost for budgeting purpose to plan future performance. Standards are established to communicate employees about economy and efficiency is required to achieve business objectives.

Process: Standard costing consists of following steps:

1. First step is about fixation of standards for different components of costs separately. Standards are fixed on the basis of past records or experience.
2. Actual cost is determined to make a comparative study. Cost accounting records provide information regarding this.
3. A comparison between standard cost and actual cost is made in order to find out variation between the two. If variation is zero, no further action is required.
4. If variation is found to exist beyond permissible limit, further analysis is done and reasons for variation are recognized.
5. In the light of the reasons found, further course of action is planned.

Merits and demerits of standard costing: Merits of this procedure are:

1. Provides basis for measuring operating performance. Efficiency or inefficiency can be assessed by comparing actual and standard costs.
2. Standard costs provide easy comparability.
3. Improved cost control and performance evaluation.
4. Better information for planning and decision making.
5. Cost savings in record-keeping.
6. Possible reductions in production costs.
7. More reasonable and easier inventory measurements.

Demerits of standard costing are:

1. It may be difficult to determine which variances are significant
2. Emphasis on negative exceptions may lower morale.
3. Emphasis on negative exceptions may lead to under-reporting.
4. Can prove an expensive exercise.
5. Needs frequent revisions especially under changing conditions.

Check your Progress I

Note: Use the space given below for your answers

1) Define _Operational Control.

____

____

____

____

____

____

____

2) What is the utility of budgetary control?

____

____

____

____

3) Describe demerits of standard costing.

14.2.3 Break Even Analysis

Break even investigation is done to determine the point at which revenue received equals the costs associated with receiving the revenue. The break-even point of a business is the level of output or sales at which the revenue received is exactly equal to the cost of making (or selling) that output. Break-even analysis calculates margin of safety, the amount that revenues exceed the break-even point. This is the amount that revenues can fall while still staying above the break-even point. Break-even analysis is a useful tool to study the relationship between fixed costs, variable costs and returns. A break-even point defines when an investment will generate a positive return and can be determined graphically or with simple mathematics. It computes the volume of production at a given price necessary to cover all costs. It also computes the price necessary at a given level of production to cover all costs. Let us understand the costs mentioned in break even analysis.

Fixed costs: these costs are fixed. These are not directly related to the level of production and are incurred after the decision to do an activity is made. Fixed costs include; depreciation on equipment, interest costs, taxes and general overhead expenses etc. Total fixed costs are the sum of the fixed costs.

Variable costs: these costs change in direct relation to volume of output. They may include cost of goods sold or production expenses such as labor and power costs and other expenses directly related to the production of a commodity or investment in a capital asset. Total variable costs (TVC) are the sum of the variable costs for the specified level of production or output. Average variable costs are the variable costs per unit of output or of TVC divided by units of output.

Thus;

- A break-even point defines when an investment will generate a positive return.
- Fixed costs are not directly related to the level of production.
- Variable costs change in direct relation to volume of output.
- Total fixed costs do not change as the level of production increases

An idea of breakeven analysis' graphic presentation can be made from figure 14.1. Total fixed costs are shown by the broken horizontal line. Total fixed costs do not change as the level of production increases. Total variable costs of production are indicated by the broken line sloping upward, which illustrates that total variable costs increase directly as production increases.

The total cost line is the sum of the total fixed costs and total variable costs. The total cost line parallels the total variable cost line, but it begins at the level of the total fixed cost line.

The total income line is the gross value of the output. This is shown as a dotted line, starting at the lower left of the graph and slanting upward. At any point, the total income line is equivalent to the number of units produced multiplied by the price per unit.

The key point (break-even point) is the intersection of the total cost line and the total income line (Point P). A vertical line down from this point shows the level of production necessary to cover all costs. Production greater than this level generates positive revenue; losses are incurred at lower levels of production.

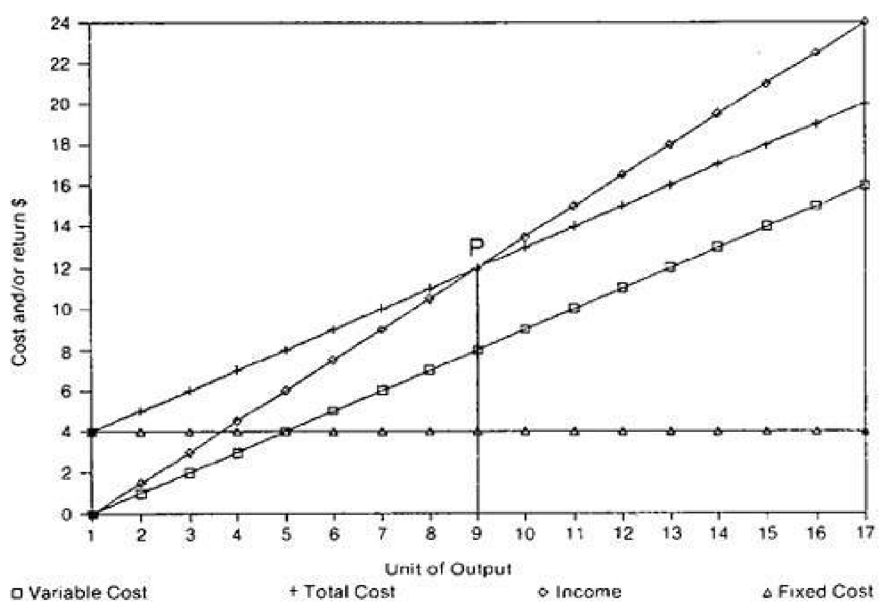


Fig 14.1 Graphic presentation of break-even analysis.

The main advantages of break-even analysis are:

1. It points out the relationship between cost, production volume and returns.
2. It can be extended to show how changes in fixed cost-variable cost relationships, in commodity prices, or in revenues, will affect profit levels and break-even points.
3. Ascertains profit at different levels of production capacity utilization.
4. It determines breakeven point below which production can be stopped for some time.
5. Helps determine the level of sales to earn pre determined profits.
6. Comparison of different product lines and services to make them effective can be made.
7. Estimation of impact of variation in sales price on the volume of profit to effect upward or down ward revision of prices can be made.
8. Helps to decide capacity expansion of plant.

Limitations of break-even analysis include:

1. It is best suited to the analysis of one product at a time;
2. It may be difficult to classify a cost as all variable or all fixed;
3. There may be a tendency to continue to use a break-even analysis after the cost and income functions have changed.
4. An organization producing multiple products at the same time, with same plant facilities, faces problems in applying this technique. This is because the fixed and variable costs of each product line cannot be ascertained with high degree of precision.

Break-even analysis is most useful when used with partial budgeting or capital budgeting techniques. The major benefit to using break-even analysis is that it indicates the lowest amount of business activity necessary to prevent losses

14.2.4 Responsibility Centre

A responsibility centre is an organizational unit charged with a well-defined mission and headed by a manager accountable for the performance of the centre. Responsibility centers constitute the primary building blocks for management control. It is also the fundamental unit of analysis of a budget control system.

There are four major types of responsibility centers:

- **Cost Centre**: A cost centre is a responsibility centre in which manager is held responsible for controlling cost inputs. There are two general types of cost centers: engineered expense centers and discretionary expense centers. Engineered costs are usually expressed as standard costs. A discretionary expense centre is a responsibility centre whose budgetary performance is based on achieving its goals by operating within predetermined expense constraints set through managerial judgment.

- **Revenue Centre**: A revenue centre is a responsibility centre whose budgetary performance is measured primarily by its ability to generate a specified level of revenue.
- **Profit Centre:** In a profit centre, the budget measures the difference between revenues and costs.
- **Investment Centre:** An investment centre is a responsibility centre whose budgetary performance is based on return on investment. The uses of responsibility centers depend to a great extent on the type of organization structure involved.

The head of the responsibility center is responsible for the activities to be performed at the center. He is also made responsible for controllable costs. The costs incurred in a responsibility centre are associated with accomplishing its functions. Some of these coasts are controllable by its head, some costs are not controllable. To provide effective control, distinction must be made between controllable and uncontrollable costs. These must be shown separately. This reporting system is known as responsibility reporting system. The system of cost accumulation is as per hierarchy of responsibility centre. Lowest level unit of this system is called accounting block. All summaries of cost information are obtained by combining these blocks.

The responsibly accounting emphasizes cost control on the basis of who is responsible for costs.

Check your Progress II

Note: Use the space given below for your answers

1) Define _responsibility centre.

____

____

____

____

____

____

____

2) What is Break Even Analysis?

3) What are uses of Break Even Analysis?

14.2.5 Internal Audit:

Also called operational audit, the role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively. Internal audit deals with issues that are fundamentally important to the survival and prosperity of an organization. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees.

Unlike external audit, internal audit is carried out by organization's managers and findings are reported to the board and senior management. Major objectives of the internal audit are to evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the boards and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders. Internal audit provides mangers constant supply of information, making it convenient to compare actual performance with standard performance and to find deviations. Improvement is fundamental to the purpose of internal auditing. But it is done by advising, coaching and facilitating in order to not undermine the responsibility of management.

Internal audit suffers from certain limitations. It can be an expensive exercise for a small unit. The auditors have a tendency to look at every aspect of business from accounting point of view. This affects the scope of the audit and leads to faulty decisions.

14.3 OPERATING CONTROL

Operating control is linked with concurrent control i.e. it is implemented during the course of a process. This types of control the following parameters:

1. Quality of products/ services being produced is maintained through quality control.
2. Products and services are produced at minimum possible cost and in quantity specified through cost control and inventory control.
3. Products and services are produced at required time; fixed through time event network analysis.

Operating control is exercised through following techniques:

14.3.1. Quality control:

Quality is the totality of features and characteristics of product or service that bear on its ability to satisfy stated or implied needs. Quality can be used in a strategic way to compete effectively. There are eight dimensions of quality that are important from a strategic point of view:

Performance: a product's primary operating characteristics

Features: these are supplements to the basic functioning characteristics of the product.

Reliability: It addresses the probability of failure of a product or service.

Conformance: It refers to the degree to which a product's design or operating characteristics meet established standards

Durability: It is a measure of how much use a person gets from a product before it breaks down.

