



B.Com.

Third Year

Core Paper No. 12

PRINCIPLE OF MANAGEMENT

**BHARATHIAR UNIVERSITY
SCHOOL OF DISTANCE EDUCATION
COIMBATORE – 641 046**

(Syllabus)

Core Paper 12

B.Com. Principle of Management

Objectives : To make the students to understand the conceptual frame work of business management.

Unit – I

Nature and Scope of Management process – Management Science, Art – Development of Management – Scientific Management – Planning; The meaning and purpose of Planning – Steps in Planning – Types of Planning – Objectives and policies – Decision making; Process of Decision making – Types of Decision – Problems involved in Decision making.

Unit – II

Organization : Type of Organization – Organizational Structure – Span of Control – Delegation : Delegation and Decentralization – Line and Staff relationship.

Unit – III

Directing : Nature and Purpose of Directing – Controlling – Need for Controlling – Meaning and importance of Controls – Control process – Budgetary and Non-Budgetary Controls – Case studies.

Unit – IV

Staffing : Sources of Recruitment – Maslow's Theory of Motivation – Communication – Types and Channels of Communication.

Unit – V

Leadership – Functions and Type – X, Y and Z Theories – Qualities of a good Leader – Decision making – Traditional and Modern Techniques and Steps involved.

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UNIT-I

LESSON-1

NATURE AND SCOPE OF MANAGEMENT

CONTENTS

- 1.1 Meaning and Definition of Management
- 1.2 Nature of Management
- 1.3 Management as an Art
- 1.4 Management as an Science
- 1.5 Management as a Profession
- 1.6 Importance of Management
- 1.7 Levels of Management
- 1.8 Review Questions
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1.1 MEANING AND DEFINITION OF MANAGEMENT

Management has been defined in various ways. Simply stated, “Management is the art of getting things done through others.” This is a very popular definition. It is very simple to understand. It reveals that a manager accomplishes objectives by guiding the efforts of other people. It also views management as an art or practice. This definition, however, suffers from the following limitations:

1. It overlooks the science side of management.
2. It fails to reveal the functions of management.
3. It treats people as mere means for achieving results.
4. It gives an impression that managers achieve results by hook or crook.
5. It does not state that management is possible only in a formal organization.

In the words of Koontz and O’Donnell, “Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively toward the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups”.

According to American Management Association, “Management is guiding human and physical resources into dynamic organizational units which attain their objectives to the satisfaction of those served and with a high degree of moral and sense of attainment on the part of those rendering service.” This definition puts a balanced focus on the goals of organization and those of its members.

1.2 NATURE OF MANAGEMENT

The study and application of management techniques in the organizations has transformed the nature of management. It may be described as :

1. A universal process:

It involves coordination of human and material resources toward accomplishment of organizational objectives. It is mental work concerned with thinking, feeling and intuiting. Like family, head of family identifies objectives, assemble resources supervise each family member etc., Basic activities are the same whether the organization is family, club, a trade union.

2. Purposive or goal-directed:

Based on value system and socio-cultural background of management as also environmental constraints, organization goals may be in areas of (a) profitability (b) market standing (c) productivity (d) innovation (e) financial and physical resources (f) social responsibility. This involves setting of standards, measuring performance, decision making regarding what level of performance is satisfactory and taking appropriate action to correct deviation.

3. An abstraction:

Management is only an idea. It is non-existent. It is an abstraction. It is concerned with efficient use of men, money, machines and materials. But one can only see the effect of management rather than Management itself. However, people in charge of management called managers are not abstraction and who have ability to lead others. They are catalytic agents who convert human and material resources into an effective system.

4. Multi-disciplinary:

During short time, important contributions have been made to the development of management theory and practice, such that it has acquired a separate discipline. However management having diverse characteristics, comprising many aspects of relevant disciplines, such as sociology, psychology, economics, political science etc., It is true that management does not draw on all these disciplines to same degree. Thus, researches in various disciplines provide a theoretical base for understanding management.

5. Dynamic principles:

Practitioners of management made important contributions to development of managerial theory and practice. However the principles of management are not rigid. They are flexible with any change in environment. For example, management theorists believed that workers would work only when there is a fear of wage cuts or dismissal. However researches have found that treating workers with due consideration could also motivate them to put in greater effort.

6. Relative principles:

Principles of management cannot be blindly applied to all situation. While application of principle in one situation may produce desired result, in a different situation produce different outcome.

7. Management as a system of authority:

To ensure that performance at all levels is at a satisfactory level, management is vested with authority to plan, organize, direction etc., this implies that managers hold positions which are superior in status to their subordinates. Such authority is not distributed evenly. Managers at top having higher authority than those below. It should be exercised properly. Unless there is proper balance between authority and responsibility, the organization may not succeed in achieving goals.

8. Management - a science of an art?

In fact management is both an art and a science.

9. Management – whether a profession?

Management has achieved the status of a profession.

10. Is Management a science or an art?

Mary Parker Follet defined management as an art but it does not command universal acceptance.

Luther Gullick described management as a science. It is necessary to test the correctness of each point to arrive at conclusion.

1.3 ANAGEMENT AS AN ART

An art may be defined as a skill or knowledge in a particular field of activity, or method of doing a thing. Numerous scientific techniques used in case of problems of a numeric quantitative nature, but relate to people, it is resolved by the following activities. This part of decision-making raises to the level of an art.

1. Past experience:

Experience is the sum total of knowledge, skill and practice derived from direct observation or participation in events. Only theoretical knowledge about principles of management may not equip the manager to tackle problems relating to working with groups of people. To guide his subordinates towards goals, he should be able to understand, predict and control their behavior and identify their individual goals with goals of the organization as a whole. This is done by direct observation and participation.

2. Common sense:

Sense implies a reliable ability to judge and decide with soundness, prudence and intelligence. Common sense suggests an average degree of such ability without any specialized knowledge. Only a manager with common sense could achieve his objectives of maximum productivity and profitability.

3. Managerial skills:

Functions of management include:

- a. Establishment of the overall purpose or policy of the organization.
- b. Planning and forecasting.
- c. Organization of work, allocation of duties and responsibilities.
- d. Giving instruction or orders.
- e. Checking performance according to plan; and
- f. Coordination of work of others.

However managerial skills don't mean automatic discharge of these functions. In fact, they point out the way of style in which these functions are discharged. The way in which manager influences others will depends on how successful he is in communicating with his subordinates and motivation them.

4. Human understanding:

The manager is one who exercises control over the use of resources. In this he has an opportunity to control other human beings i.e., his subordinates. He takes decision on behalf of others and forced to comply with the decision or to leave the organization. But such authority results in enforcement of strict rules and regulations which the employees are obliged to follow. This also has the effect of making their work monotonous and boring. Therefore it requires a great deal of creativity and imagination on the part of management and ensure for the employees increased pay packets, job security, status and self-confidence. This is possible only in case manager with deep understanding of human behavior. Management possesses all these components and can rightly be described as an art.

1.4 ANAGEMENT AS A SCIENCE

A science defined as “representing knowledge gathered by observation, critically tested and brought under general principles”. It is not a science such as biology, chemistry. Management as a science refers to application of scientific methods in decision making. Scientific decision making process works as follows:

1. Identification of the problem:

It involves correct recognition of a problem before attempting a solution. It relates to financing, dealing with production delays, ensuring supplier of raw materials etc., Even correct solution to wrong problem may serve no purpose and it may lead to undesirable consequences.

2. Scientific inquiry:

It seeks to examine and evaluate alternative courses of action to resolve a given problem, taking into factors relevant to problem.

3. Choice of the best available alternative:

After analyzing the problem, by using quantitative and non-quantitative techniques, taking into account resource position of business, best alternative is selected.

4. Rigorous control procedure:

If the decision is consistent with and derived from information processed, it is likely to be correct decision. But by introduction of a strict control procedure, the correctness will be checked.

5. Validity of principles:

Development of scientific management, methods and techniques are being increasingly applied to solve problems. It is equally common to develop mathematical and statistical models for the purpose.

Management is a field of knowledge that seeks to systematically understand why and how men work together to accomplish objectives and make cooperative efforts more useful to mankind. According to Luther Gullick, though theories are too general and subjective, cannot be exact as those relating to natural sciences, yet management is fast on its way to becoming a science.

1.5 MANAGEMENT AS A PROFESSION

If a profession is defined as a calling or occupation that serves others, than management may be said to be a profession. But if a profession is defined as vocation requiring specialized knowledge and long and intensive academic preparation such as profession of a doctor or lawyer etc, then management may not satisfy the description of profession.

1. Body of knowledge:

There is body of knowledge peculiar to study of management. It is multi-disciplinary because the subject depends on sociology, psychology, commerce etc., certain concepts of management have been developed and the is vast amount of technical information relating to specialized management areas such as production etc., To be a successful manager, familiar with these concepts is necessary.

2. Social obligation:

Like a doctor, manager is also engaged in serving society by using scarce resource socially useful.

3. License or degree:

No license or degree as such is required to become a manager. But people with knowledge and training in this field are preferred.

4. Code of conduct:

Managers have no code of conduct though Indian Management Association prescribed obligations such as disclosure of employer's trade secrets, obtaining any personal gain.

Management may not be regarded as profession in strict sense, it is fast acquiring attributes of becoming one.

1.6 IMPORTANCE OF MANAGEMENT

The success and growth of an organization depends largely upon the efficiency and effectiveness of its management. In the absence of management, an organization is merely a collection of men, money, materials and machinery. Managers can do much to improve the work environment, to stimulate people to do better work and to achieve progress.

1. Achievement of group goals

Management enables an enterprise to achieve its desired objectives through proper planning and control. It decides what should be done and how. It lays down the long-term and short-term goals keeping in mind the resources of the enterprise. Management maintains order and coordination and without it there will be utter chaos. Management also creates a sound organization structure that provides specialization. Through a well organized system of direction and control, management keeps a close watch on the activities of the organization. Thus, management makes an organization successful through sound resource planning and effective control.

2. Optimum utilization of resources

Materials, machinery and money are the physical factors of production. The efficient use of these resources depends upon the efficiency and motivation of workers. Management makes the workers efficient and motivate through training, supervision and inspiring leadership. Managers guide and motivate workers towards best performance. They tell workers what to do and how to do their jobs. Managers develop a spirit of mutual cooperation and a sense of responsibility among workers.

3. Fulfillment of social obligations

Sound management monitors the environment of business and makes necessary changes in business policies and practices so as to keep the consumers and workers satisfied. In this way managers help an enterprise to fulfill its obligations towards different section of society. Management balances and integrates various interests in group efforts.

4. Economic growth

Management is the catalyst of economic growth. We no longer talk of capital and labour but of management and labour. "Development is a matter of human energies rather than of economic growth, and the generation of human energies is the task of management. Management is the mover and development is the consequence.

5. Stability

Management ensures the survival of an organization in a fast changing environment. It coordinates the activities of different departments in an organization and maintains team spirit amongst the personnel. Just as mind controls the body, similarly management directs and controls the organization to keep it on the right track.

6. Human Development

Management is not simply the direction of things but the development of men. It improves the personality and caliber of people to raise their efficiency and productivity. A good manager serves as a friend and guide to his subordinates.

7. Meets the challenge of change

Management is the catalytic force that enables an organization to face the challenge of change. The environment of business has become very turbulent. Managers maintain a dynamic equilibrium between an organization and its environment.

1.7 LEVELS OF MANAGEMENT

The number of levels of management will depend on its size, technology and diversity and its range of production. A large concern will need a no. of levels of management. But in order to ensure greater efficiency, the levels of management should keep to minimum. Unnecessary increase in number of levels of management will increase costs and create problems of communication and makes coordination and control a difficult task.

1. Ownership

In a sole proprietorship, ownership and management will vest in one and the same person. In the case of partnership firm, its general partners are both its owners and managers. In a joint stock co. there is separation of ownership and management.

2. Top Management

In a technical sense, it means the owners of an organization, i.e. sole proprietor, partners or shareholders. But in a general sense, top management refers to all those who occupy top functional positions in the organization and are entrusted with the responsibility of planning and executing broad policy decisions.

3. Chief executive

The chief executive, being himself a part of the top management is responsible for accomplishing the objectives and broad policies determined by the top management. He constitutes a link between the top management and other managerial staff, and works as the chief spokesman of the management. He has to give clear-cut instructions to sectional and departmental heads to ensure that the policies laid down by the top management are carried out efficiently.

4. Senior middle management

Departmental heads, such as the production manager, marketing manager, finance manager and personnel manager, constitute the senior middle management. They work within the framework of goals and policies decided by the top management. But it is mainly concerned with realizing short-term, rather than long-term goals of the organization.

5. Junior middle management

Managers immediately below the departmental heads constitute the junior middle management. Deputy production manager, deputy sales manager, etc. fall under this category. At this level, the area of responsibility narrows down considerably. It only involves looking after the day-to-day work in the department concerned. Within the limits of the decisions made by their superiors, they are allowed to allocate duties among the staff working under them and make necessary short-term plans for achieve the targets set by the superiors.

6. Supervisory management

The supervisory staff constitutes the lowest rung of the management ladder. These managers are generally designated as superintendents, supervisors, foremen, clerks-in-charge, charge-hands, and so on. Mainly the supervisory staff is concerned with the following:

- (a) Planning the day to day work.
- (b) Assignment of jobs.
- (c) Keeping a watch on worker's performance.
- (d) Sending reports and statements to superiors.
- (e) Maintaining close and personal contacts with workers.

1.8 REVIEW QUESTIONS

1. Define management.
2. “Management is an art as well as science” Explain.
3. Discuss the concept “Management as Profession”.
4. Explain the nature of management.
5. Explain the importance of management.

1.9 REFERENCES

- ** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
- ** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-2

RELEVANCE OF MANAGEMENT

CONTENTS

- 2.1 Management as a process
- 2.2 Scope of management
- 2.3 Administration and Management
- 2.4 Entrepreneur and Manager
- 2.5 Managerial works and roles
- 2.6 Review Questions
- 2.7 References

2.1 MANAGEMENT AS A PROCESS

A process means a systematic way of doing things. Management is described as a process because all managers, irrespective of their individual abilities and aptitudes, engage themselves in inter-related activities with a view to accomplishment of their desired goals. They convert diverse resources of people, machines, materials, money, time and space into a useful productive enterprise. Integration of unrelated resources into a total system of objective accomplishment is referred to a that process of management which comprises planning, organizing, directing, controlling and coordinating of the organizational resources.

2.2 SCOPE OF MANAGEMENT

The field of management is very wide. The operational areas of business management may be classified into the following categories:

1. Production management:

A business unit is established for the production and distribution of goods or services. Production management refers to planning, organization, direction, coordination and control of the production functions in such a way that the desired goods or services could be produced at the right time, in right quantity, and at the right cost. Production management involves the following:

- (a) Developing the product service.
- (b) Establishment of proper organization structure.
- (c) Selection of personnel.
- (d) Establishment and maintenance of factory building, plant and equipment.
- (e) Management of purchases, storage and transportation of raw materials.
- (f) Ensuring effective production control.

2. Marketing Management:

Today's market is buyer's market, the needs, buying capacities and habits of buyers need to be carefully studied to break their resistance to a particular product. Secondly the market today is no longer confined to a small area. Thirdly, there is increasing competition from local as well as foreign producers.

The marketing function comprises of following elements:

1. Assessing consumer demand, which involves a study of the market potential so as to what to produce, how much to produce and at what price to sell.
2. Creating ability to provide goods, i.e. in case the goods to be sold have to be bought; then their adequate supply must be ensured, and if these have to be manufactured, then the required productive capacity and ability, viz., plant and equipment should be made readily available.
3. Ensuring adequacy of finance depending on the production costs and the length of time-interval between production and sales.
4. Establishing a suitable organization structure to ensure coordination between anticipated sales and production rate, to arrange necessary finance at right time.
5. Choosing the market (i.e. whether it is to be top-end, or the low-end price mass market) to decide on the quality and price.
6. Assessing the extent of competition to decide which of the courses would meet it most effectively.
7. Choosing the right channels of distribution and the right media of advertising.

3. Financial Management:

Finance is the life blood of a business. It is the pivot round which all business activities move. In fact, all important managerial decisions are subject to availability, cost profitability, safety and liquidity of financing.

The main objectives of financial Management are:

- (1) To ensure enough funds for the various requirements of business.
- (2) To provide sufficient flexibility in financial planning so that there is perfect matching between business needs and finance raised or which is proposed to be raised.
- (3) To raise and maintain funds at the lowest cost possible.
- (4) To ensure adequate liquidity of funds so that the business is never short of liquid cash to pay off current liabilities.
- (5) To achieve safety of investment as also to secure maximum profitability of the money invested.
- (6) To maintain credit-worthiness and a good image of the business among creditors, bankers, shareholders and members of the public.
- (7) To secure to shareholders (owners) a fair return on the capital invested by them.
- (8) To achieve maximum efficiency in the enterprise through proper planning, organization and control of financial resources.

4. Personnel Management:

Personnel Management is primarily concerned with the human resources of an enterprise and includes procurement, development, monetary and non-monetary compensation, integration and maintenance of the personnel for the purpose of contributing towards accomplishment of collective goals.

The main objectives of personnel Management are as follows:

- 1 To contribute to welfare of society by promoting job opportunities and creating most productive and profitable jobs, so that people remain contented, cooperative and effective and that discontent among workers or imbalance in their employment is avoided.
- 2 To contribute to welfare of the individual worker by providing him with adequate monetary and non-monetary compensation, security, job satisfaction and suitable opportunities for all-round development.
- 3 To ensure that various positions in the enterprise are, and continue to be occupied by competent, contented, and effective employees and they are afforded all opportunities to put in their best performance in an atmosphere free from any physical or mental tension.

To recognize the workers right to form unions and to influence their leaders to promote self-discipline among workers and work unitedly to achieve maximum efficiency and economy in the organization's working.

2.3 ADMINISTRATION AND MANAGEMENT

On the face of it, there is little difference between management and administration. Both are concerned with (a) planning i.e. laying down objectives and policies. (b) organization i.e. working out a pattern of relationships between the various factors of production, (c) direction, i.e. motivating and leading the human resources towards better performance and higher productivity, (d) coordination, i.e. infusing team-spirit among workers at various levels so that they work unitedly for the common goals, and (e) control i.e., identifying and correction deviations from the pre-determined targets.

William Newman makes no distinction between the 2 terms when he defines administration as guidance, leadership and control of efforts of a group of individuals towards common goal. Administration generally regarded as higher level activity, concerned with laying down policies. But management is concerned with accomplishment of goals and execution of policies. However separate personnel are not required to carry out these functions. In fact, each manager performs both activities, though manager at higher levels devote more time to administration and less to management functions.

S.No	Administration	Management
1.	It is concerned with determining the major policies and objectives of the business enterprise. It refers to owners of the enterprise.	It is concerned with the doing or executive function, the policies and decisions to be implemented being those laid down by the administration. It refers to employees of the enterprise.
2.	Decision making is mainly influenced by the force of public opinion, governmental policies, as also social and religious factors.	The scope for its decision making is limited.
3.	It is that part of management which is concerned with the determination of and carrying out of the procedures by which the progress of activities is evaluated and controlled as per plans	It is a general name for the total process of executive control in industry or commerce.
4.	It refers to owners of the enterprise who by way of return on the capital invested by them receive profits by way of dividends, etc.,	It refers to employees of the enterprise who, for working with the broad policy guidelines laid down by the administration, are paid remuneration in form of salaries.

Management according to Barry Richman is administration plus entrepreneurship. Thus most of experts in Britain consider management to be broader in meaning than administration.

2.4 ENTREPRENEUR AND MANAGER

Role of entrepreneur:

An entrepreneur is the person at the top of any business concern who undertakes financial and legal responsibility for the success or failure of the concern. Decision making by the entrepreneur is mainly with regard to the following:

- (a) Goals and objectives of the enterprise and broadly how these are to be accomplished.
- (b) The kind of image the enterprise is to project of itself and how it is to conduct itself in general.
- (c) The kind of products to be manufactures whether top quality and useful products, or low quality and not so useful products.
- (d) The concern attitude towards its employees, the government, society, and so on.

Clearly, these are value based decisions shaped by the entrepreneur's feelings, beliefs, even whims. One may agree with his decisions are right or wrong. This is because such decisions are based not on logical, but subjective considerations.

Role of manager:

A manager is an employee of the entrepreneur. His job is to work for the accomplishment of the goals and objectives set by the entrepreneur. There may be some cases where a person is both an entrepreneur and a manager at the same time.

However, the main difference between an entrepreneur and a manager is with regard to the degree of freedom enjoyed in his work. Being the owner of the firm, the entrepreneur is free to determine the objectives based on his own assessment, beliefs and values. However, the manager is only concerned with direction and coordination of the resources to accomplish the objectives in the determination of which he may, or may not have had any role.