Serviceability: It refers to the promptness, courtesy, proficiency and ease of repair. Aesthetics: it pertains to - how a product looks, feels, sounds, tastes, or smells.

Perceived quality: It refers to individuals' subjective assessments of product or service attributes.

Quality control is applied during two different phases of production process.

Phase 1: Inspection of raw material and semi finished products.

Phase II: Inspection of finished products.

For phase I, Statistical Quality control technique is applied and in phase II, inspection control technique is used.

Statistical Quality Control: it is a term used to describe set of statistical tools used by quality professionals. They can be divided into three categories:

- **Descriptive statistics**: these are used to describe quality characteristics and relationships. These include calculating mean, standard deviations and measuring distribution of data.
- **Statistical process control** (SPC) involves inspecting a random sample of the output from a process and deciding whether the process is producing products with characteristics that fall within a predetermined range. SPC answers the question of whether the process is functioning properly or not.
- **Acceptance sampling** is the process of randomly inspecting a sample of goods and deciding whether to accept the entire lot based on the results. Acceptance sampling determines whether a batch of goods should be accepted or rejected. Acceptance sampling is performed before or after the process, rather than during the process. Acceptance sampling before the process involves sampling materials received from a supplier, such as randomly inspecting crates of fruit that will be used in a restaurant, boxes of glass dishes that will be sold in a department store, or metal castings that will be used in a machine shop. Sampling after the process involves sampling finished items that are to be shipped either to a customer or to a distribution centre. Examples include randomly testing a certain number of computers from a batch to make sure they meet operational requirements, and randomly inspecting snowboards to make sure that they are not defective.

All three of these statistical quality control categories are helpful in measuring and evaluating the quality of products or services. However, statistical process control (SPC) tools are used most frequently because they identify quality problems during the production process.

Inspection Control: Inspection control is applied at the stage of raw material as well as at the stage of finished products. Inspection is made by comparing the quality of product to the standard or specification, by means of visual or testing examination. Procedures like segregating acceptable and unacceptable products are also adopted. It is very difficult to apply this technique on each and every product. It can be very time consuming and tedious exercise. Therefore at the random, samples are drawn from the selected lot and verified for the conformation to quality standards.

Check your Progress III

Note: Use the space given below for your answers

1) How is operating control different from financial control?

2) How is an internal audit conducted?

3) What is the need of a quality control in an organization?

14.3.2 Quality control through quality circles: Quality efforts typically make use of quality circles or employee involvement teams, in addition to statistical aids .A quality circle (QC) is a small group of employees who meet periodically to solve quality problems related to their work. Participation is usually voluntary, although there may be considerable organizational and peer pressure to become involved. Often, members are trained in problem solving, data gathering, and statistical methods that help them with their innovative quality improvements efforts. These are small groups of employees who work on solving specific problems related to quality and productivity, often with targets for improvement. A number of companies are moving toward a second generation of quality circles, often called employees involvement teams, which use a more structured approach to quality innovations.

Structure of Quality Circle: A quality circle is a small, voluntary group of employees and their supervisor, comprising a team of about 8 to 10 members from the same work area or department. Quality circle encourages the involvement of employees in maintaining the desired quality; influencing their attitudes towards quality. Quality circles consist of a leader or coordinator, facilitator and members.

Leader or coordinator

The leader or coordinator is chosen from amongst the circle members by consensus. He could be the natural hierarchical supervisor or in charge or any other member. Ideally, he should be a person who can get along well with the team members and also command their respect for his ability to guide them during various stages of problem solving.

Responsibilities and functions of the leader / coordinator

- To prepare an agenda before each meeting.
- To ensure active participation of all members
- To record the attendance of the group members and the ideas generated in the meeting in the format.
- To interact with shop management for providing facilities for holding meetings.
- To assign specific responsibilities to members like data collection, analysis, record keeping etc.
- To interact with higher authorities for providing resources for implementation of the group recommendations.

Facilitator

Facilitators are middle level executives. They act as catalyst or change agents. The future of quality circle in the organization depends upon their dedication, commitment and leadership.

Functions of Facilitator:

- To attend proceedings of quality circle as an observer.

- Arranging training of leaders and members of quality circle.
- Coordinating and monitoring the progress of all quality circles in their areas/ shops.
- Motivating the employees from their areas to form quality circles
- Mobilizing resources for implementation of accepted quality circle solutions.
- Helping in the case presentation during meetings.

During meetings, they should help the leader in developing a group culture to achieve meaningful discussions. They have to speedily tackle and diffuse the ruble situations arising during discussions, these situations may be of the following nature:

- Arrangements or lack of consensus.
- Derogatory remarks about the programme or any member.
- Leader dominance or dominance by any participant.
- Non-participation by one or more members.

Objectives of Quality Circle

It encourages employee participation as well as promotes teamwork. Thus these motivates people to contribute towards organizational effectiveness through group processes. Quality circles have following objectives:

1. To contribute towards the improvement and development of the organization or a department.
2. To overcome the barriers that may exist within the existing organizational structure so as to promote an open exchange of ideas.
3. To develop a positive attitude and a feeling of involvement in the decision making processes of the services offered.
4. To respect humanity and to build a happy work place worthwhile to work.
5. To display human capabilities totally and in a long run to draw out the infinite possibilities.
6. To improve the quality of products and services.
7. To improve competence, this is one of the goals of all organizations.
8. To reduce cost and redundant efforts in the long run.

Working of Quality Circles

The working of Quality Circle involves the following sequential steps:

1. Identification of a problem: The members of the Circle are supposed to identify the problems that are to be solved.
2. Selection of the problem: The members then decide the preferences and select the problem of top priority.
3. Analysis of the problem: The selected problem is then classified and analyzed by basic problem solving techniques like brain storming and Pareto analysis etc.
4. Generating alternative solutions: Identifying various causes helps to generate various alternative solutions.
5. Select the most appropriate solution: The most appropriate and suitable solution is selected after analysis of various possible solutions in terms cost, feasibility and possibility of implementation.
6. Preparation of action plan: when solution is finalized, the members prepare plan of action so as to implement the solution .this includes area of implementation, cost involved, resources required, date and time etc.
7. Approval of the Management: The chosen solution and the plan of action is put forward before the management for their approval.
8. Implementation: The management evaluates the solution and examines the same before implementation. The management may consider a pilot run also of recommended solution. If outcomes are as expected, the solution is approved and permission for its implementation is granted.

Quality Circles are successful when they

- □ are part of an entire system focusing on organizational improvement which includes strong management commitment;
- □ are supported by other Quality Circles in other departments of the organization;
- □ have employee input;
- □ are part of a long-term plan for continuous improvement;
- □ are supported through education for employees and subcontractors;
- □ have a strong customer orientation.

Limitations of quality circles:

In spite of varied advantages, quality circles may suffer from following limitations:

1. Lack of right type of attitude among managers and workers can dilute the purpose of quality circles.
2. There is problem of organizing quality circles in Indian context because of low profile of workers due to lack of education and leadership skills among them.
3. Delay in implementation of suggestion given by quality circle may affect the operations which may lead to lesser efficiency than expected.
4. Non members of quality circle may pose problems in the smooth functioning due to their indifferent attitude towards qcs.
5. Due to operational problems, quality circle meeting may not take place regularly, or leader and facilitators could be pre occupied with some other assignment. This lowers the enthusiasm of workers.
6. Sometimes members may waste away their time in gossip sessions rather than indulging in constructive and relevant sessions. This needs close supervision.

15.4 Let us sum up

Function of control is carried out with the help of certain tools and techniques. Some of these may be similar to that of planning but different in the mode of implementation. For example in planning, budgeting is used fort allocation of resources; in controlling it is used to evaluate the performance and calculate the deviations. The tools and techniques used in controlling function are known as control techniques/ control tools/ control aids. Control is exercised at different areas of organization. Broadly these areas can be divided into two distinct categories: Operational control and overall control. Operational control is exercised at different levels of operating units by concerned managers. Overall control is exercised by top management for the organization as a whole. Financial control is for those areas of business whose outcomes can be expressed in monetary terms. This control is exercised at operating as well as at overall organizational level. Techniques used are different for both levels. Budgeting is the formulation of plans for a given future period in financial / numerical terms. By stating plans in terms of numbers and breaking them into parts of an organization, budgets correlate planning and allow authority to be delegated without loss of control. Budgetary control is a process of comparing the actual results with the corresponding budget data in order to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of difference.

. Zero-base budgeting assumes that the previous year's budget is not a valid base from which to work. It forces department managers to thoroughly examine their operations and justify their departments activities based on their direct to the achievement of organizational goals. standard costing is a method of cost accounting in which standard costs are used in recording certain transactions and the actual costs are compared with the standard costs to find out the amount and reasons of variations from the standards. Break even investigation is done to determine the point at which revenue received equals the costs associated with receiving the revenue. The break-even point of a business is the level of output or sales at which the revenue received is exactly equal to the cost of making (or selling) that output. A responsibility centre is an organizational unit charged with a well-defined mission and headed by a manager accountable for the performance of the centre. Responsibility centers constitute the primary building blocks for management control. Role of internal audit is to provide independent assurance that an organization‘s risk management, governance and internal control processes are operating effectively. .A quality circle (QC) is a small group of employees who meet periodically to solve quality problems related to their work. Participation is usually voluntary, although there may be considerable organizational and peer pressure to become involved

15.5 Key Words

- Operating Control
- Financial Control
- Budget
- Break Even Analysis
- Quality
- Quality circle
- Responsibility centre
- Internal Audit

15.6 Short Answer Questions.

1. Discuss the types of budgets?
2. How does a responsibility centre functions?

3. Define a quality circle. What are its demerits?
4. What is acceptance sampling?

Long Answer Questions

1. Discuss the concept of quality circle in detail.
2. Discuss different types of budgets and process of budgeting. How does it differ from responsibility centre?
3. Write notes on (i) quality control (ii) Break even analysis
4. What is Zero based budgeting (zbb). Discuss merits and demerits of standards costing method.

15.7 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity

Alpha cements is the leader among comparable companies in the cement industry. Since its formation, it has progressed fast. The excellent performance of the company is mainly due to its managing director who is widely respected. The MD hired a management consultant to suggest ways and means of increasing the return on investment. The consultant made the following reports.

There are three ways to increase return of investment:

(a) Introduction of new varieties, improvement of the existing products and modification of price structure.

(b) Increase in prices, extension of credit facilities and reduction in investment on inventory.

(c) Reduce assets as also capital while maintaining current profits so that the rate of return on investment moves up.

Questions:

1. Analyze the case.

2. What set of alternative would appeal to you the most and why?

UNIT 15

INVENTORY AND OVERALL CONTROL TECHNIQUES

Structure

10.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Difference between operational and overall control
- Various techniques used for inventory control.
- Techniques of Overall Control; their advantages and limitations.

15.1 INTRODUCTION

In previous UNIT, we have discussed different techniques of operational control. In this UNIT we shall learn about Inventory control, another operational control technique. Operational control is partial. As it is clear by now that there are two categories of controls: operational control (applicable at lower levels and in sub units of organization), and overall control techniques (applicable on the organization as a whole). Top management is more interested in total organizational controls: financial as well as non financial. Various other techniques like financial ratio analysis return on investment, management audit, human resource accounting and information systems. Financial ratio analysis is technique for direct control. Other techniques are for in direct control. This UNIT shall highlight all these techniques.

15.2 INVENTORY CONTROL

Inventory refers to the goods or materials that are available for use by a business. Inventory control serves a number of important purposes in organizations and involves a number of significant costs.

There are three major types of inventory: raw materials, work in process, and finished goods.

Raw materials inventory is the stock of parts, ingredients, and other basic inputs to a production or services process.

Work-in-process inventory is the stock of items currently being transformed into a final product or service.

Finished-goods inventory is the stock of items that have been produced and are awaiting sale or transit to a customer.

The major advantages of inventory are:

- Inventory helps deal with uncertainties in supply and demand;
- Inventory facilitates more economic purchases, since it sometimes is more economical to purchase large amounts of materials at one time;
- Inventory is a useful means of dealing with anticipated changes in demand or supply, such as seasonal fluctuations or an expected shortage.

Various inventory control methods are the discussed below:

15.2.1. ABC analysis

The ABC classification process is an analysis of a range of objects, such as finished products, items lying in inventory or customers into three categories. It's a system of categorizing the inventory into three groups A, B, C; hence the name ABC analysis.

- Group A : Outstandingly important inventory; high in value but less in quantity;
- Group B : inventory of average importance; average value and average in quantity;
- Group C: relatively unimportant inventory; low value but with maximum quantity.

Each category is handled in a different way, with more attention being devoted to category A, less to B, and still less to C.

Table 15.1 Classification of inventory

Group	**No of items (%)**	**Inventory value (%)**
A	**15**	**70**
B	**30**	**20**
C	**55**	**10**
Total	**100**	**100**

Popularly known as the "80/20" rule, ABC concept is applied to inventory management as a rule-of-thumb. It says that about 80% of the Rupee value, consumption wise, of an inventory remains in about 20% of the items. i.e. 10-20% of the items (**'A' class**) account for 70-80% of the consumption; the next 15-25% (**'B' class**) account for 10-20% of the consumption and the balance 65-75% (**'C' class**) account for 5-10% of the consumption

15.2.2 Economic Order Quantity (EOQ): The economic order quantity (EOQ) is a procedure for balancing ordering costs and carrying costs so as to minimize total inventory costs.

- **Ordering costs** are administrative, clerical, and other expenses incurred initially while obtaining inventory items and placing them in storage.
- **Carrying, or holding costs** are the expenses associated with keeping an item on hand (such as storage, insurance, pilferage, breakage).
- **Stock out or opportunity costs** include the loss of customer goodwill and possibly sales because an item requested by customers is not available.

In order to determine the **EOQ**, following formula is used that includes annual demand (D), ordering costs (O), and carrying costs (C). The basic equation for EOQ is presented below:

$$\textbf{EOQ} = \sqrt{\frac{\textbf{2 x Annual Demand x Ordering Cost}}{\textbf{Carrying Cost}}}$$

The EOQ equation helps managers decide how much to order. However, managers also need to determine the reorder point (ROP), the inventory level at which a new order should be placed. To determine the reorder point, managers estimate lead time (L), the time between placing an order and receiving it. To calculate for ROP, lead time is multiplied be average daily demand:

The EOQ model the simplest to develop. The sophistication level of the model depends on the actual need of the company and demands of the environment. This model however suffers from certain limitation;

1. It is assumed in this model that time taken by supplier is always uniform. It is not always valid.
2. Likewise, it is assumed that consumption of raw material is uniform throughout. This too is invalid as it ignores seasonal fluctuations.
3. It is difficult to calculate safety material accurately. Safety material is buffer stock which is kept ready to continue the operations uninterruptedly.

15.2.3 CPM/PERT

Program Evaluation and Review Technique (PERT) and the Critical Path Method (CPM) are two popular quantitative analysis techniques that help managers plan, schedule, monitor, and control large and complex projects.

U.S. Navy had first introduced PERT on the Polaris missile project in 1958. PERT was extensively acclaimed for helping to reduce the time for the completion of the missile's engineering and development programs by two years. In the same year, *Du Pont*, created a similar network planning model called the Critical Path Method (CPM). There are six steps common to both PERT and CPM:

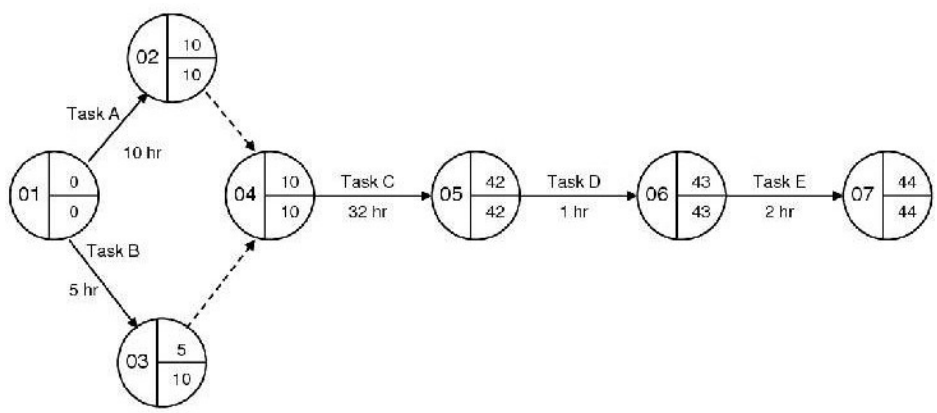
1. Define the project and all of its significant activities or tasks.
2. Develop the relationships among the activities. Decide which activities must precede and follow others.
3. Draw the network connecting all of the activities.
4. Assign time and/or cost estimates to each activity.
5. Compute the longest time path through the network; this is called the critical path.
6. Use the network to help plan, schedule, monitor, and control the project.

Finding the critical path is a major part of controlling a project.

Although PERT and CPM are similar in their basic approach, but they differ in the modes of time estimation for activities. PERT is a probabilistic technique: it allows people to find the probability of the duration by which the entire project will be completed by any given data. CPM is a deterministic approach. It uses two time estimates, the normal time (the time the project will take to complete under normal conditions) and the crash time (the shortest time it would take to finish an activity if additional funds and resources were allocated to the task) for each activity.

PERT networks are developed around two key concepts: activities and events. An activity represents a task or subproject that uses time or resources. It is represented by an arrow. An event is an indication of the beginning and /or ending of activities in the network. It is denoted by a circle, which contains a number that helps identify its location.

Fig. 15.1 PERT



In constructing a PERT network, manager must first develop a list of the major activities that are involved in the project and then determine which activities must precede others. The next step is constructing a network diagram which shows a graphic depiction of the interrelationship among activities. Developing the diagram may also include providing initial time estimates for the duration of each activity. Providing activity time estimates is not always an easy task. For this reason, the developers of PERT employed a probability distribution based on three time estimates for each activity: optimistic time (a), most likely time (m), and pessimistic time (b).
Nowadays, various softwares are used to facilitate tasks. PERT is especially useful for planning and controlling large projects, particularly if there are uncertainties about activity durations and/ or trade-offs between resource usage and projects completion times.

The critical path method (CPM) is also a step-by-step technique for process planning that defines critical and non-critical tasks with the goal of preventing time-frame problems and process bottlenecks. It is ideally suited to projects consisting of numerous activities that interact in a complex manner. In designing the CPM the required tasks are defined and arranged in a sequence; flowchart depicting the relationship of tasks is designed; critical and non critical paths among tasks are identified; expected completion time through various paths is calculated and most critical path is chosen.

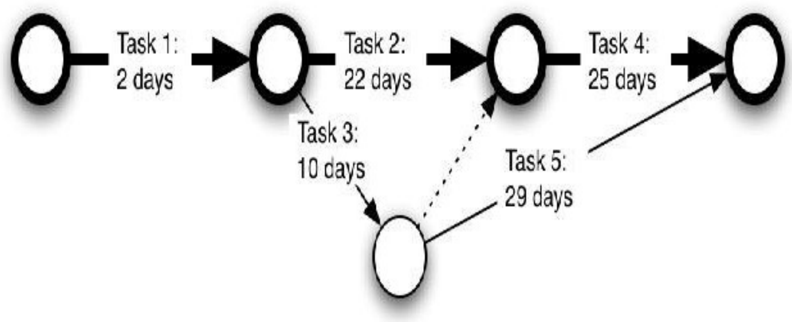


Fig 15.2 Critical Path Method

Both, CPM and PERT and similar in nature. PERT is derived from CPM and takes more skeptical view of the situation.

Check your Progress I

Note: Use the space given below for your answers

1) Define _Critical Path Method‘.

____

____

____

____

____

____

____

2) What is 80-20 principle?

____

____

____

3) Describe significance of ABC analysis.