2.5 MANAGERIAL WORKS AND ROLES

Management is basically concerned with efficient use of organizational resources. Men, money, material and equipment constitute an essential part of work of a manager. Efficiency in use of resources is with a view to ensuring that goods produced by organization are worth more than cost of resources. Every manager, irrespective of the nature of his job, he is concerned with planning, organizing, and so on. He deals with information in sense that he monitors and interprets information from outside and within his own organization. There is difference between management job and such difference is

due to nature, type of subordinate or manager's personality. According to Stewart, this may be distinguished from one another on following:

1. Contacts:

Managers have to spend a good part of their time talking to others, meetings; conferences etc., specialists such as financial, legal, and tax advisers are grouped under this category. Their contacts confined to people working within organization.

2. Work pattern:

Some managers have freedom to determine their own pattern while others have to respond to requirements of others.

3. Uncertainty:

Some like works manager and production manager have to face some crisis situations. They have to find speedy solutions to problems.

4. Responsibility:

Some have greater responsibilities as regards acquisition and use of resources to produce goods. At same time they have authority to define goods and to control and coordinate activities of others.

5. Effect on private life:

They are having little time to spend with their kith and kin due to frequent business trips, remain desk-bound at the office etc.,

6. Managerial roles:

Nature of complex managerial work can be identified by organizational roles which a manager has to perform. They are

Interpersonal roles

(1) Figurehead: In this role the manger performs duties of a legal or ceremonial nature such as welcoming visitors, giving testimonials to employees, etc.

(2) Leader: In this role the manager provides the dynamic force and direction to his subordinates by means of guidance and motivation.

(3) Liaison: This role requires the manager to establish contacts with his peers in the organization in different departments.

Informational roles

(1) **Monitor:** In this role the manager receives and analyses information from the outside world and from within the organization for transmission to appropriate people.

(2) **Disseminator:** The information received from outside and from within the organization is analyzed from the point of view of its relevance. The relevant information is then passed on to the appropriate persons both within and outside the organization.

(3) **Spokesman:** In this role the manager acts as a representative of the organization to transmit information to the outside world.

Decisional roles

(1) **Entrepreneur:** A manager assumes the role of an entrepreneur when he initiates any change in technology or work methods.

(2) **Disturbance handler:** In this role the manager is a trouble shooter, rushing into provide speedy solution to a crisis.

(3) **Resource allocator:** A business organization like any other entity is faced with scarcity of resources and only an efficient use of scarce resources can ensure its survival and growth. The manager has to determine the distribution of organizational resources such as money, time and equipment.

(4) **Negotiator:** A manager is often required to confer with people outside and within the organization to arrive at settlement of the points at issue.

2.6 REVIEW QUESTIONS

1. Explain the different levels of management.
2. Distinguish between Administration and Management
3. Difference between Entrepreneur and Manager.

2.7 REFERENCES

- ** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-3

EVOLUTION OF MANAGEMENT THOUGHT

CONTENTS

- 3.1 Introduction
- 3.2 Development of Management
 - 3.2.1 Pre-Scientific Management Era
 - 3.2.2 Scientific Management Era
 - 3.2.3 Human Relation Era
 - 3.2.4 Social Sciences Era
 - 3.2.5 Management Science Era
- 3.3 Review Questions
- 3.4 References

3.1 INTRODUCTION

Management has been practiced in some form or the other since the dawn of civilization. Ever since human beings began to live and work together in groups, techniques of organization and management were evolved. The Summerian Civilization dating back to 300 B.C. had an efficient system of tax collection. The pyramids of Egypt, the Chinese Civil Service, the Roman Catholic Church, and military organization offer good examples of application of management in ancient times. Kautilya's Arthashastra, the Bhagwat Gita, the Holy Bible and other epics contain references to the management of public affairs.

The early contributions to management thought came from Roman Catholic Church, Military organizations and Cameralists. The principles of Hierarchy of authority, territorial organization, functional specialization, etc., developed in the Roman Catholic Church. Military organizations contributed division of work, secular principle and staff concept. The Cameralists were a group of Austrian and German public administrators and intellectuals from sixteen to eighteen centuries. They stressed systematic administration of the State affairs. They formulated the principle of functional specialization, proper selection and training of administrators, work simplification, effective control etc.,

Thus, the art of management has ancient origins. However, the science of management developed largely after the Industrial Revolution which established the factory system. Scientific management movement laid the foundations of management as a science. Prior to this movement several early pioneers like Robert Owen, Charles Babbage, Henry R. Towne, V.Poor, James Watt Jr., Mathew R. Boulton and Charles Dupin made significant contributions during the pre scientific management era.

3.2 DEVELOPMENT OF MANAGEMENT

The development of management thought has been evolutionary in nature. The present position is, therefore, best appreciated and understood in the light of its evolution over the years. Much of the development in this field has taken place during the last 100 years. The time periods in which different concepts have developed may be divided into five parts:

- | | |
|----------------------------------|---------------|
| 1. Pre-scientific Management Era | (Before 1880) |
| 2. Scientific Management Era | (1880-1930) |
| 3. Human Relation Era | (1930-1950) |
| 4. Social Sciences Era | (1950-onward) |
| 5. Management Science Era | (-do-) |

3.2.1 PRE-SCIENTIFIC MANAGEMENT ERA

Systematic study of management, as a separate field, started only in second half of 19th century, but management in some form has been of concern to all organized efforts of man ever since dawn of civilization. Evidence of use of principles of management is to be found in administration of Mohenjo-daro and Harappa cities of ancient Aryans in 2000 B.C.

However, much use of management techniques in the conduct of business affairs was perhaps not made till second half of 19th century, as structure of industry was simple and had not advanced like city, church or defense organization.

Robert Owen made valuable contributions to development of management concepts in pre-scientific management era. He said that it was generally accepted that mechanical equipment kept in a state of good repair more than paid for itself by increased productivity. If this reasoning applied to inanimate machines he observes, it must apply to vital machines – the men in organization.

3.2.2 SCIENTIFIC MANAGEMENT ERA

Scientific Management Era started with F.W.Taylor who recognized the need of scientific approach. He is called father of scientific Management.

F.W.Taylor

1. He realized the complex and new problems for entrepreneur.
2. He studied cause of low efficiency of workers and concluded that main cause was lack of knowledge on part of management as to how much work should be done.

On the basis of his observation he suggested that management should follow a scientific approach in their work and apply scientific method in tackling all problems. The scientific method comprises of (a) observation (b) measurement (c) inference. He ensured that with help of scientific management, not only productive efficiency of each worker will be

maximized, but there will be enlargement of profits. The natural consequences are perfect understanding and co-operation between management and workers. Main scientific elements of management are:

- (a) Determination of the task – on the basis of method study, routing, motion study, time study, fatigue study and rate setting.
- (b) Planning of industrial operations – viz. what work shall be done, how the work shall be done, where the work shall be done and when the work shall be done.
- (c) Proper selection, placement and training of workers by a centralized personnel department.
- (d) Improvement in methods of work viz.:
 - Standardization of tools and equipment;
 - Regulation of speed of machines;
 - Improvement of the work environment.
- (e) Introduction of functional organization (separating the functions of planning and implementation between two sets of foremen.
- (f) Mental revolution i.e., a change in the mental outlook – of the employees and employers.

The significance of Taylor's work really lies in the emphasis on the use of the scientific method and the scientific approach for the solution of problems of management.

Criticism

It was not appreciated by workers and their unions for obvious reasons: it prescribed 'one best way' for doing each job and workers were compelled to follow it. Treating workmen as cogs in a machine without giving them an opportunity to think about their jobs. They asked for replacing mechanical approach by human approach.

Henry Fayol

It was generally applicable to all kinds of organizations. Fayol identified six activities:

- (1) Technical activities concerning production.
- (2) Commercial activities concerning buying, selling and exchange.
- (3) Financial activities concerning optimum use of capital.
- (4) Security activities concerning protection of property.
- (5) Accounting activities concerning final accounts, costs and statistics; and
- (6) Managerial activities concerning planning, organizing, commanding, coordination, controlling etc.

Fayol suggested following principles of Management:

- 1) **Division of work:** This principle emphasizes the importance of specialization at all levels in an industrial organization so as to produce more and better with the same effort.
- 2) **Authority and Responsibility:** these two terms are correlated and responsibility is corollary of authority.
- 3) **Discipline:** In essence it is obedience, application, energy, behavior and outward marks of respect shown by workers and employees. Discipline is essential for successful management.
- 4) **Unity of Command:** This principle requires that an employee shall receive orders from one superior only.
- 5) **Unity of Direction:** Each group of activities with common objectives should have one head and one plan. While unity of direction is concerned with the functioning of the body corporate, unity of command is only concerned with functioning of personnel at all levels.
- 6) **Subordination of individual interests to group interest:** The interest of the group must prevail over individual interest.
- 7) **Remuneration of personnel:** It should be fair and afford maximum satisfaction to both the organization and its employees.
- 8) **Centralization:** Everything which goes to increase the importance of the subordinate's role is decentralization; everything which goes to reduce it is centralized. Top management should decide the extent to which authority to be dispersed in the organization or retained at higher levels as the degree of concentration of authority varies according to the needs of the situation.
- 9) **Scalar chain:** It denotes line of authority from the highest executive to the lowest one for the purpose of communication. It should be short-circuited and not carried to the extent it proves detrimental to the business. In other words an employee should feel free to contact his superior.
- 10) **Order:** This is principle of organization relating to things and persons. There must be a place for everything and each thing must be in its appointed place. Similarly there must be an appointed place for each employee and every employee must be in his appointed place.
- 11) **Equity:** Equity is the combination of kindness and justice in a manager. He should apply the principle of equity while dealing with his subordinates. This will create loyalty and devotion among the employees.
- 12) **Stability of Tenure of personnel:** Management should strive to minimize employee turn-over. High turn-over is detrimental to the organization.

- 13) **Initiative:** It refers to freedom to propose a plan and execute it. Management should permit subordinates to take some initiative in thinking out plans and executing them. This will help in increasing zeal and energy on the part of the employees.
- 14) **Espirit de Corps:** this principle emphasizes the need for team work and the importance of effective communication in obtaining it.

3.2.3 HUMAN RELATIONS ERA

Third major period in development of management thought emphasized human relationships in organization. This period was highlighted by well-known experiments conducted at Hawthorne plant of Western Electric Company.

1. Taylor stressed the need to promote maximum efficiency of workers and to give economic incentives to them to achieve goal.
2. Human relations approach recognizes that a worker is also a product of personal sentiments and emotional involvement. The interest of employees in their work and their relations with each other play a role in determining their attitude.

So, human relation movement made significant contributions to management thought.

Mary Parker Follet

She is a pioneer contributor to management thought in “human relations”. She interpreted classical management principles in terms of human factors and psychology as foundation of all human activity.

Her view points are:

- 1) **Group:** Human group is something more than a mere aggregation of individual comprising it.
- 2) **Authority:** She showed that authority and responsibility go with function and suggested that authority should be depersonalized. The consequence of this would be that the employer-employee relationship would rest on functional cooperation rather than status and facts of a given situation would determine the basis of authority.
- 3) **Conflict:** There are three ways of removing conflict in an organization – a) domination, b) compromise and c) integration. Follet rejected the first two ways. She was for the integration of objectives of the parties to the dispute. In this way both the parties would be satisfied without sacrificing their desires.
- 4) **Integration:** Integration within the organization was not the only concern for Follet. She also suggested that there should be integration of the interests of the workers, investors and consumers.

- 5) **Leadership:** Follet felt the leadership was not a matter of dominating, aggressive and autocratic personality. Rather she subscribed to the situation theory of the leadership. She believed that “the leader guides the group and at the same time is he is guided by the e group, is always part of the group”.
- 6) **Coordination:** Follet is well-known for her four principles of coordination as the basis of good management. These principles are:
 - (a) coordination by direct contact of the responsible people;
 - (b) coordination in the early stages of planning and policy making;
 - (c) coordination as reciprocal and relating to all the factors in a situation;
 - (d) Coordination as a continuing process.

George Elton Mayo

He led a series of pioneering studies at Hawthorne plant of Western Electric Company.

1. These studies examined the output of a few workers in relation to changing conditions of work such as changes in lighting arrangements, rest periods, number of working hours etc.,
2. Major conclusion was that workers respond to their work situation as a whole and their attitudes and social relation constitute an important part of total situation.

3.2.4 SOCIAL SCIENCES ERA

Social scientists are of opinion that best results can be obtained by building theories based on behavioral sciences such as psychology, sociology, psychiatry, economics, cultural anthropology and philosophy.

Research during this period has provided that

1. Human element is key factor in success or failure of an organization.
2. People prefer to be consulted rather than receive orders or information. Less reliance on use of formal authority is preferred.

Douglas McGregor

He challenges conventional management approach, which he calls theory ‘X’ – negative assumptions about human nature, such as man does not like to work, he lacks initiative and he wants to be directed and controlled. As against theory ‘Y’ – positive assumptions such as man likes to work as much as play and prefers a situation where can show his initiative and intelligence. Employees favor self-direction and self-control.

According to him, it is the responsibility of manager to create a situation in which people like to work and give their best.

3.2.5 MANAGEMENT SCIENCE ERA

This period is marked by growing influence of economists and mathematicians on management.

Peter F. Drucker

He is known in management world as an author of M.B.O (Management By Objective).

1. He regards management as, “life giving, acting, dynamic organ of institution.
2. The decision making according to him is “first managerial skill” as “only executives make decisions”.
3. He doesn't treat it as a mechanical job or mere intellectual exercise and regards it as risk taking and challenge to management since it mobilizes the vision, energies and resources of organization for effective action.

3.3 REVIEW QUESTIONS

1. Analyze the contribution of F.W. Taylor and Henry Fayol to the Modern management thoughts.
2. Discuss the role of Peter F. Drucker in the development of management thoughts.
3. Briefly explain the evolution of management thought from the early pioneers to the modern times.

3.4 REFERENCES

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LESSON-4

PLANNING

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4.1 INTRODUCTION

Planning is an all pervasive and the most basic function of management. Planning is an intellectual process. It is the process of thinking before doing. Planning is the first function and the top executive must do planning before he can intelligently perform any of the other managerial functions.

4.2 MEANING AND DEFINITIONS

Planning refers to the determination of a course of action to achieve a desired result.

1. **Koontz and O Donnell** says “Planning is an Intellectual process the conscious determination of course of action, the basing of decisions on purpose, facts and considered estimates.
2. In the words of **Louis Allen** “Management Planning involves the development of forecasts, Objectives, Politics, Programmes, Procedures, Schedules and Budgets”.

4.3 NATURE OF PLANNING

1. Planning is a basic function of Management:

A manager must plan before he can possibly organize, staff, direct or control, because planning sets all other functions into action. It can be seen as the most basic function of management. Without planning other functions become mere activity, producing nothing but chaos.

2. Planning is an intellectual process:

Planning is not a guess work. Planning is an intellectual process which requires a manager to think before acting. It is thinking in advance. It is by planning that managers of organization decide what is to be done, when it is to be done, how it is to be done, and who is to do it.

3. Planning involves Decision-Making:

Decision-Making is thus an integral part of planning. It is defined as the process of choosing among alternatives. Obviously, decision making will occur at many points in the planning process. For example, in planning for their organization, managers must first decide which goal to pursue “shall we manufacture all parts internally or buy some from outside”

4. Planning is a continuous process:

A manager should constantly watch the progress of his plans. He must constantly monitor the conditions, both within and outside the organization to determine if changes are required in his plans.

5. Planning must be flexible:

By flexibility of a plan is meant its ability to change direction to adapt to changing situations without undue cost. It should possess a built in flexibility in at least five major areas.

(a) Technology:

Flexibility in technology means the Mechanical ability of a company to change and vary its product-mix according to the changing needs of its customers.

(b) Market:

Flexibility in market means the company's ability to shift its marketing geographically.

(c) Finance:

Flexibility in finance means the company's ability to obtain additional funds on favourable terms whenever there is need for them.

(d) Personal:

Flexibility in personnel means the company's ability to shift individuals from one job to another.

(e) Organization:

Flexibility in organization means the company's ability to change its organization structure.

6. Planning is an all pervasive function:

Planning is important to all managers regardless of their level in the organization. There are some differences in involvement by managers at different levels. One major difference concerns the time period covered. Top level managers are generally concerned with longer time periods. Example: Six months to five years. Low level managers are concerned with planning activities for a day, week or the month. The second major difference concerns the time spent on planning.

7. Planning is goal oriented:

Planning involves setting the goals to be achieved and deciding the activities required to accomplish those goals. Thus, planning is goal oriented.

8. Planning is future oriented:

Planning is future oriented whether it is short range future, medium range future or long range future.

4.4 IMPORTANCE OF PLANNING

1. Facilitates Accomplishment of Objectives:

The aim of planning is to facilitate the attainment of objectives. It focuses its attention on the objectives of the organization. Planning forces the managers to consider the future and revise its plan if necessary for achieving the objectives.

2. Ensures Economy in Operations:

Since planning emphasizes efficient operation and consistency it minimizes costs and gains economical operation.

3. Precedes Control:

Control involves those activities which are carried out to force events to conform to force events to conform to plans. Plan serves as standards of performance. Control seeks to compare actual performance with set standards. So control cannot be exercised without plans.

4. Provide for future contingency:

Planning is required because future is uncertain. Planning enables the management to look into the future and discover suitable alternative course of action.

5. Facilitates optimum utilization of resources:

Various resources that are relevant to an organization namely funds. Physical resources, manpower and technological know-how etc are by and large inadequate due to demand from competing organizations and have alternative uses. These necessitate the organization to make the best possible use of resources. Planning facilitates optimum use of available resources.

6. Pre-requisites for other managerial function:

The purpose of planning is to provide a conceptual and concrete basis for initiating and undertaking other managerial functions like organizing, staffing, directing and control.

7. All pervasive function:

Planning is a function of managers at all levels though the scope, nature and extent of planning differs from one enterprise to another and from one level to another.

8. Co-ordinates the activities:

Co-ordination is essential for the smooth functioning of an organization. As pointed out by H.G.Hicks, "Planning co-ordinates the activities of the organization toward defined and agreed upon objectives. The alternative is random behaviour".

9. Provides for the Delegation of Authority:

Planning provides for the delegation of authority to subordinates. Well formulated plans serve as guides to subordinates and reduce risk involved in delegation of authority.

4.5 CHARACTERISTICS OF PLANNING

1. It is based on objectives and policies:

Planning involves selecting objectives and developing policies, programmes and procedures for achieving them. Unless objectives are known a manager cannot do any planning.

2. It concerns future activity:

The essence of planning is looking ahead and is concerned with deciding in the present what has to be done in future.

3. It is a mental activity:

According to Koontz and O Donnel Planning is an intellectual process, the conscious determination of courses of action, the basing of decisions on purpose, facts and considered estimates. In other words, Planning involves thinking.

4. It is based on facts (truth):

Planning is not a guess work. It is conscious determination and projecting a course of action for the future, and is based on objectives, facts and considered forecasts.

5. It pervades all managerial activity:

All managers, whether belonging to the top management group or middle management or lower management group are engaged in the process of planning. Thus, planning is not the responsibility of top management alone. Decision making activity is involved at all levels of management.

6. It is a primary function of management and has close relationship with controlling:

In fact other functions of management largely depend upon planning. Control function has a very close relationship with planning. Targets are laid down before hand and efforts are made to achieve these targets. The results are compared with the targets and collective action taken. This shows management is a circular process, beginning with planning and returning to planning for revision and adjustments.

7. It has a dynamic aspect:

The manager does planning on the basis of some assumptions which may not come true in the future. It has to be modified, revised and adjusting plans in the light of the circumstances prevailing.

8. It is directed towards efficiency:

The characteristics of planning consists of

1. Planning is an intellectual activity.
2. Planning is linked with goals and objectives.

If these two aspects are carefully considered, there is no doubt that planning will lead to overall efficiency in the organization.

9. Precision is the pre-requisite of planning:

Planning is to be realistic and intelligible and is to be based on the organizational objectives.

10. Planning is to be flexible and adaptable:

Planning cannot be rigid; it is to be flexible and adaptable. Planning is done partly on the basis of assumptions about certain happenings.

11. Once plan is prepared, it should be communicated to all those concerned. This will facilitate the process of implementation and achievement of the objectives of the organization.

12. Planning has close relationship with time:

Managers at different levels are concerned with different planning periods. Top-level managers are concerned with long-term planning. The middle level managers have short term plans. The lower level managers set more immediate objectives for a day or week.

13. Planning involves six basic questions:

What is to be done?; Why should it be done?; Who will do it?; How will it be done?; Where will it be done?; With what resources will it be done. The answers to these questions help in doing effective planning.

14. Planning is essentially decision-making:

Planning involves choosing among alternatives. This is done by weighting the consequences of different courses of action.

15. Planning involves ethical considerations also:

The process of planning leads to action which may affect a number of people both within and outside the organization. The managers should keep in mind the interests of consumers, employees, state and the society at large.

4.6 ADVANTAGES OF PLANNING

1. It reduces random and haphazard activity:

Planning involves disciplined thinking and the manager put his thoughts in writing before acting. He has to decide in advance what he is going to do and how he will do it. By thinking ahead he can minimize the chances of making hasty decisions and haphazard action.

2. It promotes internal coordination:

Planning helps in making possible the integrated and coordinated effort. This becomes possible because the goals and objectives are predetermined and all the departments are conscious of the enterprise objectives and therefore take steps to achieve them within the stipulated time.

3. It facilitates control:

The control function is very much dependent upon planning. It is only by efficient planning that a manager will be able to check the performance of his department. He can compare the performance with the standards of targets laid down by the process of planning.

4. It leads to overall efficiency in the organization:

Planning helps in proper utilization of resources. The manager discovers alternative uses of resources and chooses that alternative which is most efficient. The unproductive and inconsistent activities are eliminated, because of proper planning.

5. It helps in taking care of future activity:

Planning does not involve merely assessing the future providing for future contingencies is an equally important part of planning.

4.7 LIMITATIONS OF PLANNING

1. Uncertainty:

Planning concerns the future and nothing about the future is certain, except that it must be different from the present. Assessment of future can only be in terms of guesswork, probabilities, speculations, assumptions. A manager who set goals based on planning also

runs the risk of failing to achieve them. The goals may be based on scientific analysis of relevant information and get such analysis cannot be cent percent correct. Most of the managers decide not to involve themselves with future

2. Action – Packed routine:

Managers are even preoccupied grappling with the day-to-day problems.

3. Abstraction:

The planning process involves thinking about vague alternatives and concern with “what if questions”. Planning is concerned with just assumptions, estimates, speculation and guesswork, so it can be tested only when the thing to which they relate actually takes place. This often brings in distortion in planning.

4. Rigidity:

Planning involves setting of objectives and determination of the ideas course of action for their implementation. Business by nature is dynamic activity which is faced with new opportunities and challenges so it requires for modification or alteration of the objectives and action-plan which had been framed in a different set of circumstances. This is not possible because it is time consuming and costly exercise particularly where planning is practiced on a wide scale.

5. Costly:

Planning is expensive both in terms of time and money.

1. It involves formulation of estimates.
2. Collection of necessary information and facts.
3. A careful analysis and evaluation of the various courses of action.
4. And decide on the best and the most economical course of action for the enterprise, for the workers and departments.

4.8 STEPS IN PLANNING OR PROCESS OF PLANNING

Planning is a process. It is a rational approach to accomplishing objectives. The plans may be major or minor, or they may be long term or short term. The process of planning consists of the following eight steps.

1. Being aware of Opportunities:

Awareness of business opportunities proceeds actual planning. Opportunities are plenty within the organization as well as the external environment. An awareness of such opportunities is the real starting point for planning; a preliminary look at the present and

possible future opportunities is the first sure step in planning. These opportunities must be perceived clearly and completely “All managers should know where they stand in the light of their strengths and weaknesses, understand what problems they wish to solve and why, and know what they expect to gain”. Setting realistic objectives depends on this awareness of opportunities.

2. Establishing objectives:

The second step is to establish enterprise objectives. These objectives should be worked out for the departments or subordinate work units. They are subordinate objectives or derivative goals. They may also be called departmental objectives.

Departmental objectives will be realistic and realizable only when they are in tune with the overall enterprise objectives.

3. Developing Premises:

Premises are a statement or idea on which reasoning is based. The third step in planning is to establish premises. It is a logical step to formulate, circulate, and obtain agreement to utilize critical planning premises. Planning is possible only on the basis of premises. Premises provide facts information and data relating to future trends on population growth, competitive behaviour, consumer preference, general economic condition, availability of capital and raw materials, government control and so on.

Planning premises can be classified as

1. Internal and External.

Eg. for internal premises	-	Sales forecasts.
For external premises	-	Government policies and Regulations.

2. Tangible and Intangible.

Eg. Tangible	-	Capital resources
Eg. Intangible	-	Political stability

3. Controllable and Non-controllable.

Eg. Controllable	-	Advertising Policy
Eg. Non-controllable	-	Strikes, Calamities.

4. Determining Alternative Courses:

The fourth step in planning is to search for and scanning of alternative sources of action. Scanning of alternatives is necessary. For example, increasing production, tapping unexplored markets, intensifying sale efforts, hiking the price of product, diversifying production, improving productivity.

5. Evaluating Alternative Courses:

The fifth step in planning is evaluating the alternatives. It involves weighing them in the light of premises and goals. The pros and cons of each alternative plan have to be considered. A proper analysis of the advantages and disadvantages is necessary to determine the best alternative course or courses. For example, modernizing a plant may involve huge capital investment, time lag, a low rate of return, improved work environment, wage increase, labour problem etc. Each alternative should therefore be tested to determine its suitability. The sixth step is a crucial stage in the planning process. It is infact, the decision making stage. This is the point, at which the plan is adopted.

6. Formulating Derivative Plans:

A course is selected. The basic plan is decided, and yet planning is not complete. The seventh step in planning is to formulate derivative plans. What are the derivative plans? They are supplementary plans. They are supportive in nature. They are derived from the basic plan. The broad objectives of the basic plans are translated into day to day operations.

7. Numberising plans by Budgeting:

The final step in planning is to make them meaningful, relevant and realistic. This is done by 'numberising' the plans. Plans basic and derivative are converted into budgets. Budgets provide standards against which planning progress can be monitored and measured.

4.9 PLANNING PREMISES

Planning is concerned with future which is full of uncertainties. The manager work to reduce the element of uncertainty, so that, his plans are effective. He must consider the predictions and assumptions about the future events carefully. Only then, he will be able to develop consistent and coordinated plans. The business is confronted with all types of uncertainties such as, change in consumer's choice, population growth and structure, competition, economic conditions, political situations, government policies, technological innovations internal situation etc.

Classification of Planning Premises:

Planning premises may be classified as under.

1. Internal and External.
2. Tangible and Intangible.
3. Controllable, Semi Controllable and Uncontrollable.
4. Constant and Variable and
5. Fore-seeable and Unforeseeable.

1. Internal and External Premises:

The factors which exist within a business enterprise furnish the basis for internal premises. For example: Men, Machines, Money and Methods. Sales forecasts very often become basic internal premises.

The important premises external to business enterprise are of political, social, economic and technological nature. Some of the examples. Population trends, employment figures, government policies and regulations, natural income and price levels.

2. Tangible and Intangible premises:

Tangible premises are those which can be quantified one way or the other, such as money, time and units of production etc.

On the other hand, intangible premises are those which defy quantification such as public relations, company's reputation, employee morale and motivation.

3. Controllable, Semi-controllable and uncontrollable:

There are certain factors which are subject to the decisions of the management. For instance, it is within the jurisdiction of the management to decide what policies, procedures, rules etc. will be followed in the organization. Such factors are known as controllable premises.

Semi-controllable premises are those over which management has partial control. The examples of such premises are the demand of industry on the firm's share in the market, union management relations etc.

Premises over which a business enterprise has absolutely no control fall under the category of uncontrollable premises. The examples of this category are War, Natural Calamities, New Discoveries and inventions, emergency legislations etc.

4. Constant and Variable premises:

Constant premises are those which behave in the similar fashion, irrespective of the course of action taken. They are definite, known and well- understood. The examples of constant premises are men, money and machines.

5. Foreseeable and Unforeseeable premises:

Foreseeable premises are those which are definite and well-known and can be foreseen with certainty. Examples are the requirements of men, money and machines. The examples of unforeseeable premises are strikes, war, natural calamity etc.

4.10 METHODS OF PLANNING

Plans are varied nature. Planning Components are usually classified as

1. Objectives
2. Policies
3. Rules
4. Procedures
5. Programmes
6. Budgets
7. Strategies
8. Mission

4.10.1 OBJECTIVES

Laying down objectives or goals is the first important task of planning. Objectives represent the end towards which all the managerial functions are directed. They provide basis for formulating policies, procedure, strategies, programmes, rules, budgets etc.

Objectives are the ends towards which the activities of an organization are directed. Objectives are known by different names, example, goals, aims, purposes, missions, targets, etc. They are the end points of planning as planning is done to achieve objectives. Objectives are established to guide the efforts of an organization and each of its constituents. Setting up of objectives is the first step in planning.

Types of Objectives

- (1) **Economic objectives:** Economic objectives are to be viewed from the market place. Hence these objectives are stated in terms of sales volume, market share, profit margins, return on capital etc.
- (2) **Social objectives:** Social objectives are to be viewed from the employer, shareholders, and the general public. These aims at providing 1. Good working conditions, better ways, job security, opportunities for promotion to its employees, 2. Reasonable return on capital, steady growth in business etc to its owner and 3. Quality goods and services at reasonable prices to the general public.

Features of Objectives

The following are the features of objectives:

1. Objectives are the most basic type of plans and all other plans are based upon objectives.
2. Objectives are plural as every organization exists to achieve several rather than, a single goal.

3. Objectives form a hierarchy, i.e., they can be arranged in order of importance. Low-level objectives serve as means towards the higher-level objectives.
4. Objectives differ in time span, i.e., some are long-term in nature while others are of short duration.
5. Objectives may be general or specific.

4.10.2 POLICIES

Policies are general statement that guides in decision-making. Policy decisions are taken by the Chief Executive and Board Manager should get the participation of all his subordinates in policy making. Policies may be in the form of written statements or just by way of oral understandings. Policies should be clear, stable, understandable and observable. Only then, they can serve their purpose

Policies offer the following merits:

1. They save time by serving as precedents.
2. They aid in co-ordination.
3. They provide stability in the organization.
4. They help the manager to delegate authority without undue fear.
5. They serve as guides to thinking and action and thereby facilitate quick and accurate decisions.

Types of Policies:

- (1) **Originated Policies:** Originated policies are formulated by top level management, by reference to the objectives of the organization and their achievement.
- (2) **Implied Policies:** Implied policies are those evolved by themselves, when a series of decisions are made by managers over a period of time.
- (3) **Appealed Policies:** Appealed policies are formulated at the higher managerial level in response to appeals made by lower managerial levels.
- (4) **Externally imposed policies:** Externally policies are those policies which are influenced by the policies of the government and other public agencies, trade unions, trade associations etc.

4.10.3 RULES

Rules are rigid and definite plans that specify what is to be done or not to be done in given situations. A rule provides no scope for discretion and judgment. It is a prescribed guide to conduct or action. No deviation is expected from the rule. A rule may or may not be a part of a procedure. The rule 'no smoking in the factory' is not part of any procedure. But the rule that all 'all orders must be acknowledged within 48 hours of their receipts' is a part of

the procedure for processing orders. A rule generally lays down penalty for its violation. Rules help to regulate behaviour and to facilitate communications. They facilitate uniformity of action and avoid the need for repeated approval from higher levels of routine matters.

4.10.4 PROCEDURES

Procedures are plans in the sense that they establish a customary method for handling future activities. Procedures prescribe the manner in which a work should be performed.

ADVANTAGES

1. Procedure ensures work simplification and elimination of duplication.
2. Procedures ensure uniformly high level of performance.
3. Procedures serve as an effective control system by providing a standard for measuring work performance.
4. By prescribing a uniform method of doing a work, procedures help in eliminating the frictions and disagreements between departments.
5. Procedures reduce the burden of decision-making and enable the manager to concentrate on vital issues.

DISADVANTAGES

1. The procedures are used continuously. This discourages initiative innovation and development of new and more effective ways of doing the work.
2. The same procedures cannot be adopted for long terms. The changing situations necessitate the review of procedures in such a manner to suit the present situation.

4.10.5 PROGRAMMES

A programme is a concrete scheme of action designed to accomplish a given task. It specifies the steps to be taken, resources to be used, time limits for each step and assignments of task. It is a sequence of action steps arranged in the priority necessary to implement a policy and achieve an objective. A programme is thus a combination of objectives, policies, budgets, task assignments and procedures. It defines the contents and scope of activities. Programmes are prepared for various activities, example: development of a new product, training of employees, purchase of machinery, issue of securities, etc. Programmes help to ensure economy and uniformity in day-to-day operations. Being action based and result oriented a programme serves as a practical guide and provides motivation. Programmes may be major or minor.

4.10.6 BUDGETS

A budget is a statement of expected results expressed in numerical terms. Budgets serve as a control mechanism. There are various types of budget such as production budget, sales budget, cash budget, advertising budget etc. A budget may be fixed or flexible. A fixed budget is one which is prepared for a given level of activity. Fixed budget does not provide for cost changes due to variations in output. A flexible budget, on the other hand consists of a series of budget in different levels of activity. Therefore it varies with the level of activity attained. The budget period should be short enough to make reasonably accurate predictions and long enough to identify policies, strategies, and procedures.

Preparation of budget is the final step in the process of planning. Budget is an estimate of capital revenue receipts, and expenditures.

Benefits of Budgeting:

Budgets have some inherent advantages, they are

1. They constitute an important device for control.
2. They enable the management to regularize the financial transaction.
3. They serve as a blue print for the attainment of the objectives.
4. They are highly useful in decision-making.
5. They enable the enterprise to attain desired volume of sales and profit.

4.10.7 STRATEGIES

The concept of strategy in business has been borrowed from Military science and sports where it implies outmaneuvering the opponent. The term strategy began to be used in business with increase in competition and complexity of operations.

A strategy may be defined as gamesmanship or an administrative course of action designed to achieve success in the face of difficulties. It is an overall plan prepared for meeting the challenge posed by the activities of competitors and other environmental forces. The term strategy should be differentiated from tactics. Strategy is the basic plan chosen to achieve objectives while tactics are the means of implementing the plan.

4.10.8 MISSION

The Mission statement clearly defines the organisation business, states, its vision and goals and articulates its main philosophical values. The mission of a company may be high quality product at low cost; it may be true vice a versa in case of another company. It touches all those external and internal parties. It is the written form and may be modified to make it dynamism a reality.

4.11 TYPES OF PLANNING

1. Long Term Planning

Long term planning covers a long period in future, example, 5, 10 or 15 years. It takes into account all long term economic, social and technological factors as well as their influence on the long term objectives of the organization. Long term planning involves commitment of resources for long term, example, Development of new product. It provides the targets towards the achievement of which all activities of the organization are directed. All long term plans must be tied together and aligned with the stated goals of the enterprise.

2. Medium Term Planning

It is also known as intermediate planning; it focuses on a period between two and five years. Such planning is more detailed and specific than long term planning. It may include plans for purchase of materials, sales budget, labour overhead expenses, etc, It also covers project planning concerned with specific projects like modernization.

3. Short Term Planning

Such planning covers a short period usually one year. It deals with specific activities to be undertaken to accomplish the objectives laid down under long-range planning. It related to current functions and their sub-functions, example, work methods, employee training, etc. It contains a detailed outline of certain specific activities to be completed with a specified time limit. It may be called as activity planning.

4. Strategic Planning

Strategic planning refers to the process of formulating a unified, comprehensive and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It involves appraising the external environment in relation to the enterprise, identifying the strategies to be adopted in future to achieve the objectives. Strategic planning is the process of deciding on the basic goals, the resources required to achieve the goal, the acquisition and disposition of resources, etc. Strategic planning is long term in nature.

5. Operational Planning

Operational planning or tactical planning is a short term exercise designed to implement the strategies formulated under strategic planning. It is based on strategic plans. For example, the strategic plan of a company may be to diversify into new lines of products. To carry out this plan, the firm may prepare short-term plans regarding the new products to be manufactured and sold.

4.12 REVIEW QUESTIONS

1. Explain the advantages of planning.
2. Explain the importance of planning.
3. Explain the nature of planning.
4. Explain various steps in planning.

4.13 REFERENCES

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LESSON-5

DECISION MAKING

CONTENTS

- 5.1 Introduction
- 5.2 Meaning and Definition
- 5.3 Characteristics of Decision Making
- 5.4 Role and Significance of Decision Making
- 5.5 Types of Managerial Decisions
- 5.6 Process of Decision Making
- 5.7 Problems involved in Decision Making
- 5.8 Review Questions
- 5.9 References

5.1 INTRODUCTION

A Decision is a calculated choice from available alternatives and it is the outcome of judgment and evaluation. It is a course of action consciously chosen from two or more alternatives for achieving a desired result. It is an act of choice from, wherein an executive forms a conclusion about what must be done in a given situation. It is the end-result of deliberations and reasoning.

5.2 MEANING AND DEFINITION

Decision making is the process of choosing a course of action from available alternatives. This process involves understanding the problem, collecting information, developing and evaluating alternatives, choice of a solution and its evaluation.

According to Haynes and Massie, “Decision making is a process of selection from a set of alternative course of action which is thought to fulfill the objective of the decision problem more satisfactorily than others.”

5.3 CHARACTERISTICS OF DECISION MAKING

1. Decision making is a goal oriented activity. It is aimed at achieving certain stated goals of the organization. A decision can be considered as good or bad only in relation to specific goal.

2. Decision making is a process of selection from amongst alternative courses of action. If there is only one alternative no decision is required. Decision making envisages two or more alternatives from which a final choice can be made.
3. Decision making is a conscious and human process. The choice implies freedom to choose from among alternatives without externally imposed coercion.
4. Decision making involves commitment in the face of uncertainty. The final result of each possible course of action is uncertain.
5. Decision making involves a time dimension and a time lag.
6. Decision making is situational. A manager may take one decision under particular circumstances and another in a different situation.
7. Decision making is an on going activity. A manager has to continuously make decision of one type or the other. It is a continuous process.

5.4 ROLE AND SIGNIFICANCE OF DECISION MAKING

Decision Making is an integral part of every manager's job. Every manager is a decision-maker and spends a major portion of his time in taking decisions. It is not the monopoly of top management alone. All managers take decisions though the quality and type of decisions taken may differ from one level of management to another. Decision making is inherent in all managerial functions and embraces all the areas of business. Management of an organization has to take a series of decisions. The business executive is by profession a decision maker. Decision making is a pervasive function of management. Therefore, management is essentially a decision making process and managers are called decision makers.

Managerial job is perpetually a decision making challenge. It is through decision making that plans and policies are translated into concrete choice. Decision making is the vehicle for carrying managerial workload and discharging managerial responsibilities. In the words of Drucker, "Whatever a manager does he does through decision making." The quality of decisions determines the success or failure of management.

5.5 TYPES OF MANAGERIAL DECISIONS

1. Personal and Organizational decisions:

This classification was first mooted by Chester Bernard. Accordingly, personal decisions are concerned with the managers as individuals rather than the organization. Organizational decisions are made by the managers in their official capacities and within the constraints set by their formal authority.

2. Strategic and Operational decisions:

Strategic decisions involve uncontrollable factors such as actions of competitors. Increasing the rate of dividend, expansion of business etc.

Operational decisions are concerned with day-to-day operations of the enterprise. They do not involve much discretion or independent judgment on the part of managers, as the parameters within which, the decisions have to be made are often clearly defined.

3. Structured and Unstructured decisions:

Crisis decisions are those which are made to meet unanticipated situations. They do not allow much scope for extensive investigation. They have to be made instantaneously under pressure of circumstances.

As against this, research decisions are those, which are made after a thorough analysis of pros and cons without any pressure.

4. Initiative or forced decisions:

Initiative decisions are the hall-mark of aggressive managers who search for or create situations calling for decision-making by them. Forced decisions are those where the managers have no alternative, but to make decisions either under orders from their superior or due to pressured persuasion by subordinates.

Problem decisions are concerned with resolving problem situations which have arisen as anticipated or otherwise. On the other hand, opportunity decisions pertain to taking advantage of an opportunity for increased profits growth etc.

5.6 PROCESS OF DECISION MAKING

Decision-making involves the following phases:

- 1. Identifying the problem:** The first step in the decision-making process is recognizing a problem. It involves defining and formulating the problem clearly and completely. Defining the problem involves identifying the critical factors, so that, such factors can be restricted by the managers and finding out whether there are any limiting factors to solve the problem. For this purpose, manager should refer to the objectives, rules, policies etc of business.
- 2. Analyzing the problem:** After the problem is defined, the next step in the process of decision making is analyzing the problem. It involves the collection and classification of as many facts as possible. Collection of relevant and accurate. The data is essential, because the quality of decision will depend upon the quality of data used.