15.3 OVERALL CONTROL TECHNIQUES

15.3.1 FINANCIAL RATIO ANALYSIS

A financial ratio can be defined as a comparative magnitude of two selected statistical values taken from the financial statements of a business enterprise. Being used in accounting very often, numerous standard ratios are used for evaluation of the overall financial condition of an organization or corporation. Ratio analysis is a useful management tool that provides key indicators of organizational performance. Managers use ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed. Creditors may use ratio analysis to measure organization‘s results against other organizations or make judgments concerning management effectiveness and mission impact. These financial ratios are also used by security analysts to contrast the strengths and weaknesses of various companies. The main sources used to calculate financial ratio include balance sheet, cash flow statement, income statement, and the statement of retained earnings. The data of these sources is based on the accounting methods and standards used by the organization. Financial ratios are, helpful in measuring numerous aspects of a business and form a vital part of the financial analysis. The financial ratios help in comparisons between companies, industries, between different time spans for a single company, and between a company and its industry average. These ratios can be categorized as follows:

- **Liquidity ratios** are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. If the value is greater than 1, it means the short term obligations are fully covered. Generally, the higher the liquidity ratios are, the higher the margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties.

- **Profitability ratios** measure a company's ability to generate earnings, profits and cash flows relative to sales, assets and equity. These ratios highlight how effectively the profitability of a company is being managed. Different profitability ratios provide different useful insights into the financial health and performance of a company. For example, gross profit and net profit ratios informs how well the company is managing its expenses. Return on capital employed (ROCE) conveys how well the company is using capital employed to generate returns. Return on investment tells whether the company is generating enough profits for its shareholders.

  For most of these ratios, a higher value is desirable. A higher value means that the company is doing well and it is good at generating profits, revenues and cash flows. Profitability ratios are of little value in isolation. They give meaningful information only when they are analyzed in comparison to competitors or compared to the ratios in previous periods. Therefore, trend analysis and industry analysis is required to draw meaningful conclusions about the profitability of a company.

- **Leverage ratios** are used to determine about the companies' financing methods, or the ability to meet the obligations. There are many ratios to calculate leverage but the important factors include debt, interest expenses, equity and assets.

  The most important leverage ratio is the debt to equity ratio that gives you an idea about the debt one company is in and the equity it has at its disposal. Leverage ratios also determine the company's cost mix and its effects on the operating income. Companies with high fixed cost earn more income because after the breakeven point, with the increase in output the income increases as the cost has already been incurred. On the other hand a company with higher variable cost seems to earn little operating income because with the increase in output the variable cost increases too. Leverage ratios also tend to find the debt a company has on its balance sheet or its financial health.

The leverage ratios are very important for the company's internal as well as external users. These ratios help to identify the weak areas of the company internally and help the share holders make a judgment about their investments.

- **Activity ratios** (also referred to as operating ratios or management ratios), measure the efficiency with which a company uses its assets, such as inventories, accounts receivable, and fixed (or capital) assets. The more commonly used operating ratios are the average collection period, the inventory turnover (this ratio explains the number of times the inventory is replaced during the year and shows how well inventory has been managed), the receivable turnover ratio (this ratio shows how well the organization is able to collect its dues from its debtors), and the total assets turnover (this ratio indicates how well the assets have been used to generate sales).

15.3.2. CONTROL THROUGH RETURN ON INVESTMENT

Also called ROI, the return-on-investment approach has been the core of the control system of the Du Pont Company since 1919. This approach recognizes the fundamental fact that capital is a critical factor in every enterprise and, through its paucity, restrictions develop. It also emphasizes that the job of managers is to make the best possible use of assets entrusted to them. This is one of the most successfully used control techniques which involve measuring both the absolute and the relative success of a company or a company unit by the ratio of earnings to investment of capital.

Return on investment involves consideration of several factors. Return is computed on the basis of capital turnover (total sales divided by capital, or total investment), multiplied by earnings as a percentage of sales. This formula comprehends that a division with a high capital turnover and low percentage of earnings to sales may be more profitable in terms of return on investment than another with a high percentage of profits to sales but with low capital turnover. This standard is the rate of return that a company or a division can earn on the capital allocated to it. This tool, therefore, regards profit not as an absolute but as a return on capital employed in the business. This approach thus views; goal of a business, not necessarily as optimizing profits but as optimizing returns from capital devoted to business purposes. This system measures effectiveness in the use of capital. Investment includes not only the permanent plant facilities but also the working capital of the unit. In the Du Pont system, investment and working capital represent amounts invested without reduction for liabilities or reserves, on the ground that such a reduction would result in a fluctuation in operating, investments as reserves or liabilities change, which would distort the rate of return and render less meaningful. Earnings are, however, calculated after normal depreciation charges, on the basis that true profits are not earned until allowance is made for the write-off of depreciable assets.

Analysis of variations in rate of return leads into every financial aspect of the business. Rate of return is the common denominator used in comparing divisions, and differences can easily be traced to their causes. A large number of companies has adopted it as their key measure of overall performance.

Nevertheless, other companies have taken the position that the return on investment should be calculated on fixed assets less depreciation. Such companies maintain that the depreciation reserve represents a write-off the initial investment and that funds made available through such charges are reinvested in other fixed assets or used as working capital. This argument appears more realistic to operating people, partly because it places a heavier rate-of-return burden on new fixed assets than on worn or obsolete ones.

ROI, an integral part of productivity and efficiency accounting offers following advantages:

- This technique provides a sound basis for intra organizational comparison. This comparison can be made among different divisions, departments or even products. It also places high value on effective and efficient use of organizational resources.
- This approach provides success to budgetary planning and control by putting restraint on managers‘ demands for higher allocation of resources for their respective departments even if these are actually not needed.
- This system helps in decentralization of authority in the organization. Every in charge of a department is responsible for earning rate of return. These in charges also enjoy certain level of autonomy. This system keeps them motivated and also increases their accountability.
- This system reflects rate of return for the whole organization. And rate of return reflects the organizational objectives. If this ROI is adequate, other control systems (budgetary, cost, ratios etc.) can be taken as satisfactory.

But ROI technique suffers from certain limitations too:

- ROI is associated with fixation of standard rate of return against the actual rate. Quantification of standard rate of return is usually not clear.
- In ROI approach, valuation of investment needs to be done. But it does not give clues to at what cost the assets should be valued; at original cost, depreciation cost or replacement cost.
- If ROI lacks flexibility, it hampers diversification. This is because ROI is determined by risk: higher the risk, higher the ROI.
- Many times, to show higher ROI, expenditures on important functions like R & D, which provide higher returns in the long term, are curtailed. This practice is lethal in the long run.
- Like other financial control measures, ROI can lead to excessive emphasis on financial factors. This skews good results of the other parameters of organizations.

15.3.3 MANAGEMENT AUDIT

Management audit involves systematically examining analyzing and evaluating the overall performance of an organization's management's team. Management audits can be performed by outside consultants or by an organization's own internal audit staff. Management audit is an evaluation of management as a whole. It is an independent and critical examination of the entire management process. Thus it examines the total managerial process of planning, organizing, staffing, directing and controlling. Company‘s plans, objectives, policies, procedures, organization, systems of control, personal relations are measured to evaluate the management achievements. Management audit is concerned with the past and present situations and necessarily be done by the expertise with positive outlook to advice the top management for necessary adjustments in order to make the organization more effective. Management audit can pose certain problems as it is a new control device. Basic areas of concern are its scope and procedure, people who should conduct it, the characteristics and qualifications of these people, and the persons to whom the audit reports should be submitted. In spite of various difficulties involved in its operation, management audit provides the way to measure the effectiveness of the management as a whole. It can act as a very important and effective control tool, provided the problems involved in it are overcome.

Check your Progress II

Note: Use the space given below for your answers

1) Define _Management Audit‘.

____

____

____

____

____

____

____

2) What does profitability ratio convey?

____

____

____

____

____

____

3) Describe ROI as a control measure.

____

____

____

____

____

____

15.3.4 HUMAN RESOURCE ACCOUNTING (HRA)

Human Resource Accounting is the systematic recording of the transactions relating to the value of human resources. According to American Accounting Association, ―HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties.‖ The importance of people in the organization as productive resource used to be conspicuously ignored by the management, but now-a-days it has received increasing attention and widespread interest in developing the system of HRA. It is an effective tool for decision-making. Human resource accounting is based on following postulates:

People are valuable resources of an enterprise.

The usefulness of manpower as an organizational resource is determined by the way in which it is managed and

Information on investment and value of human resource is useful for decision making in the enterprise.

Objectives of Human Resource Accounting

HRA helps in developing financial assessments for the people within the organization. It aims to facilitate effective management of human resources by providing information to acquire, develop, retain, utilize and evaluate human resources. However, the specific objectives of HRA are listed as under:

- □ To support the management in taking suitable decisions regarding investment on human resources;
- □ To provide information to all people concerned regarding the earning potential of human resources of the organization;
- □ To assess efficiency of human resources in obtaining productivity and profitability;
- □ To provide comparative information regarding costs and benefits associated with investment in human assets.

It is an attempt to identify and report investments made in the human resources of the organization that are not presently accounted for under conventional accounting practice. it is in fact an information system that informs the management about the changes that over time are happening to the human resources of the organization.

Methods of valuation of Human Resources

There are many methods of calculating value of human assets. Some of these are discussed below:

Historical or Acquisition Cost Model This model was developed by Rinses Likert in 1967.

This model involves capitalization of the actual cost incurred on recruiting, selecting, hiring, training and developing the human resources of the organization. The sum of all these costs for all the employees of the organization represents the value of the human resources of the organization. This value is amortized over the expected length of service of individual employees. The unexpired cost is considered to be the investment in human resources. If an employee leaves the organization due to resignation, death, dismissal etc., whole of the amount not written off is charged to the current revenue.

The total cost of the investment includes expenses associated with recruitment, selection, training, placement, orientation and development.

This method simply capitalizes human resource costs and does not seek to value people. It is similar to the approach followed when valuing fixed assets and writing off their cost over their useful life. The cost is capitalized, not being charged against current income and a deferred taxation charge is made on the imaginary increase in profit. This method is simple but does not reflect true value of human assets. For example a senior and experienced employee does not require much training, thus his value may appear low as per historical cost method. But in reality his value is much more.