3. **Developing alternative solution for the problem:** Majority course of action will have alternatives. This step involves the identification of limiting factors because; it will enable the manager to search for those alternatives which will overcome the limiting factors.
4. **Evaluating the alternatives:** The next step is evaluating them so as to choose the best one. While comparing the alternatives, various facts such as.
 - i. **Quantitative factors:** Which can be measured. Eg. Fixed and Operation costs.
 - ii. **Qualitative factors or Intangible factors:** Factors which cannot be increased. Eg. Immeasurable factors. Eg. labour relations, change in technology.
5. **Deciding the best course of action:** After the valuation of various alternatives, the next step is deciding the best alternative. The manager should take into account the economy, risk factors, the limitation of resources, feasibility of its implementation etc at the time of deciding the best course of action.
6. **Conversion of decision into action:** If the decision taken remains in the paper, there is no meaning in taking decisions. Once a decision is made or implemented, it involves the following steps:
 - i. Communicating the decision to all the employees concerned.
 - ii. Assigning the responsibility of carrying out the decision to certain employees.
 - iii. Developing the procedure for the purpose of executing the decision.
 - iv. Developing feed back, mechanisms to check on the progress of the implementation.
7. **Control:** Once the decision is implemented, the next step is controlling. The term controlling involves the following steps:
 - i. Comparing the actual with the expected results.
 - ii. Finding out the deviation.
 - iii. Analyzing the deviations to analyze the reasons for such deviations.
 - iv. Taking necessary steps to modify the decision, if necessary.

5.7 PROBLEMS INVOLVED IN DECISION MAKING

Decision making is a crucial function of management and the quality of managerial decisions determines to a large extent the success of an organization. But in practice effective decision making is hampered by several problems. Some of the pitfalls in decision making are given below:

1. Indecisiveness:

Some managers tend to be indecisive. They cannot come to a conclusion easily due to fear of its outcome or as a matter of habit. They are problem creators rather than problem solvers and tend to avoid or postpone decisions until the last moment. They need to be trained in the decision making process. Indecisiveness results in loss of business opportunities.

2. Time Pressures

In some cases the problem is so urgent that it requires immediate solution. In such cases thorough analysis might not be possible. Sharp judgement and quick response is required in such spur-of-the-moment decisions.

3. Lack of Information

Lack of timely and adequate information is a common obstacle to sound decision making. In some cases, the decision maker is not sure of what type of data to collect from which sources. He fails to differentiate clearly between relevant and irrelevant information. In other cases he may rely on secondary data without checking its accuracy. Analytical ability is necessary to judge the accuracy and reliability of information. Some managers suffer from information overload.

4. Confusing Symptoms with causes

Very often people try to cure the symptoms rather than causes. In order to make sound decisions it is essential to isolate the root cause of the problem. Some managers become so attached to a particular decision and or method that they either try to fit all problems to this model or they create problems in order to use the model.

5. Failure to evaluate correctly

Choice of the best course of action requires accurate appraisal of the possible outcomes of different courses of action. It is also necessary to consider the constraints of the decision making environment.

5.8 REVIEW QUESTIONS

1. Explain different types of decisions.
2. Explain various steps in decision making.
3. Explain the characteristics of decision making.
4. Explain the various problems involved in decision making.

5.9 REFERENCES

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LESSON-6

DECISION MAKING TECHNIQUES

CONTENTS

- 6.1 Introduction
- 6.2 Traditional Techniques
- 6.3 Modern Techniques
- 6.4 Steps involved in Decision making
- 6.5 Review Questions
- 6.6 References

6.1 INTRODUCTION

According to George Terry, “Decision making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action.”

Before the manager selects an alternative, he must carefully evaluate the plus and minus points of the entire alternative searched by him. This means through the process of elimination, he should arrive at the alternative that is most likely to help in the accomplishment of the enterprise objectives.

Managers use different methods or techniques for the purpose of evaluation of data relevant to various alternatives, which method or methods should be used in a given situation will depend on the competence, knowledge and experience of the manager concerned.

6.2 TRADITIONAL TECHNIQUES

The various traditional techniques most frequently used in the organisation for the purpose of evaluation are as follows:

- Marginal Income and Cost analysis
- Psychological analysis
- Intuition
- Experience
- Follow the leader or patterned decisions
- Experimentation
- Analysis

MARGINAL INCOME AND COST ANALYSIS

Under this method, the extra cost resulting from the addition of one more unit is compared with the extra benefit. The point where the extra cost is equal to the extra profit is the one where the profits are maximum.

But this technique can be used only if the manager has all the information relating to the various components of the total cost and is able to differentiate between variable costs and fixed costs. On the basis of this information, the manager can know as to what extent an increase in production is going to contribute towards the fixed costs and profits.

Thus, if the variable cost of a unit is Rs. 500, the sale price Rs. 800 and the common fixed cost of the organisation Rs. 90000, then the break even point will be reached at the production of 30000 units. Up to this point, production of each unit will contribute towards meeting the common fixed cost. Every additional unit produced and sold beyond this will contribute to profit.

The manager should, therefore, aim to keep the production volume at the maximum profit point. If production is lower than this, it will mean under utilization of resources, which means the cost of running the enterprise will not be fully matched by the benefits accruing therefrom. On the other hand, if production is higher, the marginal cost of the excess units will be more than the marginal profit, with the result that even though the total profits may show an increase, profit per additional unit will fall.

PSYCHOLOGICAL ANALYSIS

Marginal analysis proceeds on the assumption that the manager is an "economic" man and that he will go on expanding his production volumes so long as he does not reach the point where the cost of producing an additional unit is equal to the benefit therefrom.

But all managers do not follow the marginal analysis for evaluating an alternative. As Herbert A. Simon has said, business decision makers do not generally seek the highest profit possible. Rather, they aim at what would satisfy them or what they regard as adequate or fair profit.

In many business decisions, therefore, it is the personal feelings of the manager that count most: what he personally feels to be good, fair and desirable in the light of the traditions, values and beliefs which he regards as important. Thus, an optimistic manager will select the strategy under which it is possible to receive the most favourable or highest payoff. This is called maximizing the maximum possible pay off or maximax.

On the other hand, a pessimistic manager will make a decision believing that only the worst possible situation will occur and therefore aim at maximizing the minimum pay off or maxi min.

Yet another method may be to take into account an eventually where that most favourable environmental event contemplated at the time of decision making does not occur, leading to development of a certain degree of regret. Accordingly the decision in this case will be based on minimizing the maximum regret, which is minimax.

According to G.L.S. Shackle, a man faced with a decision is mainly influenced by what, in his view, is to be the best possible and the worst possible outcomes of each course of action. Why settle for “good” when the best is within an easy reach? Why only think of “bad” when the “worst” could also happen?

INTUITION

Intuition is the immediate grasping of an object by the mind, without the aid of reasoning process. Intuition takes place by means of the senses alone.

Business decision making based on intuition is marked by the inner feelings and convictions of the managers. It denotes some sort of a sixth sense on the part of the manager whereby he seems to gain an insight into a certain state of affairs which others lack. It leads him to conclude, unsupported by any facts and figures, which a certain action will lead to the expected results.

In a sense, intuition is little different from rashness though it is also the attribute by which geniuses are rated as superior to the need of reasoning. Right intuition of what ought to be done at the time for action, does not come to many and, this way, it can be regarded as a godly quality. But, it is also true that rashness, if it fails is called as madness, but if it succeeds, it is accepted as the intuition of a genius.

As a basis of decision making intuition has certain advantages. First, decisions are quickly made. Secondly, it is possible to utilize the decision making ability of those whose intuition often turns out to correct. Thirdly, decisions of limited value and influence can be taken without resort to any detailed analysis.

But there are also certain disadvantages. First, decisions based on incorrect intuition may prove costly. Secondly, the decision maker is unable to cite any reliable basis in support of his decision. Thirdly, it considerably narrows the scope of other, more reliable, methods of decision making.

EXPERIENCE

Past is a useful guide to the future. If similar issues had also been decided in the past, the decision maker will on the basis of his experience, know the kind of decision that will succeed even in the context of the present situation. Past experience will serve to provide him with an understanding of the issues involved in the current situation. Accordingly, the manager can generalize and conclude that if in a similar situation in the past, a particular decision had produced the desired result, and then a decision of the same type should also work in the present circumstances. Also, he can avoid repetition of decisions which had misfired or had not succeeded to the desired extent.

However, dependence on past experience prevents experimentation with new ideas. Also, it promotes conservative thinking which may not be good for the business concern. For example, in the fast changing world it would be wrong to assume that if a particular kind of decision making had worked successfully in the past, it would give the same result every time.

Thus, while one cannot ignore the utility of depending on one's experience, it is also not advisable to shut one's eyes to the existing realities. After all, experience is nothing but a responsible name given to one's mistakes committed in the past. Not blending one's experience with the present realities might mean repetition of the same mistakes in the future also.

FOLLOW THE LEADER OR PATTERNED DECISIONS

The decision making in this case is in accordance with definite policies and objective guidelines laid down by the superiors. They allow no discretion or any scope for creativity to the manager.

But this method of evaluating the alternatives may be risky. First, it may be that the circumstances under which the policies and guidelines for decision making were formulated were vastly different from those being encountered at present. Secondly, no major decisions can be expected under this method, it being useful only in case of decisions of a routine nature.

EXPERIMENTATION

The guiding principle in this method is to try out each alternative and see how it works in practice.

The proof of the pudding is in the eating. Thus, if to push up sales of a particular product, an alternative course of actions is to improve the quality of that product, the best thing would be put the improved version of the product in the market and then see how it helps in the accomplishment of the said objective. However, it is both expensive and risky to test the efficacy of each alternative in this manner. Also, it is time consuming and would certainly delay the choice of the best alternative.

But if the experiment is carried out in a limited way and over a short period, it may be best method of choosing the right alternative. In fact, because of its scientific approach to evaluation, most decision makers prefer experimentation to any other method. Particularly in respect of testing how a particular product design appeals to the consumer or how an incentive bonus plan for the workers helps in stepping up production, this method is without parallel.

ANALYSIS

Under this method, not only the problem as a whole, but also each aspect of it is studied in depth. Thus, cause effect relationship between various aspects are identified and evaluated to see which of the alternatives would be the best under the circumstances.

Take, for example, a decision involving introduction of a new product design. In this case, the issue can be divided into three basic aspects: technical, financial and market acceptability. Is it possible to make the new design with the existing plant and equipment? Will the existing workers be able to cope with the new responsibilities? If not, then how and from where to get the technical and man power requirements? Secondly, would finance be available for the purpose and if so at what cost? Last, but not least, in what way the consumers might react to the new design?

6.3 MODERN TECHNIQUES

The several modern techniques have been developed to help the decision maker. Some those techniques are as follows:

- Sampling
- Linear Programming
- Operational Research
- Correlation
- Programme Evaluation and Review Techniques (PERT)
- Simulation
- Decision Theory
- Decision Tree
- Delphi Technique
- Brainstorming

SAMPLING

It is useful in making generalizations about a mass of items on the basis of a careful study of a smaller number of items drawn from the mass. The whole mass is called the population and the smaller numbers of items are sample.

But generalization based on a sample study cannot be reliable if the size of the sample is too small, or if the sample is not truly representative of the population.

Sampling technique can be used in market research, production control, and quality control, collection of cost data, inventory control and auditing.

LINEAR PROGRAMMING

It aims at the attainment of an optimum position in relation to some objective. Usually, the objective is to minimize costs or to maximise profits. It involves the selection of an alternative or an appropriate combination of alternatives from among a number of them. It gives due weightage to the constraints or limits within which a decision is to be reached. Thus, if the decision relates to production of certain quantities of goods, then plant capacity and the capacities of various departments will have to be taken into account.

But linear programming can be done only when the variables involved in the making of a decision are quantifiable and they have a linear relationship with one another.

OPERATIONS RESEARCH

Operation research involves scientific analysis of decision problems. It facilitates decision making by supplying quantitative information to the decision maker. It provides scientific and objective basis so as to reduce intuition and subjectivity in solving organisational problems. Operations research involves the construction and testing of model. Several techniques of operations research have been developed. Example, probability theory, games theory, network analysis, queuing theory etc., for analysis of problems. Operations research has been widely used in managerial decision making for inventory control, production planning, plant layout, quality control, allocation of resources, routing of vehicles etc. But this technique can be applied only when all the elements of a problem can be quantified.

CORRELATION

Under this, an estimate of one variable is made if the value of another variable is known. Thus, it is used to study the degree of functional relationship between any two or more variables.

For example, there is a positive correlation between profits and the number of units sold or between the variable cost and the number of units produced. Regression analysis, correlation coefficients and scatter diagrams are used to denote correlation between variables.

PROGRAMME EVALUATION AND REVIEW TECHNIQUE (PERT)

This technique was first developed for use in defence projects, particularly in the development of the Polaris Missile Programme. But nowadays, it is commonly used in business situations involving scheduling of operations.

Under this technique, a statistically refined method is used to estimate the time required for each activity, particularly where the project is new and there is not enough past experience to depend upon. It also provides for danger signals for management to enable it to take quick decisions to effect modifications in its earlier plans.

To have a reliable estimate of the time required to perform an activity, not one but three time values are taken the most optimistic time, the most likely time, and the pessimistic time. Obviously, the most optimistic time denotes the shortest time to perform an activity if things proceed as originally calculated, without any complication. But, as it happens, this is a rare phenomenon in business and one or the other original calculations may not come true. As against this, the pessimistic time is the longest time estimated to perform the some activity. It provides for most unexpected and unusual delays. Like the optimistic time, the pessimistic time is also a rare phenomenon.

This leaves the most likely time which is the normal time required to perform the activity. The difference between the three time estimates pin points the degree of the relative uncertainty involved in the performance of the activity. The weighted arithmetic mean of the three estimates is taken to compute the expected time for the activity.

Since an estimate of the expected time involves complicated statistical calculations, often electronic computers are used for the purpose.

SIMULATION

This technique is used when even mathematical equations fail to provide an answer to a business problem. It is a device to reproduce the phenomenon likely to occur during actual performance.

Thus, the manager, with or without the help of a computer, estimates the results of each of the proposed courses of action before initiating a particular course of action. In this way, he can know which of the proposed courses of action is likely to produce the optimum result.

Simulation technique is based on the probability factor. The manager assigns random numbers to each likely event depending on the probability of its happening. This enables him to determine the cost and benefit of each course of action.

However, the calculations involved in the simulation technique are often too complex and cannot be attempted without the aid of electronic computers.

DECISION THEORY

It provides the best way to decision making under conditions or risk and uncertainty. It is possible to know or estimate the probability of outcomes of a decision in conditions of risk. But not so in the case of conditions of uncertainty about which the manager is completely in the dark.

Under this technique, the probable or possible outcomes of different decisions are placed in a systematic order to know which of the decisions would be the best under the circumstances. This technique is particularly suitable where most of the factors likely to affect the outcomes of the decision are beyond the control of the manager.

For example, a company is able to sell 10000 units at a profit of Rs. 10 per unit. It believes that by reducing the price and the profit per unit to Rs. 5, it can increase its sales to 30000 units. The various probable outcomes will thus be arranged as follows:

Sales (Units)	Profit at the existing price	Profit at the reduced price
10000	100000	50000
20000	200000	100000
30000	300000	150000

The manager may also consider the effects of reduction of the profit by Rs. 2,3 or Rs. 4 per unit and study the probable outcomes thereof. This way, he can estimate not only the effects of his present decisions, but also what effects these will have on the alternatives he will face in the future.

Though quantitative techniques are highly complex and many of these can be used only with the help of electronic computers, they do help in encouraging logical thinking about the enterprise objectives and the means through which these are sought to be accomplished.

DECISION TREE

It is a probability tree incorporating branches leading to alternatives, which means decision branches. The alternative branches lead to events that depend on probabilities, which mean probability branches. Decision trees allow management to assess the consequences of a sequence of decisions with reference to a particular problem. The analysis starts with a primary decision that has at least two alternatives to be evaluated. The probability of each outcome must be ascertained as well as its value in terms of money. Comparison of the contingent outcomes for a number of years, and calculation of the net expected values, helps in decision making.

DELPHI TECHNIQUE

In this technique, a panel of experts is appointed who are physically separated and unknown to each other. Suggestions are invited anonymously. These suggestions are compiled and composite feed back is provided to panel members for inviting further suggestions. This process of giving suggestions is repeated till a convergence of opinions begins to emerge. Decisions are taken when this convergence takes place. This helps to improve the quality of decisions.

BRAINSTORMING

Under this technique a small group of persons are stimulated to creative thinking. Maximum group participation and minimum criticism are employed to reduce inhibiting forces for generating ideas. A problem is posed and ideas are invited. Later these ideas are critically examined and the best ideas are selected. No evaluation of ideas is done during discussion to encourage free wheeling. Such free association and unrestricted thinking generates some novel ideas from which unique solution can be found.

6.4 STEPS INVOLVED IN DECISION MAKING

Decision Making – A Creative Process

More the alternative solutions better is the chance of choosing the best solution after weighing the pros and cons of each alternative. The capacity to think in a creative manner is a great asset to the decision maker. The organisation should try to stimulate an atmosphere of creativity. Creativity in an organisation can be increased by providing opportunities to the members of the group for some sort of exchange of ideas. The schemes of management get together and brainstorming helps in increasing the creativity of a group. Brainstorming encourages the group members to give all sorts of ideas without bothering whether the particular idea is workable or not. It has been experienced that an hour or so of brainstorming produces a large number of ideas that can be scrutinized and combined to produce a workable solution.

The various steps in decision making process are as follows:

(1) Diagnosing a problem or defining it

Sound diagnosis of a problem is the crucial stage in the decision making process. A manager should proceed just like a doctor who first takes into account all the symptoms before prescribing the medicine. However, even this is not an easy task. As Peter Drucker points out, books and articles on leadership are full of advice on how to make fast, forceful and useful decisions, but there is no more foolish and time-wasting advice than to decide quickly what a problem really is. Defining the problem in most instances is a time consuming task, but it is time well spent. In defining the problem, the manager should find the critical or strategic factor and he should restrict himself to these. According to Chester. I. Bernard, the theory of the strategic factor is essential for appreciation of decision making process. These are three basic elements of sound diagnosis:

- Identify the gap between the desired results and the existing or predicted state of affairs.
- Find out the direct root cause of the gap between the actual situation and the desired situation.
- Analyse the overall situation and see whether it places any limits within which a satisfactory solution can be found out.

(2) Secure and analyse pertinent facts

After defining the problem, the manager then analyses it. The first step in analysis of the problem is to assemble the facts. There are three important principles of analysis and classification:

- The future of the decision, which means to what length of the time does the decision commits the business to a course of action.
- The impact of the decision on other areas and functions.
- The qualitative considerations that come into the picture. The purpose of classification is to ensure that the decision made takes a comprehensive view of the business as a whole rather than the immediate or the local problem.

(3) Develop alternative solutions or course of action

The next step for the manager, after defining and analyzing the problem is to develop alternative decisions. The purpose of finding alternative solutions is to make the best decision after carefully considering the most desirable course of actions according to the situation.

According to Peter. F. Drucker, “Of course, searching for and considering an alternative does not provide a man with an imagination he lacks. But most of us have infinitely more imagination than we ever use. A blind man, to be sure, cannot learn to see. But it is amazing how much a person with normal eyesight does not see, and how much he can perceive through systematic training of the vision. Similarly, the mind’s vision can be trained, disciplines and developed. And the method for this is the systematic development of the alternative solutions to a problem.”

(4) Decide upon the best solution or optimum course of action

After developing the alternatives, a manager should try to foresee the probable, desirable alternatives for implementation. Here, it would be useful to list down all the advantages and disadvantages of all possible courses of actions. In classifying the alternatives and in listing the advantages of each alternative, distinction between tangible factors and intangible factors must be made. It is always good to measure all the tangible advantages and disadvantages in terms of a common denominator, which means money. Once the merits and demerits of various alternatives have been listed, the next stage would be to concentrate only on differences because then only it would be possible to take an immediate decision.

(5) Convert the decision into effective action

After defining and analyzing the problem and developing and evaluating the alternative solutions, a manager can select the best possible solution from these alternatives. The knowledge gained by past experience is helpful in taking the final decision. The decision must always be viewed with the future in mind and the underlying circumstances of the past and present must be considered. Once the final choice is made, the next stage is to implement the decision. This is not a part of choice activity but is a post choice activity, clustering around implementation of the selected course of action.

(6) Implementing and verifying the decision

Effectiveness of decision depends on how appropriately a decision is implemented. Best decisions are futile if they are not effectively implemented. It is also possible that a good decision may not be fruitful just because of poor implementation. In this sense, implementation is more important than the actual activity of choosing an alternative. Further, a follow-up system is also essential to modify the decisions if necessary.

6.5 REVIEW QUESTIONS

1. Explain the various traditional techniques of decision making in detail.
2. Explain the modern techniques of decision making in detail
3. Briefly explain the steps in decision making.

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UNIT-II

LESSON-7

NATURE AND PROCESS OF ORGANISATION

CONTENTS

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7.1 INTRODUCTION

An organization is a social unit or human grouping deliberately structured for the purpose of attaining specific goals, say for e.g. School, Hospital Corporations etc.,

The term organization is used in two contexts.

- 1) Organization as a Structure
 - 2) Organization as a Process
1. Organization as a structure means a network of specific relationship between individuals in an organization.
 2. Organization as a process means identifying, classifying, grouping and assigning various activities required to achieve the objectives

7.2 MEANING AND DEFINITION

The word “organization” is derived from the word “Organism” that means an organized body connected with interdependent parts and share a common objective. Organization is the detailed arrangement of work and work conditions in order to perform the assigned activities in an effective manner.

Louis A. Allen defines as, “Organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives.”

7.3 NATURE AND ELEMENTS OF ORGANISATION

The main elements of organization are given below:

1. Common Purpose

Every organization exists to accomplish some common goals. The structure must reflect these objectives as enterprise activities are derived from them. It is bound by common purpose.

2. Division of Labour

The total work of an organization is divided into functions and sub-functions. This is necessary to avoid the waste of time, energy and resources which arise when people have to constantly change from one work to another. It also provides benefits of specialization.

3. Authority Structure

There is an arrangement of positions into a graded series. The authority of every position is defined. It is subordinate to the position above it and superior to the one below it. This chain of superior subordinate relationships is known as chain of command.

4. People

An organization is basically a group of persons. Therefore, activity groupings and authority provisions must take into account the limitations and customs of people. People constitute the dynamic human element of an organization.

5. Communication

Every organization has its own channels of communication. Such channels are necessary for mutual understanding and co-operation among the members of an organization.

6. Coordination

There is a mechanism for coordinating different activities and parts of an organization so that it functions as an integrated whole. Co-operative effort is a basic feature of organization.

7. Environment

An organization functions in an environment comprising economic, social, political and legal factors. Therefore, the structure must be designed to work efficiently in changing environment. It cannot be static or mechanistic.

8. Rules and Regulations

Every organization has some rules and regulations for orderly functioning of people. These rules and regulations may be in writing or implied from customary behaviour.

7.4 PURPOSE AND IMPORTANCE OF ORGANISATION

Sound organization is essential for the continuity and success of every enterprise. It is indeed the backbone or foundation of effective management. The main importance of organization is given below:

1. Aid to management

Organization is the mechanism through which management coordinates and controls the business. It serves as an effective instrument for realizing the objectives of the enterprise. It is through the framework of organization that plans are put into practice and other managerial functions are carried out.

2. Facilitates Growth

A well-designed and balanced organization provides for systematic division of work and permits necessary change. The enterprise possesses necessary adaptability to face new challenges. There can be continuity in work performance. Scope for innovation and diversification is increased.

3. Ensures optimum use of resources

A good organizational set up permits adoption of new technology. It helps to avoid duplication of work, overlapping efforts and other types of waste. As a result it facilitates the best possible utilization of human and physical resources. Effective check can be exercised on work and workers.

4. Stimulates Creativity

Sound organization encourages creative thinking and initiative on the part of employees. Delegation of authority provides sufficient freedom to lower level executives for exercising discretion and judgment. Clear lines of authority and responsibility simplify communication. Individual objectives can be integrated with organizational goals. New and improved ways of working can be developed.

5. Facilitates Continuity

A well designed organization provides for training and development of employees at all levels. It provides opportunities for leadership and help in ensuring the stability of the enterprise through executive development.

6. Helps in Coordination

Organization is an important means of integrating individual efforts. It helps in putting balanced emphasis on different departments and divisions of the enterprise. It makes for co-operation and harmony of actions.

7.5 STEPS IN THE PROCESS OF ORGANISATION

Organization is the process of establishing relations among the members of the enterprise. The relationships are created in terms of authority and responsibility. Each member in the organization is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform his duty.

Steps in Organizing

1. Determination of Objectives

Organization is always related to certain objectives. Therefore it is essential for the management to identify the objective before starting any activity. It will help the management and the workers. They bring about unit of direction in the organisation.

2. Identification and Grouping of Activities

If the members of the group are to pool their efforts, effectively, there must be proper division of the major activities, each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For instance, the total activities of an individual organisation may be divided into major functions like production, purchasing, marketing, financing etc and each such function is further subdivided into various jobs.

3. Assignment of Duties

After classifying and grouping the activities into various jobs they should be allotted to the individuals. Each individual should be given a specific job to do according for that, He should also be given the adequate authority to do the job assigned to him.

4. Delegation of Authority

Appropriate amount of authority is delegated to each individual for enabling him to perform the duties assigned. For example, the purchase manager is given the authority to purchase goods and pay for them. While delegating authority, the degree of responsibility of the individual should be taken into consideration.

5. Defining Authority Relationships

Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationships in the organisation. Everybody should be clearly known whom he is accountable. This will help in the smooth working of the enterprises by facilitating delegation of responsibility and authority.

Thus, the process of organizing consists of defining and enumerating individual tasks, grouping and classification of tasks, the delegation of authority for their accomplishment and the specification of authority relationships between managers.

7.6 PRINCIPLES OF ORGANISATION

The following principles are helpful in developing a sound and efficient organisation structure:

1. Objectives

The objectives of the enterprise influence the organisation structure and hence the objectives of the enterprise should first be, clearly defined. Then every part of the organisation should be geared to the activities of these objectives.

2. Specialization

Effective organisation must promote specialization. The activities of the enterprise should be divided according to function and assigned to persons according to their specialization.

3. Span of Control

As there is a limit to the number of person that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum that means, an executive should be asked to supervise a reasonable number of subordinates only say six.

4. Exception

As the executives at the higher levels have limited time, only exceptionally complex problem should be referred to them and routine matters should be dealt with by the subordinates at lower levels. This will enable the executives at higher levels to devote time to more important and crucial issues.

5. Scalar Principle

This principle is sometimes known as the “chain of command”. The line of authority from the chief executive at the top to the first line supervisor at the bottom must be clearly defined.

6. Unity of Command

Each subordinate should have only one supervisor whose command he has to obey. Dual subordination must be avoided, for it causes uneasiness, disorder, indiscipline and undermining of authority.

7. Delegation

Proper authority should be delegated at the lower levels of organisation also. The authority delegated should be equal to responsibility i.e., each manager should have enough authority to accomplish the tasks assigned to him.

8. Responsibility

The superior should be held responsibility for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

9. Authority

The authority is the tool by which a manager is able to accomplish the desired objective. Hence the authority of each manager must be clearly desired. Further, the authority should be equal to responsibility.

10. Efficiency

The organisation structure should enable the enterprise to function efficiently and accomplish its objectives with the lowest possible cost.

11. Simplicity

The organisation structure should be as simple as possible and the organisation means difficulty of effective communication and co-ordinate.

12. Flexibility

The organisation should be flexible, should be adaptable to changing circumstances and permit expansion and replacement without dislocation and disruption of the basic design.

13. Balance

There should be a reasonable balance in the size of various departments, between centralization and decentralization between the principles of span of control and the short-chain of command, and among all types of factors such as human, technical and financial.

14. Unity of Direction

There should be one objective and one plan for a group of activities, having the same objectives. Unity of direction facilitates unification and co-ordination of activities at various levels.

15. Personal Ability

As people constitute an organisation there is need for proper selection placement and training of staff. Further, the organisation structure must ensure optimum use of human resources and encourage management development programmes.

7.7 REVIEW QUESTIONS

1. Explain the elements of organisation.
2. Explain the importance of organisation.
3. Explain the principles of organisation.
4. Explain the various steps in a process of organisation

7.8 REFERENCES

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LESSON-8

TYPES OF ORGANISATION

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- 8.1 Introduction
- 8.2 Line Organisation
- 8.3 Functional Organisation
- 8.4 Line and Staff Organisation
- 8.5 Committee Organisation
- 8.6 Project Organisation
- 8.7 Matrix Organisation
- 8.8 Freeform of Organisation
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8.1 INTRODUCTION

The internal organisation of an enterprise represents the network of vertical and horizontal authority relationships between various positions. The exact form of internal organisation depends upon the nature, size and objectives of the particular enterprise.

8.2 LINE ORGANISATION

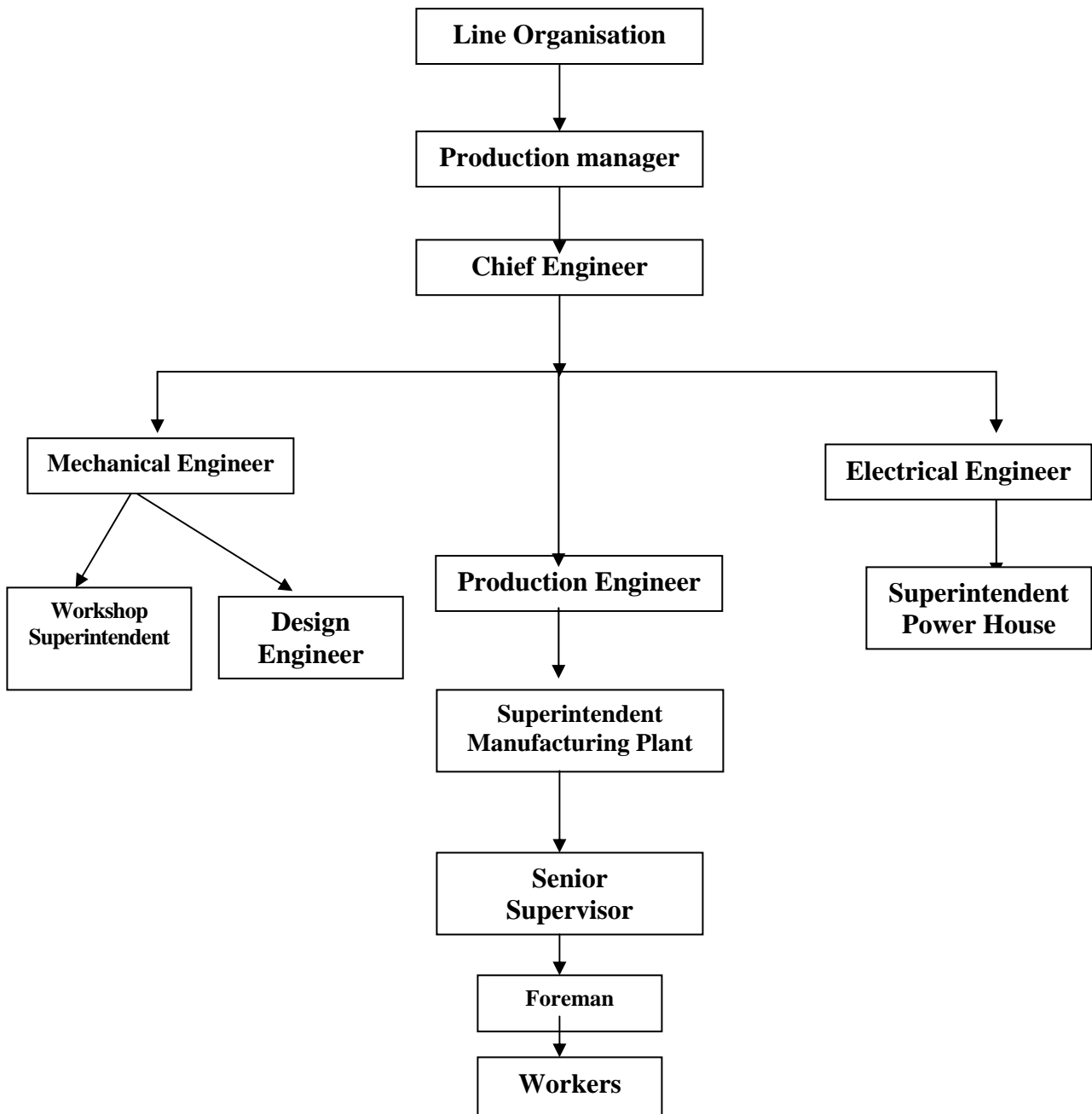
The line organisation represents structure in a direct, vertical, relationship through which authority flows. It is the simple form of organisation structure and is also known as scalar or military organisation. Under this, the line of authority flows vertically downward from top to bottom throughout the organisation.

Characteristics

The chief characteristics of the organisation.

1. It consists of direct vertical relationship.
2. Authority flows directly from the top of the organisation down to the lowest positions.
3. Whereas authority flows downward, response flows upward.

LINE ORGANISATION CHART



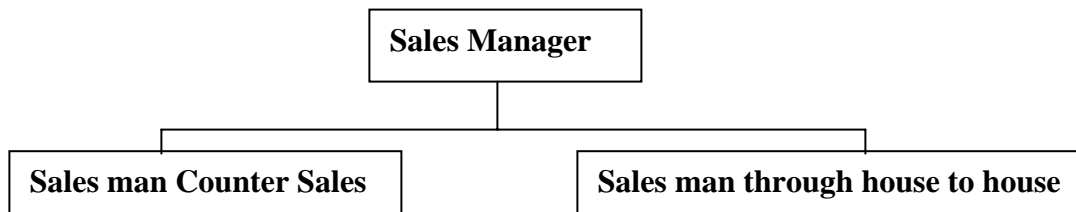
The chief characteristic of the type of organisation is the flow of authority from top to bottom through various levels. The general manager issues instructions to various departmental heads, who pass it on to supervisors. The supervisors pass on the instruction to the workers. Here each member knows from whom he has to receive orders and to whom he can give orders.

In the chart for instance, the order flow from production manager to workers through line authorities viz, the Chief Engineer, Production Engineer, Superintendent of the Manufacturing Plant, Senior Supervisors and Foreman.

Kinds of Line Organisation

There are two types of line Organisation.

1. Pure line organisation and
2. Departmental Line organisation.



Pure Line Organisation

In pure line organisation activities at any one level are the same. Every employee, more or less has the same type of work both the salesman organizing sales under the sales manager. One in looking after counter sales, and the other is looking after house to house sales.

Departmental Line Organisation

In a departmental line organisation there is the chief executive at the top under him, there are a number of department each headed by departmental manger. Each departmental head derives his authority from the general manager and delegates authority from the general manager and delegates authority to his immediate subordinates. These subordinates, in term delegate authority to their own subordinates and so on.

Merits of Line Organisation

1. Simple: A line organisation is easy to establish.
2. Clear division of authority and responsibility:-Each individual has his area of authority clearly indicated. Also he knows to whom he is responsible for his work performance.
3. Unity of Command:-There is unity of command, and control according to which an employer can be given orders by one superior only.
4. Speedy Action:- Because of a clear division of authority and responsibility as unity of command and control.
5. Flexibility:- Each executives knows what he has to do and feels free to make suitable adjustment to realize the goals ser for him.

Demerits of Line Organisation

1. Lack of Specialization

Line executives are responsible for both planning and execution of the work assigned to them. This amounts to relying heavily on the capacity and capability of individual executive foremen for eg., can at one and the same time plan the work of their subordinates and also guide them properly in doing it.

2. Over Burdening of Keymen

An executive with line authority has complete control over his unit. Also he alone is held responsible for the performance of his subordinates. This places a great burden on a single individual.

3. Limited Communication

A line organisation does not usually provide for communication from the subordinates upwards.

4. Subjective Approach

A line executive has monopoly over decision-making, and he is not obliged to seek advice or listen to suggestion from any quarter. This may result in arbitrariness in decision-making, leaving scope.

8.3 FUNCTIONAL ORGANISATION

Functional organisation is based on the concept of “Functional Foremanship” developed by F.W.Taylor. He suggested that there should be eight specialists (rather than one foreman) to guide workers in the factory. Four of them should be concerned with the planning of work and the other four with the execution of plans.

Under functional organisation the organisation is divided into a number of functional areas. For example, the purchase department handles purchases for all departments. The executive in charge of a particular function issues orders throughout the organisation with respect to his function only for example, the personnel manager will decide the questions relating to salary, promotions, transfers, etc., for every employee in the organisation whether he is in production, sales or any other department. Thus, an individual in the organisation receives instructions from several functional heads.

Advantages of Functional Organisation

1. Specialization

Functional organisation promotes logical division of work. Every functional head is an expert in his area and all workers get the benefit of his expertise.

2. Reduction of Workload

Every functional head looks after one function only, and therefore burden on top executives is reduce, mental and manual functions are separated.

3. Better Control

One-man control is done away with and there is joint supervision of work. As a result control becomes more effective.

4. Easier Staffing

Recruitment, selection and training of managers is simplified because each individual is required to have knowledge of one functional area only.

5. Higher Efficiency

Every individual in the organisation concentrates on one function only and receives the expert guidance from specialists. Therefore efficiency of operations is high.

6. Scope for Expansion

The success and growth of the organisation is not limited to the capabilities of a few line managers. Standardization and specialization facilitate mass production.

Disadvantages of Functional Organisation

1. Double Command

A person is accountable to several superiors. As a result, his responsibility and loyalty get divided. In the absence of unity of command responsibility for results cannot easily be fixed.

2. Complexity

There are many cross-relationships which create confusion. A worker may receive conflicting orders..

3. Delay in Decision-Making

A decision problem requires the involvement of several specialists

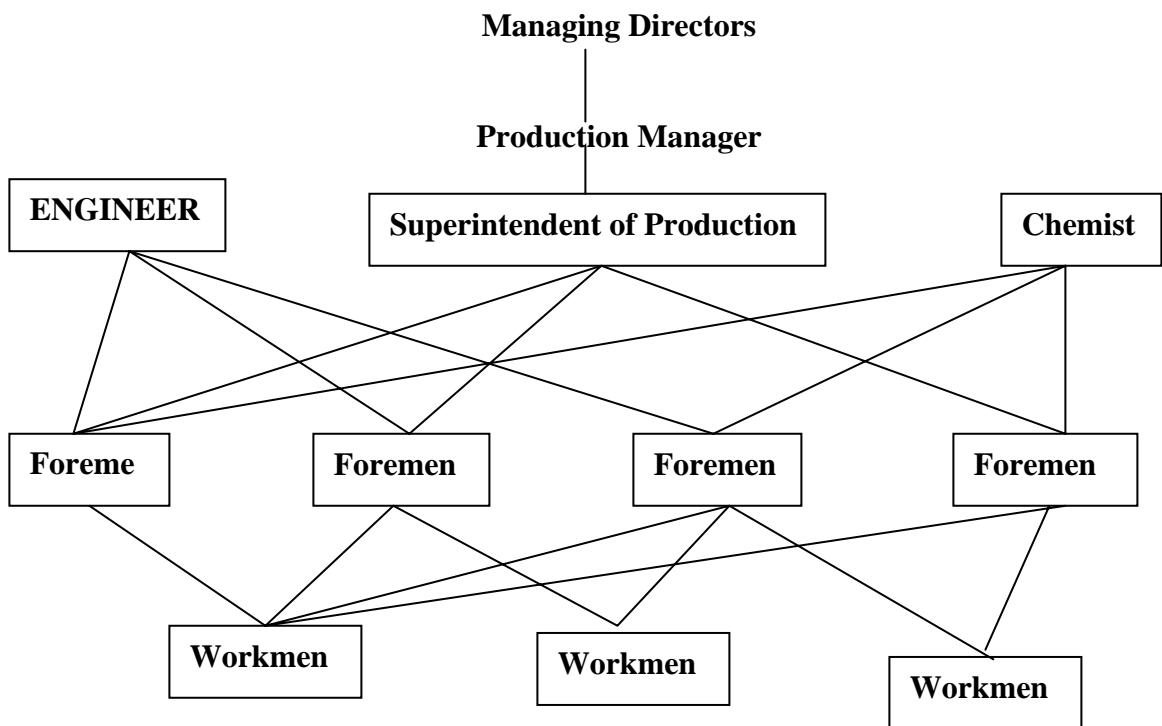
4. Problem of Succession

Executives at the lower level do not get opportunity of all round experience. This may create problem in succession to top executive position.

5. Lack of Co-ordination

A functional manager tends to have a limited perspective. He thinks only in terms of his own department rather than of the whole enterprise. Functional organisation is generally suitable for large and medium-size concerns. But is should be applied at higher levels because it does not work well at the lower levels.

FUNTIONAL ORGANISATION CHART



8.4 LINE AND STAFF ORGANISATION

Line and staff organisation is a combination of line and function structures. Under it, line authority flows in a vertical line in the same manner as in the line organisation. In addition, staff specialists are attached to line positions to advise them on important matters. These specialists do not have power to command over subordinates in other departments. They are purely of advisory nature. For example, the chief accountant has command authority over accountants and clerks in the accounts department. But he has only advisory relationship with other departments like production, sales etc.

Advantages of Line and Staff Organisation

1. Expert Advice

Line managers receive specialized advice and assistance from staff experts. They are enabled to discharge their responsibilities more efficiently.

2. Relief to Top Executives

Staffs carry out detailed investigation and supply information to line executives. Therefore, the burden of line executives is reduced.

3. Quality Decisions

Staff specialists provide adequate information and expert advice.