Replacement Cost Model

Replacement cost takes into account the notional cost that may be required to acquire a new employee to replace the present one. Replacement cost is calculated by taking into account different types of expenses which may be in the form of acquisition and learning cost. Replacement cost is much higher that historical cost. Friedman suggested that replacement cost of a middle management executive is about 1.5 to 2 times the current salary being paid to him. Replacement cost in spite of posing operational problems, is much better indicator of value of human asset.

Standard cost: Instead of using historical and replacement cost, many companies use standard cost approach just as it is used for physical and financial assets. In this method, all employees of the organization are divided into different groups based upon their hierarchical positions. Standard cost is fixed for each group, and the value of each employee is calculated. This method is simple but fails to acknowledge differences of employees placed in same group. Most of the time, these differences are quite vital.

Present value of future earnings (PVFE): in this method future earning of all employees up to their age of retirement are calculated and are discounted at pre determined rate to obtain the present value of these earnings. This method is similar to PVFE used in case of financial assets. But this method fails to provide correct value of human assets as it does not measure their contribution towards achieving organizational effectiveness.

Expected realizable value: All method discussed above, fail to reflect the true value of human assets. Expected realizable value method is based upon the assumption that there is no direct relationship between cost incurred on an individual and his value to the organization at a particular point of time. An individual value here can be defined as present worth of set of future services that he is expected to provide during the period of his stay in the organization. There are two variables regarding expected individuals realizable value: (i) individual conditional values and (ii) his likelihood of remaining in the organization. The first one is the function of the individuals' abilities and activation level and the second is their function of factors like job satisfaction, commitment, motivation etc.

Importance of human resource accounting

HRA as a managerial tool can be used for effective management of human resources.

1. In the field of managerial decision-making, the human resource data as part of management information system helps in making meaningful choices between various types of human investments and investments in other assets.
2. By measuring the value of human resources at different points of time, HRA can reveal whether the management is building up human resources or depleting them.
3. The information generated through HRA can help the management in formulating policies and programmes for the development of human resources. Such information can be of utmost help for making decisions in the following areas:
    - Man power planning.
    - Appraisal of human resource development programmes.
    - Identification of training needs.
    - Usefulness of cost reduction programmes in view of their possible impact on human relations.
    - Studying the impact of budgetary control on motivation and morale of employees.

- Facilitating allocation, conservation and reward of human resources.

Limitations of HRA

HRA sufferers from following limitations:

- There are no specific and clear cut guideline for _cost‘ and _value‘ of human resources of an organization.
- As the life human resources is uncertain, valuing them is unrealistic.
- HRA may lead to possibility of dehumanizing and manipulation in employees.
- The much needs empirical evidence is yet to be found to support the assumption that HRA as a managerial tool facilitates better and effective management of human resources.
- Human resources, unlike physical asserts are not capable of being owned, retained and utilized at the pleasure of the organization. Thus treating them as _asset‘ would not be appropriate.

Check your Progress III

Note: Use the space given below for your answers

1) Define _HRA‘.

____

____

____

____

____

____

____

2) What are limitations of HRA?

____

____

____

____

3) Describe *Expected realizable value approach* to HRA.

15.3.5 MANAGEMENT INFORMATION SYSTEM

Management information system (MIS) is a planned system of collecting, storing and disseminating data in the form of information needed to carry out the functions of management. Goals of an MIS are to implement the organizational structure and dynamics of the enterprise for the purpose of managing the organization in a better way and capturing the potential of the information system for competitive advantage. MIS is a scientific way of collecting; processing, storing and communicating information relating to the various activities of an organization to the various levels of management so as to facilitate executives in discharging their functions efficiently and run the organization in an efficient manner. an efficient management information system provides right information at the right time to facilitate managerial decision making. The need for management information system has come up because managerial decision making has become very complicated due to fast changing economic, political, social, and technological changes. Management assemble both quantitative as well qualitative information which can be used for analyzing the pros and cons of various alternative courses of actions before opting for the best course of action. Modern management functions are information oriented. Therefore, it is very difficult to manage effectively without an efficient management information system.

Needs / Objectives of MIS: There is dire need of MIS in an organization because information system aims to manage the complexity by providing information regarding following areas:

1. MIS helps in managerial decision making by providing all the relevant information. Availability of sufficient relevant information leads to better quality of decisions.
2. MIS is used to capture information from outside. Environment is dynamic and ever changing. Good MIS filters and provides relevant information to management very

efficiently, quickly and timely. This facilitates in planning function. It helps in control as planning can be modified and deviations can be handled as per the requirements of environment. This removes uncertainty and ensures returns in future. Thus it is a great tool for strategic planning.

3. MIS is very effective tool for managerial control. It collects the information from control areas, conducts comparison of actual performance with the standard performance, and calculates deviations which are brought to the notice of the management .the variances can be corrected by taking remedial steps. Effective MIS makes timely availability of all this information.
4. MIS reports from manufacturing departments give an idea about the performance of men, materials, machinery, money and management. These reports throw light on the utilization of resources employed in the organization.
5. MIS reports on production statistics regarding rejection, defective and spoilage and their effect on costs and quality of the products also facilitates tiumely remedial action.
6. MIS is helpful in controlling costs by giving information about idle time, labor turnover, wastages and losses and surplus capacity.

Working of MIS: MIS functions in following sequence:

1. **Capturing Data:** It starts with capturing contextual data, or operational information that will contribute in decision making from various internal and external sources of organization
2. **Processing Data:** The captured data is processed into information needed for planning, organizing, coordinating, directing and controlling functionalities at strategic, tactical and operational level. Processing data means:

- making calculations with the data
- sorting data
- classifying data and
- summarizing data

3. **Information Storage:** Information or processed data need selected on the basis of relevance to the organization's business needs to be stored for future use. It is stored in various software.

4. **Information Retrieval:** All the information stored is not required immediately. It is therefore stored for future use. The system should be able to retrieve this information from the storage as and when required by various users.
5. **Information Propagation:** Information or the finished product of the MIS should be circulated to its users periodically using the organizational network.

Characteristics of an effective MIS:

An effective MIS should have following characteristics:

1. It should be based on a long-term planning.
2. It should provide a holistic view of the dynamics and structure of the organization.
3. It should work as a complete and comprehensive system covering all interconnecting sub-systems within the organization.
4. It should be planned in a top-down way, as the decision makers. The management should actively take part and provide clear direction at the development stage of the MIS.
5. It should be based on need of strategic, operational and tactical information of managers of an organization.
6. It should also take care of exceptional situations by reporting such situations.
7. It should be able to make forecasts and estimates, and generate advanced information, thus providing a competitive advantage. Decision makers should be able to take actions on the basis of such predictions.
8. It should create linkage between all sub-systems within the organization, so that the decision makers can take the right decision based on integrated view.
9. It should allow easy flow of information through various sub-systems, thus avoiding redundancy and duplicity of data. It should simplify the operations with as much practicability as possible.
10. Although the MIS is an integrated, complete system, it should be made in such a flexible way that it could be easily split into smaller sub-systems as and when required.
11. A central database is the backbone of a well-built MIS.

15.4 Let us sum up

There are two categories of controls: operational control (applicable at lower levels and in sub units of organization), and overall control techniques (applicable on the organization as a whole). Top management is more interested in total organizational controls: financial as well as non financial. Various other techniques like financial ratio analysis return on investment, management audit, human resource accounting and information systems. Financial ratio analysis is technique for direct control. Other techniques are for in direct control. . Inventory control serves a number of important purposes in organizations and involves a number of significant costs. The ABC classification process is an analysis of a range of objects, such as finished products, items lying in inventory or customers into three categories. It's a system of categorizing the inventory into three groups A, B, C; hence the name ABC. The economic order quantity (EOQ) is a procedure for balancing ordering costs and carrying costs so as to minimize total inventory costs. Program Evaluation and Review Technique (PERT) and the Critical Path Method (CPM) are two popular quantitative analysis techniques that help managers plan, schedule, monitor, and control large and complex projects.

Ratio analysis is a useful management tool that provides key indicators of organizational performance. ROI is one of the most successfully used control techniques which involve measuring both the absolute and the relative success of a company or a company unit by the ratio of earnings to investment of capital. Management audit involves systematically examining analyzing and evaluating the overall performance of an organization's management's team. Human Resource Accounting is the systematic recording of the transactions relating to the value of human resources. Management information system (MIS) is a planned system of collecting, storing and disseminating data in the form of information needed to carry out the functions of management.

15.5 Key Words

- □ Inventory control
- □ ABC analysis
- □ CPM/ PERT
- □ Human Resource Accounting
- □ Management Audit
- □ Ratio Analysis

- MIS
- Return on Investment

15.6 Short Answer Questions.

1. Discuss the concept of CPM/ PERT?
2. What are the objectives of MIS?
3. How can ratio analysis be used as control tool? What are different ratios?
4. Write a note on management audit?

Long Answer Questions

1. What is an inventory control? Discuss its types.
2. What is human resource accounting? List various approaches, process, merits and demerits of this technique.
3. Explain ABC analysis. Discuss the concept of EOQ.
4. Write an essay on MIS.

15.7 Suggested Readings

- Prasad, LM (2010) *Principles and Practice of Management,* Sultan Chand & Sons, New Delhi
- Sharma, R.K. and Gupta, S. (2014) *Principles of Management*, Kalyani Publishers, New Delhi
- Tripathi, P.C. and Reddy, P.N. (2008) *Principles of Management*, TataMcGraw Hill Publishing Company Limited, fourth ed. New Delhi
- Koontz, H. and Weihrich (1990) *Essentials of Management*, fifth ed., McGraw-Hill Publishing Co. NY.

Activity 1

Briefly explain the traditional and modern techniques of control.

_

Activity 2

Distinguish between _PERT‘ and _CPM‘.

-

UNIT 16

MODERN MANAGEMENT TECHNIQUES

Structure

16.0 OBJECTIVES

After studying this UNIT, you should be able to understand the following:

- Modern techniques of management
- Mode of application of these techniques
- Relevance of these techniques in enhancing productivity, satisfaction and productivity

16.1 INTRODUCTION

Processes have an overwhelming presence in management. The term management itself comprises of various processes like planning, organizing, decision making, leading and controlling. All functional areas in an organization (marketing, human resource management, production, finance, research and development, operations and information management) operate on the basis of well established processes. These functional areas have multitude of processes including recruitment , selecting, budgeting, selling, manufacturing, inventory control, maintenance management, information processing etc. It has been always an interest of various thinkers to make these processes more effective. Due to development of technology and research done by innovative mind, many new techniques have been developed which makes management function more productive, efficient, time saving, almost defect free and hence more effective. The new techniques can be applied on varied managerial functions and if applied religiously, the outcomes of these techniques are substantially better than the earlier results. This chapter will highlight various such techniques. Some of these are applied at strategic level, some exclusively in manufacturing level and others at operational level in the organization.

16.2 BUSINESS PROCESS REENGINEERING

Business process reengineering (BPR) is the analysis and redesign of workflow within and between enterprises. BPR involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality. In Business Process Reengineering, companies start with a blank sheet of paper and rethink how existing processes can deliver more value to the customer. They typically adopt a new value system that places increased emphasis on customer needs. Companies reduce organizational layers and eliminate unproductive activities in two key areas. First, they redesign functional organizations into cross-functional teams. Second, they use technology to improve data dissemination and decision making.

How BPR works: Business Process Reengineering is a dramatic change initiative that functions through five major steps. Management should:

1. Refocus company values on customer needs
2. Redesign core processes, often using information technology to enable improvements
3. Reorganize a business into cross-functional teams with end-to-end responsibility for a process
4. Rethink basic organizational and people issues
5. Improve business processes across the organization

Steps to implement a BPR project: while implementing BPR, **t**he best way to take a top down approach, and not undertake any project in isolation. It implies the following:

- Starting analysis with mission statements that define the purpose of the organization and describe what sets it apart from others in its sector or industry.

- Producing vision statements which define where the organization is going, to provide a clear picture of the desired future position.
- Build these into a clear business strategy thereby deriving the project objectives.
- Defining significant behaviors that will enable the organization to achieve its' aims.
- Producing key performance measures to track progress.
- Relating efficiency improvements to the culture of the organization
- Finally, identifying initiatives that will improve performance.
- Once these building blocks are in place, the BPR exercise can begin.

Principles of BPR

Hammer and Champy have suggested seven principles of reengineering to streamline the work process and thereby achieve significant levels of improvement in quality, time management, and cost:

1. Organize around outcomes, not tasks.
2. Identify all the processes in an organization and prioritize them in order of redesign urgency.
3. Integrate information processing work into the real work that produces the information.
4. Treat geographically dispersed resources as though they were centralized.
5. Link parallel activities in the workflow instead of just integrating their results.
6. Put the decision point where the work is performed, and build control into the process.
7. Capture information once and at the source.

Three success factors are very essential for success of business process-reengineering project.

1. It is crucial to have executive management support.
2. It is important to have willing participation of all employees involved in the redesign. Employees involved in the change must see value in the need for change.
3. The project team responsible should be able to distinguish what processes are value-add and customer-focused and which are not.

Business process reengineering is mainly used for improve performance significantly on those key processes that impact customers.

- **Reduce costs and cycle time.** Business process reengineering reduces costs and cycle times by eliminating unproductive activities and the employees who perform them. It is sometimes refereed as **downsizing**. Reorganization by teams decreases the need for management layers, accelerates information flows, and eliminates the errors and rework caused by multiple handoffs.

- **Improve quality.** Business process reengineering improves quality by reducing the fragmentation of work and establishing clear ownership of processes. Workers gain responsibility for their output and can measure their performance based on prompt feedback.

16.3 BUSINESS PROCESS OUTSOURCING

Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace.

As far as function is concerned; BPO can be divided into two categories:

1. **Back office outsourcing**: The out sourcing of internal business functions such as billing or purchasing is called back office outsourcing;
2. **Front office outsourcing**: The out sourcing of customer-related services such as marketing or tech support is named as front office outsourcing.

Outsourcing to the third party can be done within or outside of the country. Based upon the country of outsourcing, BPO can be of three types:

1. **Onshore outsourcing**: BPO that is contracted within the company's own county is onshore outsourcing;
2. **Off shore outsourcing**: BPO that is contracted outside a company's own country is off shore outsourcing. Due to availability of educated employees and lower pay structure, India is a popular location for BPO activities among Western countries;
3. **Near shore outsourcing:** BPO that is contracted to a company's neighboring country is near shore outsourcing.

Off shoring is usually done either to reduce labor expenses; or to enter new markets, to tap talent currently unavailable domestically or to overcome regulations that prevent specific activities domestically.

India has emerged as the dominant player in off shoring, particularly in software work. Three factors have made this possible. First, in the 1970s the Indian government implemented regulations that commanded that all foreign ventures should have Indian majority ownership. Fearing government takeover, many large U.S. corporations, such as IBM, departed. India was left at its own in to fend for itself to maintain its technical infrastructures. This led to the creation of schools to train students in technology. Next came the revolution of Internet and massive telecommunications capacity, which enabled companies to get computer-based work done anywhere in the world, including India. Then in the year 2000, organizations hired service providers to update their legacy program code. Much of this work was handled in India, where i) English was commonly spoken, ;ii) large and highly trained population of software engineers was available and; iii) labor costs were much lower than in developed countries. Since then the companies have continued tapping the talents and skills (and cost savings) made available by Indian offshore service providers. Tata Consultancy Services (TCS), Infosys and Wipro are major off shore service providers in India.

Earlier, companies used to outsource simple processes like payroll. Gradually, it grew to include employee benefits management. Now a day‘s BPO has become very widespread and it encompasses a number of functions that are considered "non-core" to the primary business strategy. It is common for organizations to outsource financial and administration processes, accounting and payroll, human resources functions, call center and customer care service activities.

These outsourcing deals frequently involve multi-year contracts that can run into crores of rupees. The third party to whom outsourcing is done is called service provider and the company that outsources its functions to service provider is called the client company. The people performing the work internally for the client firm are transferred and become employees for the service provider. leading outsourcing service providers in the BPO fields (some of which are in the IT outsourcing business) are companies like IBM, Accenture, Hewitt Associates, Capgemini, Genpact, TCS, Wipro and Infosys.

BPO is often referred to as ITES (information technology-enabled services), since most business processes include some form of IT "enabled automation,‖ for these services to be performed. BPO is different from information technology (IT) outsourcing, which focuses on hiring a third-party company or service provider to do IT-related activities, such as application management and application development, data center operations, or testing and quality assurance.

The **process of outsourcing** takes place in four stages:

1. **Strategic thinking**: it is the first step that involves the brainwork done to develop the organization's philosophy about the role of outsourcing in its activities;
2. **Evaluation and selection**: in this step, evaluation of various functional areas is done from the angle of cost effectiveness and feasibility parameters. The area which is most cost effective and does not bring much change in the business objectives is selected as the most appropriate outsourcing project. After area of outsourcing is finalized, the work on location (be it offshore, onshore or near shore) begins and potential locations are analyzed. The process for choosing service providers also gets accomplished in this step.
3. **Contract development**: after location and service provider are finalized, the contract between both the parties is prepared. It involves legal implications and formalities, pricing issues and service level agreement (SLA) terms.
4. **Outsourcing management / governance**: this is a continuous activity that aims to refine the ongoing working relationship between the client and outsourcing service providers.

Outsourcing success depends on three factors:

1. Executive-level support in the client organization for the outsourcing mission;
2. Ample communication to affected employees;
3. The client's ability to manage its service providers.

The professionals in charge of the outsourcing work (on both the client and provider sides) should have a amalgamation of skills in areas as negotiation, communication, project management, the ability to understand the terms and conditions of the contracts and service level agreements (SLAs), and most importantly, the willingness to be flexible as business needs change.

The challenges of outsourcing become especially severe when the work is outsourced in a different country (off shored), due to language and cultural problems and different time zones.

Check your Progress I

Note: Use the space given below for your answers

1) Define ‗Business process reengineering'.

2) What is off shoring?

3) Describe advantages of off shoring.

16.4 BENCHMARKING

Benchmarking is the process of identifying "best practice" in relative to both products (including) and the processes by which those products are created and delivered. A more formal definition is "simply the systematic process of searching for best practices, innovative ideas and highly effective operating procedures that lead to superior performance‖ The search for "best practice" can take place both inside a particular industry, and also in other industries .

The objective of benchmarking is to understand and evaluate the current position of a business or organization in relation to "best practice" and to identify areas and means of performance improvement.

Benchmarking involves looking outward (outside a particular business, organisation, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the UNITs learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization or in key areas of the business environment.

The Benchmarking Process

Process of benchmarking involves four key steps:

- Understand in detail existing business processes
- Analyze the business processes of others
- Compare own business performance with that of others analyzed
- Implement the steps necessary to close the performance gap

Benchmarking should not be considered a one-off exercise. To be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.

Types of Benchmarking

There are a number of different types of benchmarking, as summarized below:

1. **Strategic Benchmarking:** it is done when businesses need to improve overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services and improving capabilities for dealing with changes in the external environment.
2. **Performance or Competitive Benchmarking:** it is done when company consider its position in relation to performance characteristics of key products and services. Here, benchmarking partners are drawn from the same sector. This type of analysis is often undertaken through trade associations or third parties to protect confidentiality.
3. **Process Benchmarking**: it focuses on improving specific critical processes and operations. Benchmarking partners are sought from best practice organizations that

perform similar work or deliver similar services. Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking often results in short term benefits.

4. **Functional Benchmarking:** Done when company look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.
5. **Internal Benchmarking:** It involves benchmarking businesses or operations from within the same organization (e.g. business units in different countries). The main advantages of internal benchmarking are that access to sensitive data and information is easier; standardized data is often readily available; and, usually less time and resources are needed.
6. **External Benchmarking:** It involves analyzing outside organizations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the "leading edge".
7. **International Benchmarking:** Best practitioners are identified and analyzed elsewhere in the world, perhaps because there may be too few benchmarking partners within the same country to produce valid results. Globalization and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement and the results may need careful analysis due to national differences

Benefits: Benchmarking offers following benefits:

1. Benchmarking brings out the newness and innovative ways of managing operations.
2. It is an effective team building tool.
3. It has increased general awareness of costs and performance of products and services in relation to those of competitor organizations.
4. It brings together all the divisions and helps to develop a common front for facing competition.
5. It highlights the importance of employee involvement and, as such, encourages recognition of individual/team efforts.