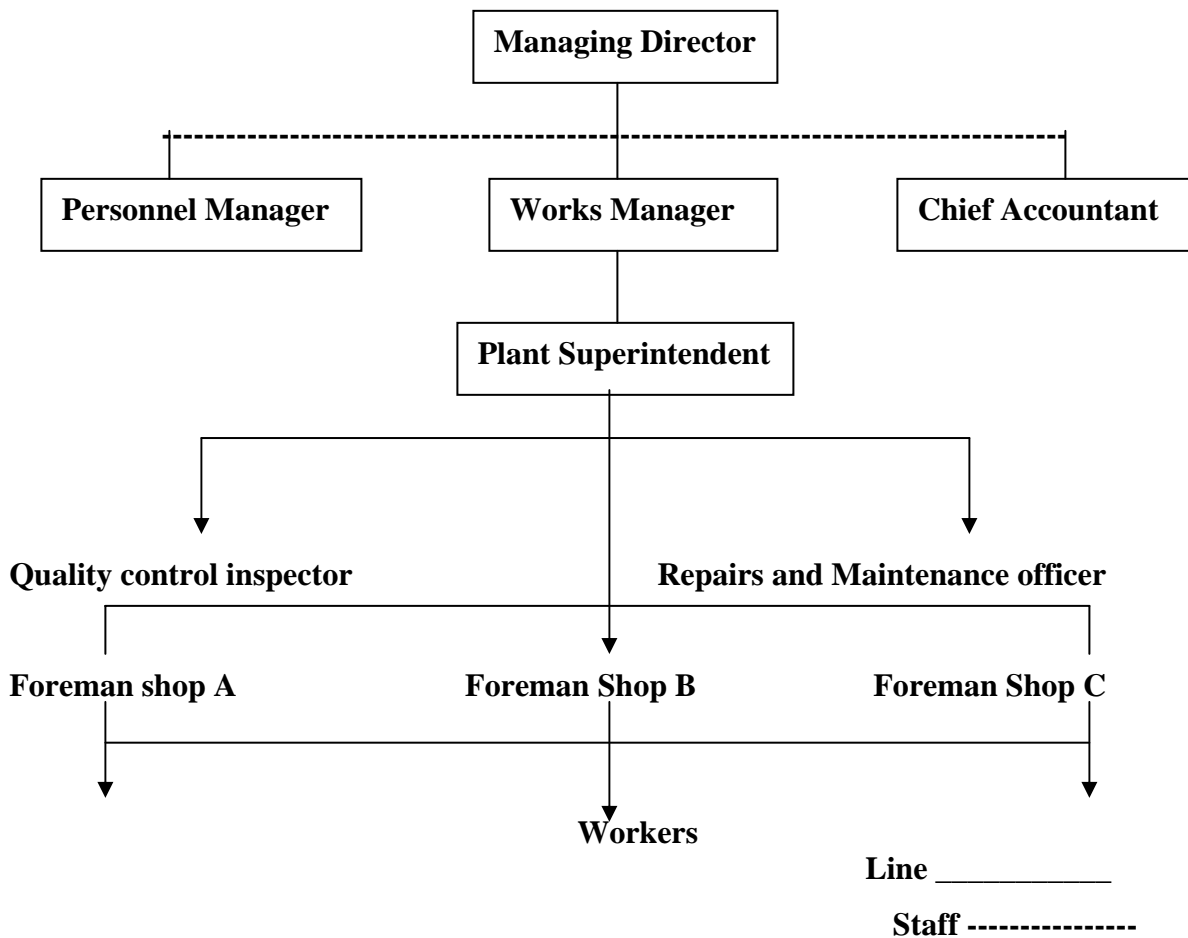
4. Training of Personnel.

As every executive concentrates in one field, he acquires valuable experience. Young staff executives get opportunity of acquiring expertise in their respective fields of activity.

5. Flexibility

Line and staff organisation is comparatively more flexible. There is more opportunity for advancement because a greater variety of responsible jobs is available.

LINE AND STAFF ORGANISATION CHART



Disadvantages of Line and Staff Organisation

1. Line and Staff Conflicts

The main problem of line and staff organisation is that conflict often arises between line managers and staff specialist.

2. Confusion

In actual practice, it is often very difficult to define clearly the authority relationships between line and staff. Different managers may not be clear as to what the actual area of operations is and what is expected of them.

3. In Effective Staff

Staff personnel are not accountable for the results. Therefore, they may not take their tasks seriously. They may also be ineffective due to lack of command authority.

Types of Staff

Staff may be divided into the following these categories.

1. Personal Staff.

Personal staff consists of these assistant positions which provide advice and service to one manager in carrying out his responsibilities such as staff positions are known by different names, eg, personal assistant, private secretary, executive assistant etc.. For example, a private secretary may be employed to help the managing director in performing his job.

2. Specialized staff.

Such staff renders advice and service to all departments in the organisation. It consists of specialist or experts in different areas like accounting, personnel, etc. These specialized staff become reservoirs of special knowledge and experience. For example, a personnel department may advise and guide all departments in the recruitment, selection, training, etc of employees.

3. General Staff.

It consists of a group of experts in different fields who are attached to the head office of the organisation.

8.5 COMMITTEE ORGANISATION

A committee is a group of persons kept together to discuss and deliberate on problems and to recommend or decide solutions. Its area of operation is determined by its constitution. It may be authorized to deal with all or specific activities. Committees have become an important instrument of management in modern organisation. They may be used for the following objectives.

- i) To see line view points and consultation of various persons in the organisation.
- ii) To give participation and representation to different groups of interests.
- iii) To coordinate the activities of different departments.
- iv) To review the performance of certain units.
- v) To facilitate communication and co-operation among diverse groups.

Types of Committees

On the basis of their constitution and functions, committees may be classified into the following categories.

1. Standing or Adhoc Committee

A standing or permanent committee exists continuously for an indefinite period of time. On the other hand, an adhoc, or temporary committee is constituted for a specific purpose.

2. Executive or Advisory Committee

An executive committee has the authority to make and execute decisions. On the contrary, an advisory committee has authority only to make recommendations.

3. Line or Staff Committee

A line committee is purely executive as it coordinates and controls the activities of subordinates. But, a staff committee simply disseminates information, advice and assistance to line managers.

4. Formal or Informal Committee

Formal committees are duly constituted by management as per organizational policies and rules. They are a part of the organisation structure and they are depicted on the organisation charts informal committees.

Advantages of Committee Organisation

1. Group Judgement

In committee decision-making, combined judgement and experience of a group of persons are brought together for the solutions of intricate problems. Group deliberations permit a thorough analysis of the problem from different angles. There is exchange of ideas and opinion.

2. Effective Co-ordination

Committees serve as an important technique of unifying and integrating various points of view by bringing together managers from different departments.

3. Motivation through participation

By allowing the people to participate in the decision making process committee's help to improve the loyalty and commitment of employees.

4. Representation of Diverse Interest Groups

Committees are a useful means for giving representation to various interest groups representatives helps to avoid conflicts among groups and improves group cohesiveness.

5. Management Development

By serving on various committees managers acquire valuable experience. Their outlook and knowledge are widened and they are exposed to the art and science of decisions making.

6. Effective Communication

Committees are useful for quick transmission of information throughout the organisation. The objectives, policies, and programmes of the organisation can be effectively communicated through committee meetings.

7. Consolidation of Authority

Some special problems cannot be solved by a particular manager because of splintered authority. No individual has adequate authority and has to consult others before taking the decision..

8. Check against Misuse of Powers

The committee is vested with line authority to provide checks and balances against the abuse of power. For example, board of directors serves to prevent misuse of power by a single director similarly, in government, committees and boards are constituted to check the administrative machinery.

9. Avoiding Action

Management may use committees to delay or postpone action. As a strategy, a committee may be constituted to cool off agitation to overcome resistance, to buy much needed time or to avoid individual responsibility.

Disadvantages of Committee Organisation

1. Expensive

Committee meetings are a costly affair both in terms of money and time. In addition to the salary of the committee members, there are heavy incidental expenses like printing and stationery, refreshment, conveyance, daily allowance etc.,

2. Slow Decisions

The functioning of a committee is slow and it cannot take quick decisions. A lot of time is involved in calling meetings.

3. Compromise Decisions

While reaching a decision, committees tend to adopt the path of least resistance. A compromise or unanimity is sought to accommodate opposite viewpoints. There is leveling effect.

4. Tyranny of the Minority

This is likely to leave behind a legacy of bitterness, discontent and frustration. The force of a stronger personality may overshadow and even sabotage committee action.

5. Divided Responsibility

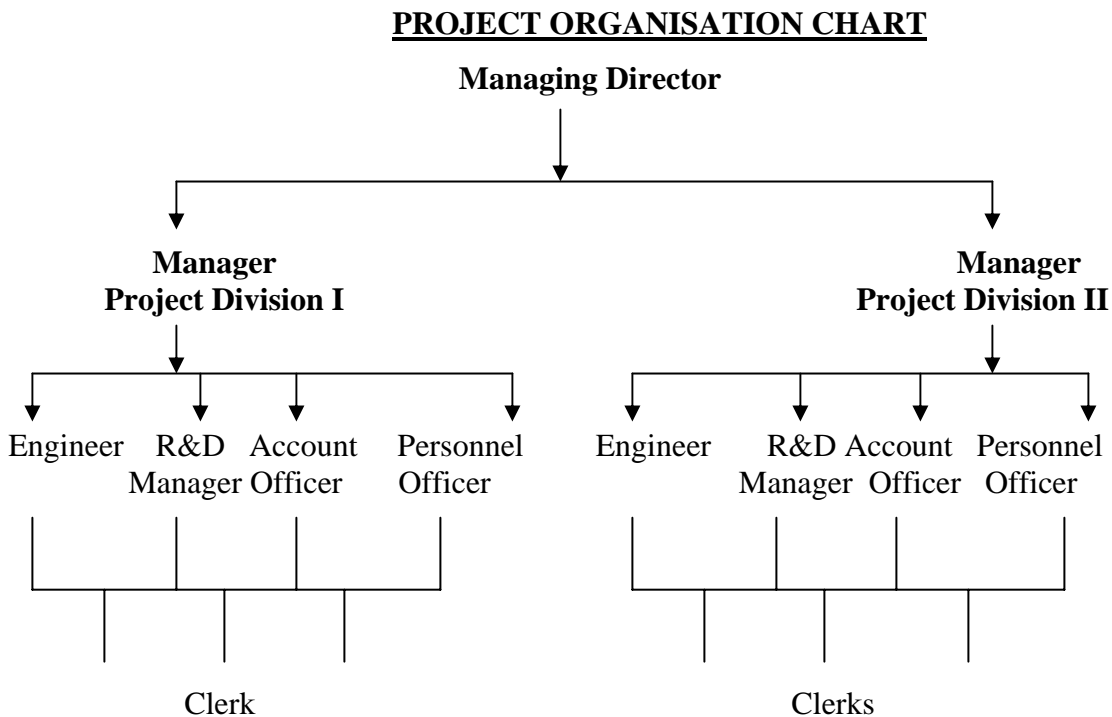
The responsibility wrong decisions by a committee cannot be fixed on any one individual. In such group responsibility, every member feels unaccountable,

6. Misuse of Committees

Committees are sometimes misused to avoid action to take unpleasant decision or to delay decisions.

8.6 PROJECT ORGANISATION

Project and Matrix structure are of recent origin, developed after world war II. When an organisation has to execute large prospects of long duration, may adopt a project organisation under project organisation each project organisation each project organized as a semi-autonomous project division.



Project organisation can be effectively applied under the following situations.

1. The project offers a unique or unfamiliar challenge
2. The project has definite goals and well-defined specifications.
3. Successful completion of the project is critical to the organisation.
4. The project is complex with interdependent tasks.
5. The assignment is to be completed within the given time limit.

Advantages of Project organisation

1. Project organisation facilitates concentrated attention that a complex project requires. It can be tailored to meet the specific requirements of the particular project.
2. It allows maximum use of specialized knowledge and skills.
3. It provides greater flexibility in handling specialized projects. It also provides better co-ordination of organizational resources.
4. Project organisation provides greater check over the project work. Facilitates fixation of individual responsibility for results. It makes for meaningful control.

Disadvantages of Project organisation

1. There is great uncertainty because the project manager has to deal with specialists from a number of diverse fields. These specialists often have different approaches and interest.
2. The job of the project manager becomes very difficult due to lack of clearly defined responsibility, lack of clear communication line and lack of performance standards for various professional.
3. The project manager has to devise a decision process where information could be monitored quickly and without much delay in decision. Decision-making is very difficult due to unusual pressures from specialists and time limits for completion of the project.
4. The project manager cannot apply the traditional approach for motivating and controlling the professionals. Lack of awareness of project problems, personal prejudice and different orientations of professional create serious problems.

8.7 MATRIX ORGANISATION

Matrix organisation is a hybrid grid structure wherein pure project organisation is super imposed on a functional structure. It is a two-dimensional pattern developed to meet the problems of growing size and complexity of undertakings. Such under taking require on organisation structure more flexible and technically oriented than the traditional and staff structures.

Advantages of Matrix organisation

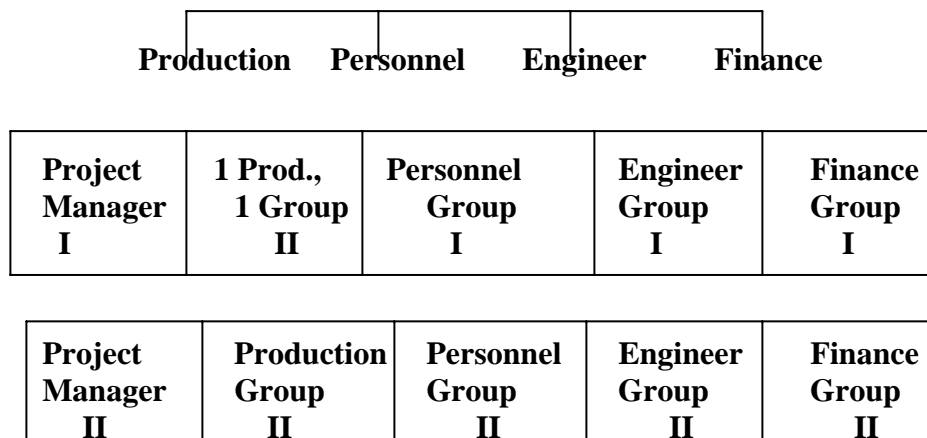
1. It effectively focuses attention and resources on a single project. This leads to better planning and control, which, in turn, help in completion of project in time.
2. It is more flexible than the traditional functional organisation. It can be more easily adapted to changes in technology.
3. It stresses authority of knowledge rather than status. Therefore, services of professional can be better utilized.
4. Matrix structure provides motivation to personnel engaged in a project.

Disadvantages of Matrix organisation

1. It violates the principle of unity of command as functional groups receives orders from both functional bosses and project manager. The organizational relationship becomes very complex and there is great confusion among personnel.
2. Joint decision-making and sharing of resources are required.

MATRIX ORGANISATION CHART

Managing Director



Matrix structure can be successful only when there is an agreement amongst the key executives regarding the sharing of authority and resources. There should be common willingness among both functional manager and project managers to resolve the conflicts that may arise due to the sharing of resources.

8.8 FREE FORM ORGANISATION

A free form organisation is a rapidly changing adaptive, temporary system organized around problems to be solved by groups of relative strangers with diverse professional skills. Free form organisation is in many ways similar to the project and matrix organisation some of the important characteristics of free form organisation are as follows.

1. Objectives

A free form organisation is created generally to accomplish long-range and development oriented goals. But tasks, roles and relationships are not well-defined.

2. Environment

A free form organisation is a highly flexible and dynamic structure that is constituted in response to a volatile and unstable external environment.

3. Time Span

There is no rigid time span. The structure may last a week, a month or a year depending on changes in the environment.

4. Structure

A free form organisation reduces the emphasis on positions, departments and other formal units and on the organizational hierarchy. This is because problems differ from one situation to another. The structure is related to individual expertise in resolution of the problems at hand.

5. Authority

Specific tasks are assigned keeping in view individual expertise and competence. There are no definite levels with which authority could be associated forever

6. Roles

Job tasks in a free form organisation cannot be defined with certainty.

7. Profit Centres

Profit centers rather than functional departments are used. Profit centers place all contributions to an integrated single unit with unified goals so that all gain or lose by the results. Major functions are treated as profit centers.

8. Flexibility

The free form organisation is highly fluid and dynamic. It is so constituted that its constituent units are operated quite flexibly. A small central group at the top is relatively stable.

9. Communication

There are no fixed channels of communication focus is on team approach and not on organisation charts or chain of command.

10. Control

Criteria used for evaluating performance are both objective and subjective but the focus is always on activities and result. Free form organisation is suitable for industries which operate in a highly dynamic environment.

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- ** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
- ** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-9

SPAN OF MANAGEMENT

CONTENTS

- 9.1 Introduction
- 9.2 Meaning and Definition
- 9.3 Theory of Graicunas
- 9.4 Span of Control and Levels of management
- 9.5 Factors determining Span of management
- 9.6 Review Questions
- 9.7 References

9.1 INTRODUCTION

The term 'Span of Management' is also known as 'Span of Control', Span of supervision and 'Span of authority'. It represents a numerical limit of subordinates to be supervised and controlled by a manager. It is an important principle of sound organisation.

9.2 MEANING AND DEFINITION

Span of control is related with the number of subordinates a manager can effectively supervise. The quality of supervision becomes poor and coordination becomes weak when large number of subordinates works under a single manager. However, if the number of subordinates is too small, then the management abilities may not be fully utilized. A balance between these two extremes must be maintained in order to use the full potential of the manager. No one can effectively supervise in an infinite number of subordinates. A manager can pay attention only on a limited number of subordinates. The optimum number of subordinates that a manager can effectively supervise at a particular time varies from manager to manager.

According to Peter .F. Drucker, span of control refers to the limit on the number of subordinates reporting directly to a superior.

Koontz and O'Donnell used this term to represent that limit on the number of persons that an individual can effectively manage.

9.3 THEORY OF GRAICUNAS

This principle is based on the theory of relationships propounded by V.A Graicunas, a French Management Consultant (1993). Graicunas analyzed superior – subordinate relationship and developed a mathematical formula based on the geometric increase in complexities of managing as the number of subordinate's increases.

Graicunas showed mathematically that a number of direct, group and cross relationships exists between a manager and his subordinates. The number of these relationships increases with the increase in the number of the subordinates. He said that an executive having four subordinates under him is required to deal with

- i) 4 direct single relationships
- ii) 12 Cross relationships and
- iii) 28 group relationships i.e. in all forty four relationships.

He derived these on the basis of the following formula.

$$\text{No. of direct relationships} = n = (4)$$

$$\text{No. of cross relationships} = n (n-1) = 4 (4-1) = 12$$

$$\begin{aligned} \text{No. of group relationships} &= n (2^{n-1} - 1) = 4 (2^{4-1} - 1) \\ &= 4 (2^3 - 1) = 4 (8 - 1) \\ &= 4 (7) \\ &= 28 \end{aligned}$$

$$\text{Total no. of relationships} = n [2 n/2 = (n-1)]$$

(Or)

$$= n [2 n-1 = n-1]$$

$$= 44 \text{ (Where } n \text{ represents the number of subordinates)}$$

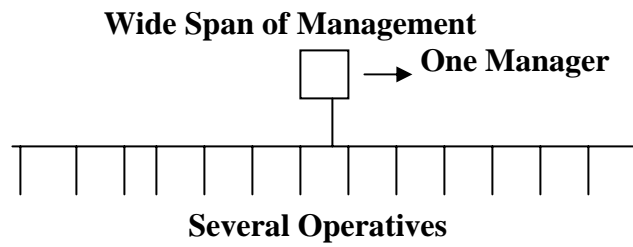
9.4 SPAN OF CONTROL AND LEVELS OF MANAGEMENT

Wide Span of Supervision or Flat Structure

When the span of supervision is wider, the number of executives needed to supervise the workers will be less. This will make the organisation structure wide.

Advantages

1. Such structure would be less expensive because of less overhead costs of supervision.
2. Since the number is less there will be better communication between the worker and the management and better co-ordination.



Disadvantages

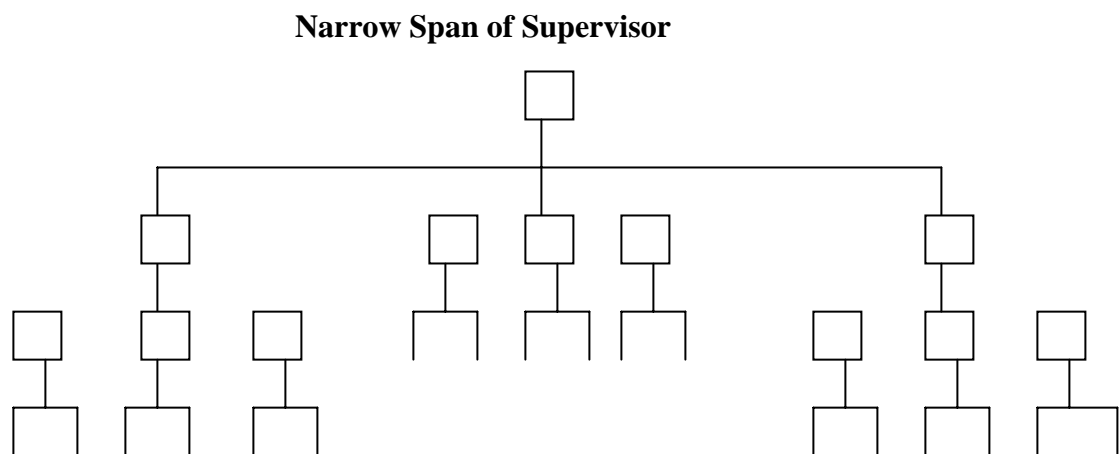
Quality of Performance is likely to deteriorate because one executive cannot effectively supervise a large number of subordinates.

Narrow Span of Supervisor

The narrow span of supervision will lead to a tall structure and to an increase in the executive payroll as compared to the flat structure.

Advantages

1. The narrow Span of Supervision has the benefit of better personal contacts between the supervisors and the subordinates.
2. It facilitates tight control and close supervision.
3. Tall organisation structure gives sufficient time to an executive for developing relations with the subordinates.



9.5 FACTORS DETERMINING SPAN OF MANAGEMENT

The Span of Control varies from individual to individual, time to time and place to place. The factors which determine the span of control are as follows:

1. Ability of Managers

Individuals differ in various qualities like leadership, decision making and communication. The span may be wider if the manager possesses these skills in greater degrees compared to others.

2. Time Available for Supervision

The span should be narrow at the higher levels because top managers have less time available for supervision. They have to devote the major portion of their time to planning, organizing, directing, and controlling. Each top manager will delegate the task of supervision to his subordinates who have to devote comparatively less time on the important functions of management.

3. Nature of Work

When the spans are narrowed, the levels in the organisation increase. This involves delegation of authority and responsibility. If the work is of a routine and repetitive nature it can easily be delegated to the subordinates.

4. Capacity of Subordinates

If the subordinates are skilled, efficient and knowledgeable, they will require less supervision. In such a case, the supervision may go in for a wider span.

5. Degree of decentralization

Under decentralization, the power to make decisions is delegated to the lower levels the span of management will be narrow in such cases, so as to exercise more and more control.

6. Effectiveness of Communication

An effective system of communication in the organisation favours large number of levels because there will be no difficulty in transmission of information in spite of a large number of intervening layers.

7. Control Mechanism

The Span of Control also depends upon the control mechanism being followed. Control may be followed either through personal supervision or through reporting. The personal supervision favours narrow span and the latter (reporting) favours a wide span.

9.6 REVIEW QUESTIONS

1. What do you mean by span of control?
2. Explain the Graicunas theory of span of control.
3. Explain the factors determining the span of control.
4. Explain the span of control under various levels of management.

9.7 REFERENCES

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-10

DELEGATION

CONTENTS

- 10.1 Introduction
- 10.2 Meaning and Definition
- 10.3 Characteristics of Delegation
- 10.4 Importance and Benefits of Delegation
- 10.5 Demerits of Delegation
- 10.6 Types of Delegation
- 10.7 Process of Delegation
- 10.8 Reasons for Non Delegation (Obstacles to Delegation)
- 10.9 Making Delegation Effective
- 10.10 Principles of Delegation
- 10.11 Review Questions
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10.1 INTRODUCTION

Delegation means devolution of authority on subordinates to make them perform the assigned duties or tasks. It is that part of the process of organisation by which managers make it possible for others to share the work of accomplishing organizational objectives.

10.2 MEANING AND DEFINITION

In simple words, to delegate means to entrust authority to a subordinate. It involves granting the right to decision-making in certain defined areas and changing the subordinates with responsibilities for carrying out the assigned tasks.

Delegation refers to the assignment of work to others and granting them the requisite authority to accomplish the job assigned.

According to Douglas C.Basil, “Delegation consists of granting authority or the right to decision making in certain defined areas and charging the subordinate with responsibility for carrying through the assigned task.”

10.3 CHARACTERISTICS OF DELEGATION

1. Delegation takes place when a superior grants some discretion to a subordinate. The subordinate must act within the limits prescribed by the superior.
2. A manager cannot delegate authority which he himself does not possess moreover he cannot delegate the entire authority to his subordinates because if he delegates all his authority he passes his position to the subordinate.
3. Generally authority regarding routine decisions and for execution of policies is delegated to subordinates
4. The extent of authority which is delegated depends upon several factors eg. The ability of the executive to delegate, the ability of the subordinates to accept delegation, the philosophy of management, the confidence of the superior in his subordinates etc.,
5. Delegation does not imply reduction in the authority of a manager.
6. Delegation may be specific or general, written or implied, formal or informal.

10.4 IMPORTANCE AND BENEFITS OF DELEGATION

Delegation of Authority provides the following Advantages.

1. It enables the managers to distribute their workload to others. By reducing the workload for routine matters they can concentrate on more important policy matters.
2. Delegation facilitates quick decisions because the authority to make decision is near the point of action. Subordinates need not approach the boss every time a need for decision arises.
3. Delegation helps to improve the job satisfaction motivation and morale of subordinates.
4. By clearly defining the authority and responsibility of subordinates, a manager can maintain healthy relationships with them.
5. Delegation binds the formal organisation together. It establishes authority relationship and provides a basis for efficient functioning of the organisation.
6. Delegation enables a manager to obtain the specialized knowledge and expertise of subordinates.
7. Delegation helps to ensure continuity in business, because managers at lower levels are enabled to acquire valuable experience in decision-making.

10.5 DEMERITS OF DELEGATION

1. Lack of Uniformity

When every operating unit is given the authority to take work related decisions, there may be no uniformity of policy and procedures.

2. Difficulty in Co-ordination

Operating units may work at cross purposes. It becomes difficult to integrate their efforts towards the common objective of the organisation.

3. Incapacity of subordinates

Where the lower level executives are untrained and inexperienced, delegation of authority may result in serious mistakes threatening the survival of the enterprise.

10.6 TYPES OF DELEGATION

1. General or Specific Delegation

In general delegation, the subordinate is granted authority to perform all the functions in his department or division.

Under specific delegation, a person is given authority regarding specific function or functions. For example, a sales person may be given the authority to collect payments from debtors. Thus, specific delegation is functional in nature.

2. Formal or Informal Delegation

When authority is delegated as per the organisation structure, it is called formal delegation. Such delegation is effective because it leaves no option to the subordinate, but to obey the commands of the superior. For example, a sales person may be granted authority to grant discount up to 5 percent on the list price to customers buying goods worth Rs. 5000/- or more.

Informal delegation takes place, when an individual or a group agrees to work under the direction of an informal leader. Need for informal delegation arises due to procedural delays and red tape. When people want to short circuit the formal procedures, so as to perform the task quickly, they resort to informal delegation..

3. Written or Oral Delegation

Delegation made by written orders and instructions is known as written delegation. Unwritten or oral delegation is based on custom and conventions.

4. Downward and Sideward Delegation

Downward delegation occurs when a superior assigns duties and grants authority to his immediate subordinates. This is the most common type of delegation. Sideward delegation takes place when a subordinate assigns some of his duties and authority to another subordinate of the same rank.

10.7 PROCESS OF DELEGATION

1. Determination of Results Expected

First of all, a manager has to define the results he wants to obtain from his subordinates for the achievement of organizational objectives.

2. Assignment of Duties

The manager they assign specific duties on tasks to each subordinate. He must clearly define the function of each subordinate while assigning duties and responsibilities he must ensure that the subordinate understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinate.

3. Granting of Authority

Assignment of duties is meaningless unless adequate authority is given to subordinates. They can discharge their responsibilities without adequate authority.

4. Creating Accountability for Performance

The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility.

10.8 REASON FOR NON- DELEGATION (OBSTACLES TO DELEGATION)

Even though delegation is vital for the efficient functioning of an organisation, in practice there are several factors which prevent effective delegation. These problems of barriers in delegation may be classified into three categories.1) Superior 2) Subordinate 3) Organisation.

On the Part of Delegator

A superior may not delegate adequate authority due to the following reasons.

- **Some managers may not delegate authority because of their lure for authority. They are autocrats and think that delegation will lead to reduction of their influence in the organisation will lead to reductions of their influence in the organisation.**

- Some managers feel that none can do the job as well as they do. They think that, if they delegate, work will not be done, as it ought to be done.
- When a manager is incompetent his work methods and procedures are likely to be faulty. He keeps all the authority to himself for fear of being opposed.
- Few managers are inclined to accept the risk of wrong decisions which the subordinates might take.
- Manager may not delegate authority because he feels that the subordinates are not capable and reliable.
- A manager is not likely to delegate authority when he cannot issue suitable directions to guide the activities of subordinates such lack of ability to direct shows that he is unfamiliar with the art of delegation
- Effective delegation requires adequate controls and means of knowing the proper use of authority.

On the part of subordinates

Subordinates may not like to accept delegation and shoulder responsibility due to the following reasons.

- Subordinates may not like to accept delegation when they lack confidence.
- Some subordinates are unwilling to accept authority due to the desire to play safe by depending on the boss for all decisions. They have a love for spoon-feeding.
- A subordinate who is afraid of committing mistakes and does not like to be criticized by the boss is likely to avoid delegation of authority.
- When the subordinates are already overburdened with duties they do not like additional responsibility through delegation.
- Subordinates are likely to avoid delegation when adequate information, working facilities, and resources are not available for proper discharges of duties.
- Subordinates may not come forward to accept delegate authority when no incentives are available to them.

On the part of the organisation

Sometimes, superiors want to delegate authority and subordinates like to accept delegation. But delegation may be hampered due to weaknesses in the organisation structure. Some of these weaknesses are as follows:

- Inadequate Planning
- Splintered authority
- Lack of unity of command
- Absence of effective control techniques
- Non availability of competent managers.
- Unclear authority relationships
- Environment of mutual distrust.

10.9 MAKING DELEGATION EFFECTIVE

In adequate and ineffective delegation heads to several undesirable consequences, e.g. lack of commitment, lack of initiative, necessary to make delegation effective. The following measures may be used for this purpose.

1. **Establishment of Definite Goals:** Delegation is a means for effective accomplishment of organizational objectives.
2. **Clear Definition of Authority:** The authority and responsibility of each subordinate should be defined in clear terms. The delegated must know what authority is to be delegated and within which limits.
3. **Proper Motivation:** Subordinates should be given positive incentives for accepting responsibility. A managers feeling of insecurity should be avoided by providing proper status symbol..
4. **Appropriate Environment:** A work climate free from fear and frustration should provide adequate supply and resources to subordinates for effective delegations.
5. **Proper Training:** Subordinates should be given adequate training for proper use of delegated authority. This will also help to develop the self-confidence of the subordinates to whom authority is to be delegated.
6. **Effective Control Mechanism:** Proper control techniques should be developed to follow through the permanence of subordinates. . The delegation of authority must be in accordance with the organizational setup.
- 6) **Proper Communication:** There should be free and open lines of communication. This will enable the subordinates to get the help of the manager in discharging their duties. Sound communication will also enable the delegator to be in touch with his subordinates.

10.10 PRINCIPLES OF DELEGATION

1. Functional Definition

Before delegating authority a manager should define clearly the functions to be performed by subordinates. The objectives of each job, the activities involved in it and its relationship with other jobs should be defied precisely.

2. Delegation by Results Expected

Authority should be delegated only after the results to be achieved by the subordinates are decided. This will enable them to known by what standards their performance will be judged.

3. Parity between Authority and Responsibility

There must be proper balance between authority and responsibility of a subordinate responsibility without responsibility will make the subordinate irresponsible. Therefore, authority and responsibility should be co-extensive.

4. Absolution of Responsibility

Responsibility cannot be delegated. No manager can avoid his responsibility by delegating his authority to subordinates. After delegating authority he remains accountable for the activities of his subordinates

5. Unity of Command

At one time, a subordinate should receive command and be accountable to only one superior. If a person reports to two superiors for the same job, confusion and conflict will arise.

6. Well Defined Limits of Authority

The limits of authority of each subordinate should be clearly defined. This will avoid overlapping of authority and will allow the subordinate to exercise initiative.

10.11 REVIEW QUESTIONS

1. What is delegation of authority?
2. Explain the process of delegation.
3. Explain the types of delegation.
4. Explain the principles of delegation.
5. Explain the merits and demerits of delegation.

10.12 REFERENCES

- ** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-11

DECENTRALISATION

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- 11.1 Introduction
- 11.2 Meaning and Definition
- 11.3 Distinguish between Delegation and Decentralisation
- 11.4 Factors determining the degree of Decentralisation
- 11.5 Advantages of Decentralisation
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11.1 INTRODUCTION

Centralisation and Decentralisation are opposite terms. They refer to the location of decision making authority in an organization. Centralisation implies the concentration of authority at the top level of the organization while decentralization means dispersal of authority throughout the organization.

11.2 MEANING AND DEFINITION

According to Allen, “Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points.”

Decentralization implies greater powers to persons and places away from the center. It also means that a greater number of important decisions will be made at the lower levels without being subject to prior approval of higher authorities.

11.3 DISTINGUISH BETWEEN DELEGATION AND DECENTRALISATION

Even though delegation and decentralization may be interchangeable terms, in reality there is considerable difference between them. The following are the main points of Distinction.

S.NO	DELEGATION	DECENTRALIZATION
1.	It is an act or a process.	It is the end-result of delegation and dispersal of authority at various levels.
2.	It refers to relationship between two individuals i.e. a superior and his immediate subordinates	It refers to a relationship between the top management and various departments and divisions in the enterprise.
3.	It is vital to management process, only through delegation of duties; subordinates can be involved in the activities aimed at the accomplishment of enterprise objectives.	It is optional in the sense that the top management may or may not favour a deliberate policy to work for a general dispersal of authority.
4.	Control over a subordinate's performance is exercised by his superior who constitutes the sources of delegation of authority.	Even the powers to control may be delegated to the department concerned.

For example, suppose, the chief executives of a company authorities the production-manager to make appointments to all such positions under him in the case of which, the maximum salary does not exceed Rs. 1000/-. This is a case of delegation of authority. But suppose the same authority is given to all departmental managers. (Marketing, finance, etc.,) it would be called decentralization of authority.

When departmental heads or those below them are granted authority in respect of the following, it would be decentralization.

- a) Sanctioning increase in Wages and Salaries.
- b) Sanctioning disbursement of travel expense
- c) Sanctioning promotions
- d) Sanctioning purchase of goods, machines etc,

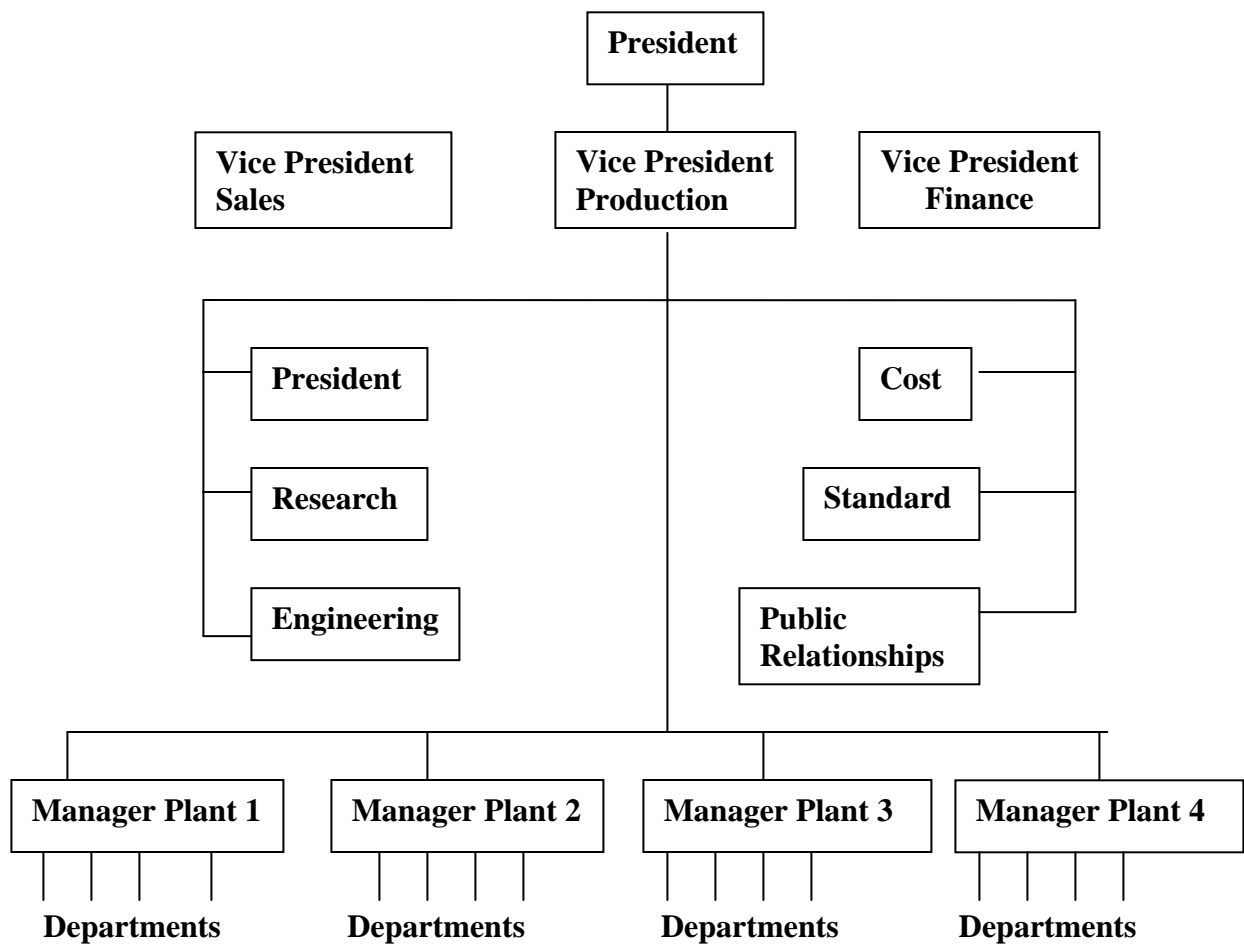
In a decentralized enterprise, there may even be separate balance sheet and profit and loss account for each division.

11.4 FACTORS DETERMINING THE DEGREE OF DECENTRALISATION

1. Nature of Growth

If the enterprise has grown through internal expansion, it will continue to retain its original structure until it becomes unmanageable. On the other hand, if it has developed through amalgamation or absorption of different business enterprises, it will prefer

departmentalization or divisionsalisation of its functioning, because in that way it can reap the benefits of the expertise of each individual unit.



2. Outlook of the top management

It the top management believes in uniformity, or if it seeks unified control, it will prefer strong centralized planning and control. On the other hand, if it has a liberal outlook and believes in individual freedom, it will go in for decentralization and fewer controls.

3. Size and Dispersal of Operation

Dividing a small enterprise into a number of divisions may be a costly affair. The best course for it would be to adopt a functional structure with its activities grouped under production, marketing finance etc.

4. Extent of Diversification

If the enterprise is dealing in a number of diverse products, it cannot retain its efficiency through functional division of work because the production or sales department would not be able to give equal attention to each of the different products manufactured by it.

5. Nature of Functions

There should be greater decentralization of the basic function, e.g., production, marketing and finance. The way, the employees, engaged in these activities would be encouraged to perform more efficiently.

6. Availability of Able Managers

Decentralization will be possible only when middle level managers of the enterprise are capable and experienced enough to make important decisions.

11.5 ADVANTAGES OF DECENTRALISATION

1) Relief to Top Executives

Decentralization enables the top executives to devote greater attentions and efforts to important issues. They may not be able to do this if they keep their hands full with problems of a routine nature.

2) Motivation of Subordinates

Systematic decentralization results in development of initiative, responsibility and morale among employees.

3) Intimate Relationships

In a decentralized unit, employees have greater opportunities to come in close contact with one another.

4. Sense of Competition

In a decentralized enterprise its departments and divisions are independent of one another. As a result, the management can experiment with new ideas and processes in any department without any risk of its adverse effect on the functioning of other departments.

5. Effective Control

Though each of the departments and divisions is granted freedom in running its affairs, the control functions are not adversely affected. This is because for judging the performance of each unit an important yardstick is its profitability and the rate of return on investment.

11.6 DISADVANTAGES OF DECENTRALISATION

1) Lack of Co-ordination

Under decentralization each division or department of the enterprise enjoys substantial freedom in the formulation of policies and action plans.

2) Costly

Only a very large enterprise can afford the high operating costs of maintaining a decentralized set-up. This is because, under decentralisation, each division of the enterprise has to be self-sufficient in every respect, e.g, production, marketing, accounting, personnel etc.