16.5 KAIZEN

Kaizen‖ refers to a Japanese word which means ―improvement‖. Kaizen is basically a continuous effort by each and every employee (from the CEO to field staff) to ensure improvement of all processes and systems of a particular organization. Kaizen works on the following basic principle.

―*Change is for good*

Kaizen means ―continuous improvement of processes and functions of an organization through change‖. In a layman‗s language, Kaizen brings continuous small improvements in the overall processes and eventually aims towards organization‗s success. Kaizen process aims at continuous improvement of processes not only in manufacturing sector but all other departments as well. Implementing Kaizen tools is not the responsibility of a single individual but involves every member who is directly associated with the organization. Every individual, irrespective of his/her designation or level in the hierarchy needs to contribute by incorporating small improvements and changes in the system.

Five S of Kaizen

―Five S‖ of Kaizen is a systematic approach which leads to foolproof systems, standard policies, rules and regulations to give rise to a healthy work culture at the organization. The process of Kaizen plays an important role in employee as well as customer satisfaction through small continuous changes and elimination of defects. Kaizen tools give rise to a well organized workplace which results in better productivity and yields better results. five S of Kaizen are::

SEIRI: SEIRI stands for *sort out*. According to Seiri, employees should sort out and organize things well by labeling the items as ―Necessary‖, ‖Critical‖, ‖Most Important‖, ―Not needed now‖, ―Useless‖ and so on. All useless stuff should be discarded. Keep aside what all is not needed at the moment. Items which are critical and most important should be kept at a safe place.

SEITION: Seition means to *organize*. Research says that employees waste half of their precious time searching for items and important documents. Every item should have its own space and must be kept at its place only.

SEISO: The word ―SEISO‖ means *shine the workplace*. The workplace ought to be kept clean. For this, the employees have to de clutter their work stations. Necessary documents should be kept in proper folders and files. Cabinets and drawers should be used to store different items.

SEIKETSU: SEIKETSU refers to *standardization*. Every organization needs to have certain standard rules and set policies to ensure superior quality.

SHITSUKE or Self Discipline : Employees need to respect organization‘s policies and adhere to rules and regulations. Self discipline is essential. Employees are expected to not to attend office in casuals, follow work procedures and not to forget to carry identity cards to work

Kaizen focuses on continuous small improvements and thus gives immediate results.

Check your Progress II

Note: Use the space given below for your answers

1) Define ‗Kaizen‖.

____

____

____

____

____

____

____

2) How does benchmarking different from kaizen?

____

____

____

____

____

____

3) Describe ‗process benchmarking‘.

____

____

____

____

____

____

16.6 SIX SIGMA

Six Sigma is a business management strategy which aims at improving the quality of processes by minimizing and eventually removing the errors and variations. The concept of Six Sigma was introduced by Motorola in 1986, but was popularized by Jack Welch who incorporated the strategy in his business processes at General Electric. Quality plays an important role in the success and failure of an organization. Six Sigma ensures superior quality of products by removing the defects in the processes and systems. Six sigma is a process which helps in improving the overall processes and systems by identifying and eventually removing the hurdles which might stop the organization to reach the levels of perfection. Organizations practicing Six Sigma create special levels for employees within the organization, called as: ‒Green belts‖, ‒Black belts‖ and so on. Individuals certified with any of these belts are often experts in six sigma process. According to Six Sigma *any process which does not lead to customer satisfaction is referred to as a defect and has to be eliminated from the system to ensure superior quality of products and services.* Every organization strives hard to maintain excellent quality of its brand and the process of six sigma ensures the same by removing various defects and errors which come in the way of customer satisfaction.

The process of Six Sigma originated in manufacturing processes but it is use in other functional areas as well. Proper budgets and resources need to be allocated for the implementation of Six Sigma in organizations.

Six Sigma is practiced with following two methods:

- DMAIC (it focuses on improving existing business practices);
- DMADV (focuses on creating new strategies and policies).

DMAIC Method

D - Define the Problem. In the first phase, various problems which need to be addressed are clearly defined. Feedbacks are taken from customers as to what they feel about a particular product or service. Feedbacks are carefully monitored to understand problem areas and their root causes.

M - Measure and find out the key points of the current process. Once the problem is identified, employees collect relevant data which would give an insight into current processes.

A - Analyze the data. The information collected in the second stage is thoroughly verified. The root cause of the defects are carefully studied and investigated as to find out how they are affecting the entire process.

I - Improve the current processes based on the research and analysis done in the previous stage. Efforts are made to create new projects which would ensure superior quality.

C - Control the processes so that they do not lead to defects.

DMADV Method

D - Design strategies and processes which ensure hundred percent customer satisfaction.

M - Measure and identify parameters that are important for quality.

A - Analyze and develop high level alternatives to ensure superior quality.

D - Design details and processes.

V - Verify various processes and finally implement the same.

Six Sigma is a methodology to achieve 3.4 defects per million opportunities. It can also be used to bring breakthrough improvements in the process. It focuses on the bottom-line and is a proven methodology for problem solving.

Goals of Six Sigma includes the following**:**

1. To reduce variation
2. To reduce defects /rework
3. To improve yield /productivity
4. To enhance customer satisfaction
5. To improve the bottom-line
6. To improve top-line
7. Shortening cycle-time

Six Sigma is a data-based methodology to improve performance by reducing variability. It requires thorough understanding of product and process knowledge and is completely driven by customer expectations. Main elements of Six Sigma are team work, personal discipline, improved morale and quality circles etc.

Sigma Level	**Number of defects per Million**
2 Sigma	308537

3 Sigma	66807
4 Sigma	6210
5 Sigma	233
6 Sigma	3.4

Table 16.1 Sigma level and number of defects per million

Table 16.1 shows the level of six sigma. As the level of six sigma goes up, the number of defects goes down, showing that as six sigma becomes part of organizations' way of business, the defects per million of products or services can be reduced remarkably.

Common myths pertaining to Six Sigma:

- **Not a tool for overnight transformations:** The Six Sigma effort takes a long time to take root and build. However any practitioner of Six Sigma knows this is nowhere near the truth. The reason this is misleading is because the true benefits of Six Sigma really sink in after the development of a Six Sigma culture. Thus, the companies that are planning to undertake Six Sigma programs must know that they this process is time consuming
- **Not Achieved by a Small Team:** Another fallacy on similar lines is to send a small team of management for a six sigma training and ensuring that the entire organization will be transformed into an embodiment of efficiency. While it is true that managers are the key pillars that drive the success of six sigma initiatives at any organization, they are not the only ones that are responsible for the results. Six Sigma is consciously cultivated at various levels of the organization. There should be a planned program to ensure that the Six Sigma mindset is being passed on from manager to subordinate all the way till the shop floor.
- **Training Does Not Guarantee Results:** There are many organizations that fall prey to consultants who sell them over-priced six sigma training for their employees. Training is an essential part of the Six Sigma transformation but Six Sigma needs side by side implementation experience. The correct way is to have trainings that are interspersed with application.

- **Not Achieved by Expensive Consultants:** Six Sigma is an internal initiative; consultants can be used to train a few people. However, it requires commitment from the senior management to ensure that the organization is adhering to a Six Sigma way of life.

16.7 JUST IN TIME (JIT)

Just-in-time manufacturing concept was first introduced by Ford motor company. It works on a demand-pull basis, contrary to until now used techniques, which worked on a production-push basis. under just-in-time manufacturing (also referred to as JIT production systems), actual orders dictate what should be manufactured, so that the exact quantity is produced at the exact time that is required. Just-in-time manufacturing goes hand in hand with concepts such as Kanban, continuous improvement and total quality management (TQM).

Just-in-time production requires intricate planning in terms of procurement policies and the manufacturing process if its implementation is to be a success. Highly advanced technological support systems provide the necessary back-up that Just-in-time manufacturing demands with production scheduling software and electronic data interchange being the most sought after.

Advantages of Just-In-Time Systems

Following are the numerous advantages of adopting Just-In-Time manufacturing Systems:

- Just-in-time manufacturing keeps stock holding costs to a bare minimum. The release of storage space results in better utilization of space and thus bears a favorable impact on the rent paid and on any insurance premiums that would otherwise be required.
- Just-in-time manufacturing eliminates waste, as out-of-date or expired products; do not enter into this equation at all.
- As under this technique, only essential stocks are obtained, therefore less working capital is required to finance procurement. In JIT, a minimum re-order level is set, and only once that mark is reached, fresh stocks are ordered making this a boon to inventory management.
- Due to the above mentioned low level of stocks held, the organizations‘ return on investment (referred to as ROI, in management parlance) would generally be high.
- As just-in-time production works on a demand-pull basis, all goods made would be sold, and thus it incorporates changes in demand with surprising ease. This makes it especially appealing nowadays, where the market demand is volatile and unpredictable.

- Just-in-time manufacturing encourages the 'right first time' concept, so that inspection costs and cost of rework is minimized.
- High quality products and greater efficiency can be derived from following a just-in-time production system.
- Close relationships are fostered along the production chain under a just-in-time manufacturing system.
- Constant communication with the customer results in high customer satisfaction.
- Overproduction is eliminated when just-in-time manufacturing is adopted.

Disadvantages of JIT

Following are the disadvantages of Adopting Just-In-Time Manufacturing Systems:

- Just-in-time manufacturing provides zero tolerance for mistakes, so it makes re-working very difficult in practice, as inventory is kept to a bare minimum.
- There is a high reliance on suppliers, whose performance is generally outside the purview of the manufacturer.
- Due to there being no buffers for delays, production downtime and line idling can occur which would bear a negative effect on finances and on the equilibrium of the production process.
- The organization would not be able to meet an unexpected increase in orders due to the fact that there are no excess finish goods.
- Transaction costs would be relatively high as frequent transactions would be made.
- Just-in-time manufacturing may have certain detrimental effects on the environment due to the frequent deliveries that would result in increased use of transportation, which in turn would consume more fossil fuels.

Prerequisites for successful JIT system

Following are the prerequisites when implementing a Just-In-Time Manufacturing System:

- Management support at all levels of the organization is required; if a just-in-time manufacturing system is to be successfully adopted.
- Adequate resources should be allocated, so as to obtain technologically advanced software that is generally required if a just-in-time system is to be a success.
- Building a close, trusting relationship with reputed and time-tested suppliers will minimize unexpected delays in the receipt of inventory.

- Just-in-time manufacturing cannot be adopted overnight. It requires commitment in terms of time and therefore adjustments to corporate culture would be required.
- The design flow process needs to be redesigned and layouts need to be re-formatted, so as to incorporate just-in-time manufacturing.
- Lot sizes need to be minimized.
- Workstation capacity should be balanced whenever possible.
- Preventive maintenance should be carried out, so as to minimize machine breakdowns.
- Set-up times should be reduced wherever possible.
- Quality enhancement programs should be adopted, so that total quality control practices can be adopted.
- Reduction in lead times and frequent deliveries should be incorporated.
- Motion waste should be minimized, so the incorporation of conveyor belts might prove to be a good idea when implementing a just-in-time manufacturing system.

Check your Progress III

Note: Use the space given below for your answers

1) What are advantages of JIT?

____

____

____

____

____

____

____

2) What are common beliefs associated with six sigma?

____

____

____

____

____

____

3) Differentiate the concept of JIT and Six Sigma.

16.8 KNOWLEDGE MANAGEMENT

Knowledge Management (KM) refers to a multi-disciplined approach to achieving organizational objectives by making the best use of knowledge. Knowledge management is an essential practice for enterprise organizations. Organizational knowledge adds long-term benefits to the organization in terms of finances, culture and people.

KM focuses on processes such as acquiring, creating and sharing knowledge and the cultural and technical foundations that support them. Knowledge Management may be viewed in terms of:

People: how to increase the ability of an individual in the organization to influence others with his knowledge.

Processes: Process varies from organization to organization. There is no limit on the number of processes

Technology: It needs to be chosen only after all the requirements of a knowledge management initiative have been established.

Or

Culture: The biggest enabler of successful knowledge-driven organizations is the establishment of a knowledge-focused culture

Structure: This includes business processes and organizational structures that facilitate knowledge sharing

Technology: It is a crucial enabler rather than the solution.

There have been many approaches to knowledge management from early days. Most of early approaches have been manual storing and analysis of information. With the introduction of computers, most organizational knowledge and management processes have been automated. Nowadays, most enterprises have their own knowledge management framework in place.

The Knowledge Management Process

The process of knowledge management is universal for any enterprise. Sometimes, the resources used, such as tools and techniques, can be unique to the organizational environment. The Knowledge Management process has six basic steps assisted by different tools and techniques. When these steps are followed sequentially, the data transforms into knowledge.

Knowledge capture/ creation: This is the most important step of the knowledge management process. In this step, relevant information is collected from external environment. Knowledge can be created internally also; this is expensive and time consuming process but if successful, can give remarkable results. Most of the organizations now use a software database application for purpose of data collection.

Organizing*:* The data collected needs to be organized. Data is logically arranged and related to one another for easy retrieval. When data passes step 2, it becomes information.

Summarizing: In this step, the information is summarized in order to take the essence of it. The lengthy information is presented in tabular or graphical format and stored appropriately. For summarizing, there are many tools that can be used such as software packages, charts (Pareto, cause-and-effect), and different techniques.

Analyzing: At this stage, the information is analyzed in order to find the relationships, redundancies and patterns. An expert or an expert team should be assigned for this purpose as the experience of the person/team plays a vital role. Usually, there are reports created after analysis of information.

Synthesizing: At this point, information becomes knowledge. The results of analysis (usually the reports) are combined together to derive various concepts and artifacts. A pattern of one entity can be applied to explain another, and collectively, the organization will have a set of knowledge elements that can be used across the organization. This knowledge is then stored in the organizational knowledge base for further use. Usually, the knowledge base is a software implementation that can be accessed from anywhere through the Internet.

Decision Making: At this stage, the knowledge is used for decision making. This accelerates the estimation process and adds high accuracy. This is how the organizational knowledge management adds value and saves money in the long run.

The Value of Knowledge Management

Some benefits of KM correlate directly to bottom-line savings, while others are more difficult to quantify. In today's information-driven economy, companies derive the most value from intellectual rather than physical assets. An effective KM program should help a company to achieve the following:

- □ Foster innovation by encouraging the free flow of ideas
- □ Improve decision making
- □ Improve customer service by streamlining response time
- □ Boost revenues by getting products and services to market faster
- □ Enhance employee retention rates by recognizing the value of employees' knowledge and rewarding them for it
- □ Streamline operations and reduce costs by eliminating redundant or unnecessary processes

16.9 TOTAL QUALITY MANAGEMENT

Total Quality management (TQM) is defined as a structured and continuous effort by management as well as employees to continuously improve the quality of their products and services through proper feedbacks and research to ensure long term customer loyalty and customer satisfaction. TQM is usually applied at the tactical, front-line level, where production, clerical, and low-level managers are deeply involved. There are a number of tools available to assist in a TQM effort, such as: benchmarking, failure analysis, plan-do-check-act (PCDA) cycle, process management, product design control, statistical process control etc.

TQM can be implemented successfully in any part of a business, such as:

- □ Accounting
- □ Finance
- □ Legal and administration
- □ Manufacturing
- □ Materials management

- Research and development
- Sales and marketing

In TQM, the processes and initiatives that produce products or services are thoroughly managed. By this way of managing, process variations are minimized, so the end product or the service will have a predictable quality level.

Principles of TQM

Following are the key principles used in TQM:

- **Top management**: The higher management is the driving force behind TQM as the higher management bears the responsibility of creating an environment to rollout TQM concepts and practices.
- **Training needs**: When a TQM rollout is due, all the employees of the company need to go through a proper cycle of training. Once the TQM implementation starts, the employees should go through regular trainings and certification process.
- **Customer orientation**: The quality improvements should ultimately target improving the customer satisfaction. For this, the company can conduct surveys and feedback forums for gathering customer satisfaction and feedback information.
- **Involvement of employees**: Pro-activeness of employees is the main contribution from the staff. The TQM environment should make sure that the employees who are proactive are rewarded appropriately.
- **Techniques and tools**: Use of techniques and tools suitable for the company is one of the main factors of TQM.
- **Corporate culture**: The corporate culture should be such that it facilitates the employees with the tools and techniques where the employees can work towards achieving higher quality.
- **Continues improvements**: TQM implementation is not a one time exercise. As long as the company practices TQM, the TQM process should be improved continuously.

Advantages of TQM

The advantages of total quality management (TQM) include:

1. **Cost reduction**: When applied consistently over time, TQM can reduce costs throughout an organization, especially in the areas of scrap, rework, field service, and warranty cost

reduction. Since these cost reductions flow straight through to bottom-line profits, there can be a startling increase in profitability.

2. **Customer satisfaction**: Since the company offers better products and services, and its interactions with customers are relatively error-free, there are fewer customer complaints. Fewer complaints may also mean that the resources devoted to customer service can be reduced.
3. **Defect reduction**: TQM has a strong emphasis on improving quality within a process, rather than inspecting quality into a process. This not only reduces the time needed to fix errors, but makes it less necessary to employ a team of quality assurance personnel.
4. **Morale**: The ongoing and proven success of TQM, and in particular the participation of employees in that success can lead to a noticeable improvement in employee morale, which in turn reduces employee turnover, and therefore reduces the cost of hiring and training new employees.

Disadvantages of TQM

1. TQM is a complex process. Its complexity exposes the organization to potential decision block and overall bureaucracy. Ideas that are worthy may get dumped in favor of greater incentives and better market penetration.
2. Improvement in a company's TQM can be at the cost of jobs and employment as technology plays an important role. This can have a devastating impact on various employees and also reduce the amount of goodwill. TQM has the capacity to replace jobs with technology therefore its ramifications must be considered
3. Focusing too much on the end result and customer satisfaction may sometimes cause a project to run into excess costs without any possible sign of returns. Moreover, it can result in the lack of confidence of the management in the shop floor workers and TQM experts. Also the cost of analyzing and implementing a TQM plan is suitable to only financially sound companies.
4. TQM also requires a significant training period for those employees involved in it. Since the training can take people away from their regular work, this can actually have a negative short-term effect on costs.
5. As TQM tends to result in a continuing series of incremental changes, it can generate an adverse reaction from those employees who prefer the current system.

TQM works best in an environment where it is strongly supported by management, it is implemented by employee teams, and there is a continual focus on process improvement that prevents errors from occurring.

16.10 Let us sum up

Processes have an overwhelming presence in management. Due to development of technology and research done by innovative mind, many new techniques have been developed which makes management function more productive, efficient, time saving, almost defect free and hence more effective. Outcomes of these techniques are substantially better than the earlier results. Various these techniques are ; Business process reengineering (BPR), Business Process Outsourcing (BPO); Benchmarking, Kaizen, Six Sigma, Knowledge Management, Just in Time and Total Quality management. Of these JIT and TQM are for manufacturing areas and the rest of the techniques are applicably on most of other functions (including manufacturing) in the organization. Only aim behind these techniques ids to make organization more effective.

16.11 Key words

- BPR
- BPO
- Benchmarking
- Kaizen
- Knowledge Management
- JIT
- TQM
- Six Sigma

16.12 Short Answer Questions

1. What are the uses of benchmarking?
2. How Kaizen helps in lowering costs?
3. What is BPO? Discuss its scenario in India?
4. Is knowledge management applicable to all types of organizations? How?

Long Answer Questions

1. Write notes on:

   TQM (ii) Knowledge management
2. (i) What do you mean by BPO? Discuss everything about it.

(ii) Discuss process, merits and demerits of TQM.

3. (i)Discuss Six Sigma approach.

   (ii) List types and benefits of benchmarking.

4. (i)What do you mean by JIT? What are its merits and demerits?

   (ii) Compare BPR with BPO.

ACTIVITY 1

What are the symptoms of an inadequate MIS design?

Activity 2

What is management information system?