3) Lack of Able Managers

A centralized enterprise has to depend on divisional managers. But, it is difficult to find persons who are adequately equipped to run a division independently.

11.7 CENTRALISATION

Centralization implies that a majority of the decisions concerning the work being performed are not made by those doing the work but at higher levels in the organisation. In other words, decision making authority is concentrated at the top levels of management.

11.8 ADVANTAGES OF CENTRALISATION

1. Personal Leadership

Centralisation provides opportunity for personal leadership. Personal leadership is important for the success of small firms and during the early stages of big firms.

2. Uniformity of Action

Centralisation is essential when an enterprise wants all its operating units to do the same thing in the same manner. Only the top management having central authority for decision-making can bring uniformity of procedures on the part of operating units.

3. Flexibility

Centralization permits greater flexibility in the utilization of existing personnel and facilitates proper handling of fluctuations in the volume of work.

4. Integration

Certain degree of centralization is essential for co-coordinating different operations of the organisation centralization control helps to keep all the parts of the organisation moving harmoniously towards the common objective.

5. Handling Emergencies

Emergent conditions threaten the survival of business. Centralization enables the top management to handle emergent situation in a rational manner.

6. Utilization of Personnel

Centralized structure permit better utilization of highly qualified personnel in technical and administrative areas. It reduces wastage of efforts by avoiding duplication.

11.9 DISADVANTAGES OF CENTRALISATION

1. Problems in Decision-Making

Under centralization, most of the decisions are taken at higher levels. This may cause delays and cost in making the decision.

2. Overburdening

Centralization of authority increases the burden on top managers.

3. Lack of Executive Development.

Under centralized structure lower level executives get very little opportunity for developing decision-making skills.

4. Low Morale

Centralisation hampers the motivation and morale of employees as their freedom is reduced.

S.NO	ADVANTAGES	DISADVANTAGES
1.	Effective utilization of talents of the top leader.	Delay in decision-making and communication.
2.	All parts move together. A unifying force that integrates all operations.	Centralized power and authority may be abused.
3.	A strong coordinated top management team is developed.	Inhibits development of lower level people.
4.	Uniformity of policy and places	Low motivation and morale of lower level people.
5.	Best-arrangement to tackle emergencies. Resources and information can be mobilized quickly and effectively.	Fortunes of the enterprise depend on the health and vitality of top executives.
6.	Duplication of functions and facilities is minimized.	

11.10 REVIEW QUESTIONS

1. What is meant by decentralization of authority?
2. Distinguish between delegation and decentralization.
3. Explain the merits and demerits of decentralization.
4. Explain the merits and demerits of centralization.
5. Explain factors determining the degree of decentralization.

11.11 REFERENCE

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
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UNIT-III

LESSON-12

DIRECTING

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- 12.1 Introduction
- 12.2 Meaning and Definition
- 12.3 Universality of Directing Functions
- 12.4 As a Continuing Function
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12.1 INTRODUCTION

In a organisation, the management performs various functions such as planning, organizing, staffing, directing and controlling. The directing function acts as a connecting link between the managerial functions and establishes meaningful interaction among superiors and subordinates.

12.2 MEANING AND DEFINITION

Directing is concerned with telling people what to do and seeing that they do it as best they can. It includes assigning tasks and duties, explaining procedures, issuing orders, providing on-the-job instructions, monitoring performance and correcting deviations.

According to Koontz and O'Donnell, "Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objective."

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

12.3 UNIVERSALITY OF DIRECTING FUNCTION

Directing as a managerial function is performed by all managers, whatever level at which they may operate, and irrespective of the number of subordinates commanded by them. However, managers at the lower and middle levels have to perform the directing function more often than the top-level managers.

Being an actuating link between the other managerial functions, directing function is necessarily influenced by how competently those other functions have been performed. For example, the efficacy with which the organizational plans have been formulated, the care that has gone into the organisation function, and the competence levels of the subordinates who have been selected as part of the staffing function, will together determine the effectiveness of directing.

12.4 AS A CONTINUING FUNCTION

Directing as a managerial function is a continuing and ever present function. So long as an organisation is engaged in the pursuit of its objectives, there can be no end to the directing function by its managers, who must continue to direct, guide, instruct, advise, educate and supervise their subordinates.

12.5 ELEMENTS OF DIRECTING

The directing function includes the following:

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

Let us briefly discuss about the functions.

1. Supervision

It means overseeing the subordinates at work, and is concerned with initiating action and implementing decisions, plans and programmes with a view to accomplishing the stated objectives.

2. Leadership

It is concerned with the ability of a manager to induce his subordinates to strive willingly for mutual goals.

3. Motivation

It means a predisposition to act in a specific goal directed manner. It points to the state of individuals, perspective which represents the strength of his or her desire or propensity to exert effort towards some particular behaviour.

4. Communication

It means the process of imparting information from one person to another, of from one process to another, in automated systems. It helps to modify human behaviour, effect change, make information productive and accomplish goals.

12.6 NATURE AND CHARACTERISTICS OF DIRECTING

Directing is characterized by the following distinguishing features:

1. Element of Management

Direction is one of the important functions of management. It is through direction that management initiates action in the organization.

2. Continuing Function

Direction is continuous process and it continues throughout the life of an organization. A manager never ceases to guide, inspire and supervise his subordinates. A manager cannot get things done simply by issuing orders and instructions. He must continually provide motivation and leadership to get the orders and instructions executed.

3. Pervasive Function

Direction initiates at the top and follows right up to the bottom of an organization. Every manager in the organization gives direction to his subordinates as superior and receives direction as subordinate from his superior. Direction function is performed at every level of management and in every department of the organization.

4. Creative Function

Direction makes things happen and converts plans into performance. It is the process around which all performance revolves. Without direction human factors in the organization become inactive and consequently physical factors become useless. It breathes life into the organization.

5. Linking Function

Planning, organizing and staffing are merely preparations for doing the work and work actually starts when managers perform the directing function. Direction puts plans into action and provides performance for measurement and control. In this way, directing serves as a connecting link between planning and control.

6. Management of Human Factor

Direction is the interpersonal aspect of management. It deals with the human element of the organization. Human behaviour is very dynamic and is conditioned by a complex of forces about which not much is known. Therefore, direction is a very difficult and challenging function.

12.7 SIGNIFICANCE OF DIRECTING

Direction is the heart of administration as it is indispensable for work performance. In every organization human beings use physical resources like materials, machinery, money etc., to perform certain functions by which organizational objectives can be achieved. Direction is needed to tell them what to do, how to do, and when to do. Effective direction provides the following significance or advantages:

1. Initiates Action

Direction constitutes the life spark and like electric current it sets into motion the organization. A good plan may have been prepared, as sound organization may have been developed and a team of efficient workers may be employed. But all of these will not produce result until people are directed in the efficient use of resources. Without direction, planning, organizing and staffing become ineffective.

2. Ensures coordination

Each individual in the organization is related with others. His functioning affects others and is, in turn, affected by others. Therefore, it becomes necessary to integrate individuals efforts so that organization achieves in the most efficient manner. Direction helps in coordination among various operations of the enterprise. It is the essence of operation, and coordination is a by-product of effective direction.

3. Improves efficiency

In an organization every individuals has some potential and capacity. Through direction, managers encourage and influence employees to contribute to the best for their capability for the achievement of organizational objectives. In the absence of proper motivation and leadership, the potential of employees may remain under-utilized.

4. Facilitates change

An organization must adapt itself to environmental changes in order to be effective. Moreover, there are changes in organization structure and in its members. In order to incorporate and implement these changes, management has to motivate and guide the employees.

5. Assists stability and growth

In order to survive and grow in the long run, an organization must maintain balance in its different parts. Effective leadership and communication provide stability in the organization and help to ensure that its parts work in a harmonious way.

12.8 PRINCIPLES OF DIRECTING

Direction is a complex function as it deals with people whose behaviour is unpredictable. Effective direction is an art which a manager can learn and performs through practice. However, managers can follow the following principles while directing their subordinates:

1. Harmony of objectives

Individuals join the organization to satisfy their physiological and psychological needs. They are expected to work for the achievement of organizational objectives. They will perform their tasks better if they feel that it will satisfy their personal goals. Therefore, management should reconcile the personal goals of employees with the organizational goals.

2. Maximum individual contribution

Organizational objectives are achieved at the optimum level when every individual in the organization makes maximum contribution towards them. Managers should, therefore, try to elicit maximum possible contribution from each subordinate.

3. Unity of Command

A subordinate should get orders and instructions from one superior only. If he is made accountable to two bosses simultaneously, there will be confusion, conflict, disorder and indiscipline in the organization, Therefore, every subordinate should be asked to report to only one manager.

4. Appropriate techniques

The managers should use correct direction techniques to ensure efficiency of direction. The techniques used should be suitable to the superior, the subordinates and the situation.

5. Direct Supervision

Direction becomes more effective when there is a direct personal contact between a superior and his subordinates. Such direct contact improves the morale and commitment of employees. Therefore, wherever possible direct supervision should be used.

6. Strategic use of informal organization

Management should try to understand and make use of informal groups to strengthen formal or official relationships. This will improve the effectiveness of direction.

7. Managerial Communication

A good system of communication between the superior and his subordinates helps to improve mutual understanding. Upward communication enables a manager to understand the subordinates and gives an opportunity to the subordinates to express their feelings.

8. Comprehension

Communication of orders and instructions is not sufficient. Manager should ensure that subordinates correctly understand what they are to do and how and when they are to do. This will avoid unnecessary queries and explanations.

9. Effective leadership

Manager should act as leaders so that they can influence the activities of their subordinates without dissatisfying them. As leaders, they should guide and counsel subordinates in their personal problems too. In this way, They can win the confidence and trust of their subordinates.

10. Principle of follow through

Directing is a continuous process. Therefore, after issuing orders and instructions, a manager should find out whether the subordinates are working properly and what problems they are facing. He should modify, if necessary his orders in the light of these findings.

12.9 DIRECTING TECHNIQUES

The management follows three techniques of directing listed below:

1. The Consultative Directing

A superior has consultation with his subordinates before issuing a direction. The consultation is made to find out the feasibility, enforceability and nature of problem. It does not mean that superior is not capable of acting independently. Ultimately, the superior has the right to take any decision and give direction. The co-operation of subordinates is necessary for the successful implementation of any direction. Better motivation is available to the subordinates under this directing technique.

2. The Free-Rein Directing

The subordinate is encouraged to solve the problem independently under this directing technique after the superior assigns a task to him. The subordinates should make initiative to solve the problem.

3. Autocratic Directing

This direction is just opposite to free-rein directing technique. Here, the superior commands his subordinates and has close supervision over him. The superior gives clear and precise orders to his subordinates. There is no way for the subordinates to show their initiatives.

12.10 REVIEW QUESTIONS

1. What do you mean by directing?
2. Explain the principles of directing.
3. Explain the nature and characteristics of directing.
4. Explain the significance of directing.
5. Explain the elements of directing.
6. Explain the various directing techniques.
7. Explain the universality of directing functions.
8. Explain the directing as a continuity function.

12.11 CASE STUDY

Case Study – I

Mr. Raman is the foreman-in charge of Grover Engineering works. After a hectic inspection duty, he settles down to go through the papers awaiting his urgent attention. The following are the issues confronting him:

1. The foreman at the foundary has sought clarification regarding the work order issued to him yesterday. He says the stores do not have the necessary raw material in adequate quantities to enable him to proceed with the manufacture immediately. Also, the specifications of the items to be manufactured are not clearly laid down.
2. A letter from another foreman says that two of the workers under his charge are not properly trained to perform the work assigned to them. They should immediately be replaced or else the work at his end might suffer.

3. Four operative workers in the machine room have requested for a change in the nature of their work. They say, they possess the ability and experience to perform more important things than they are presently saddled with.
4. The letter from a new supervisor, who is to join under him within a week, asks whether he has to undergo any induction training and, if so, the details thereof.
5. An operative worker has written in to complain that for the last one month he has been trying in vain to seek an interview with him to discuss the use of his promotion that was long overdue.
6. Two chimneys in the workshop have developed serious trouble endangering safety of workers.

Questions

- (a) What steps would you recommend to sort out the issues facing Mr. Raman?
- (b) How would you rate MR. Raman as the foreman-in-charge?

Case Study – II

Mr. Raghvan is a foreman of a large group of lathe workers. Absenteeism and labour turnover have always been high for this work in the area. Mr. Raghvan said that unless he closely supervised his employees, the production rate of his group would soon fall to a totally unacceptable level. Mr. Raghvan often threatened his workers. He also frequently fired them if he thought their work was below standard. The Workers hated and feared Mr. Raghvan but the group often did more work than any other group in the factory.

Questions

- (a) What do you think of Mr. Raghvan's approach to supervision?
- (b) What suggestions to improve his supervision would you make to Mr. Raghvan?

12.12 REFERENCES

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-13

SUPERVISION

CONTENTS

- 13.1 Introduction
- 13.2 Meaning and Definition
- 13.3 Universality of Supervision
- 13.4 Distinction between Direction and Supervision
- 13.5 Responsibility of Supervisor
- 13.6 Qualities of a good Supervisor
- 13.7 Functions of a Supervisor
- 13.8 Fundamentals of Effective Supervision
- 13.9 Review Questions
- 13.10 Case Study
- 13.11 References

13.1 INTRODUCTION

Supervision is an important element of directing function of management. Managers at all levels perform the supervisory function. It is not the responsibility of first line supervisors only. At the top level of an organization, the proportion of direct supervision is comparatively less than at middle and operating levels.

13.2 MEANING AND DEFINITION

Supervision means overseeing the subordinates at work to ensure that they are working according to plans and policies of the organization. It involves direct face to face contact between the supervisor and his subordinates. The aim of supervision is to ensure that subordinates work efficiently and effectively to accomplish the organizational objectives. It involves inter-personal relationship in day to-day work.

13.3 UNIVERSALITY OF SUPERVISION

The function of supervision, overseeing the subordinates, is performed at all levels of management, from top to bottom. Top management supervises the work of middle-level managers (heads of various functional and staff departments), middle-level managers supervise the work of supervisory staff, in its turn, supervises the working of operating workers.

At each level of management, supervision becomes necessary to translate the managerial plans and programmes into action. Supervision can be compared to the ignition key that starts a petrol engine. Without it, the subordinates may be not work, machines may not move, and the enterprise objectives may not be fulfilled.

13.4 DISTINCTION BETWEEN DIRECTION AND SUPERVISION

On a surface view, there is little difference between direction and supervision. Both are concerned with initiating action. Both involve issuance of orders, instructions etc., to subordinates. Both seek to motivate the subordinate staff and provide leadership so that the pre-determined goals are effectively accomplished. Also, both consist of maintaining discipline among subordinates.

However, despite similarity of functions between direction and supervision, only the lowest level managers are designated as supervisors. One reason for this that while all other levels of management have subordinates who are managers themselves, the supervisory staff deals with workers who are engaged in basic operations. The only other reason may be that while supervision is one of the many functions performed by managers at other levels, for the supervisory staff it is the primary function.

Generally, supervisors perform all the functions of management, though in a limited way and in a limited area of operations. In an output line organization, they are responsible not only for supervising their subordinates but also for planning, organizing, staffing and decision making. Even in the case of a functional organization, where planning, organizing, staffing and decision making are under the charge of specialists, supervision ensure that performance at the level of workers is exactly as per the plans and policies formulated at the higher levels. In a case where performance deviates from a plan, superior, being men on the spot, promptly initiate and complete the necessary corrective action without much loss of time.

13.5 RESPONSIBILITY OF SUPERVISOR

The responsibilities of a supervisor are quite onerous:

- To schedule work so as to ensure an even and steady flow.
- To assign work to different individuals according to their abilities.

- To provide proper working conditions, materials, tools and other facilities to workers.
- To issue orders and instructions to the subordinates.
- To prescribe work methods and procedures.
- To guide, train and inspire workers in the efficient performance of work.
- To enforce rules and regulations so as to maintain discipline.
- To communicate managerial policies and decision to workers.
- To convey workers suggestion and grievances to management.
- To review quantity and quality of performance and to take corrective action, if necessary.

13.6 QUALITIES A GOOD OF SUPERVISOR

In order to discharge his responsibilities effectively, a supervisor should possess the following qualities:

1. Knowledge of work

A supervisor must have enough technical competence. He must have wide knowledge of machines, equipment, tools, processes and materials. He needs the ability to instruct and delegate.

2. Knowledge of the organization

A good supervisor should be familiar with the policies, rules and regulation pertaining to his department. He should also have knowledge of industrial and labour laws.

3. Communication skill

A supervisor should master the art of talking and listening. He should be able to give clear orders and instructions. He must have orderly thinking and a sharp memory.

4. Human relation skill

A supervisor should be a true leaser of people. He should treat his subordinates as human beings so as to secure their willing cooperation. He requires the ability to judge people correctly. He should have a cool temperament, patience and emotional stability. He needs the ability to inspire workers and to win their confidence and loyalty.

5. Physical vigour

The supervisor should be physically fit. He requires tremendous stamina and energy to put up with heavy and tight work schedule. He also requires mental vigour to work without becoming irritated or angry.

6. Decisiveness

A supervisor should be able to take prompt and accurate decisions. For this purpose he requires mental alertness.

7. Integrity

A Supervisor should be honest and fair in dealing with subordinates. He should have no favour or fear.

13.7 FUNCTIONS OF A SUPERVISOR

The main functions of a supervisor are the following:

1. Planning the work

The supervisor lays down the production targets for each worker and prepares production schedules for his subordinates. He also determines the methods and procedures of doing work. The supervisor also assigns work to subordinates and explains the plans of management. He is thus concerned with the planning of day to-day operations at the workplace.

2. Organizing the resources

A supervisor defines the duties and authority of each worker working under him. He makes systematic arrangement of activities and resources for his group. He spells out the tasks to perform by each subordinate. He delegate proper authority to workers.

3. Staffing the units

The supervisor is actively involved in the selection and orientation of workers. He takes part in interviewing candidates and familiarizes new employees with their jobs and work environment. The supervisor provides on-the-job training to persons working under him. He gives orders, instructions and suggestions to workers so that they can perform their jobs efficiently.

4. Maintaining discipline

The supervisor enforces the rules and regulations of organization. He uses leadership, authority and other techniques to maintain discipline among his subordinates. He also inspires or motivates workers to work hard and improve their productivity. For this purpose he uses both financial and non financial incentives like pay increase, praise recognition, etc.,

5. Enforcing safety measures

One of the main functions of supervisor is to ensure proper safety in the work. He creates safety consciousness among workers and takes action against breach of safety regulations. He explains how to use safety devices and lays down safety standards at the work place.

6. Handling Grievances

The supervisor listens to the grievances and complaints of his subordinates. He helps to solve these at the work place and bring these grievances to the notice of management. He recommends suitable measures for solving these grievances. He also helps to introduce new machines and work methods by overcoming resistance on the part of workers. He tries to make the job of his subordinates less tedious and monotonous. He serves as a friend, philosopher and guide to workers in order to maintain sound labour relations in the organization.

7. Appraising performance

A supervisor evaluates the work performance of his subordinates in the light of predetermined standards. By measuring actual performance, the supervisor identifies the weakness, if any and suggests corrective measures to overcome them. In this way he exercise control over the activities of subordinates.

13.8 FUNDAMENTAL OF EFFECTIVE SUPERVISION

A Supervisor is the lowest-level manager who directly guides, coordinates and controls the activities of workers and clerks. In order to be effective in his work a supervisor should have the following fundamentals in minds:

1. Planning the work

Accurate and effective planning is an essential element of good supervision. Planning is the basic function of a supervisor. An effective supervisor must be able to develop a realistic framework for planning of work. He should be fully familiar with management by objectives, budgeting; network analysis and other techniques and skills of short term planning such as Gantt chart, checklist, real time system, etc., thus, a supervisor should be familiar with all the planning tools that are necessary for effective performance.

2. Time management and delegation

A supervisor should be able to manage his time effectively. He should also be a good delegator. By assigning some of the work to his subordinates, a supervisor can utilize his time on high priority task. Supervisors, who lack trust in subordinates or who fears loss of control fail to delegate effectively. Too little or too much delegation is a sign of poor supervision. An effective supervisor knows what to delegate and how to delegate effectively.

3. Organizing the resources

Purposeful and systematic arrangement of the resources and activities of the group is another fundamental of good supervision. A supervisor should know the principle of structuring his work group and its tasks. He must spell out clearly the authority relationships and responsibilities.

4. Staffing the unit

Staffing mainly involves selection, orientation and training of employees. The supervisor's role in staffing depends on the policies and practices of the organization. In large organizations, the personnel department looks after the selection and orientation of workers. Even in large organizations, supervisors are generally involved during the selection interview and formal orientation of new recruits.

5. Training and development of employees

Supervisors are generally entrusted with the responsibility of training and development of workers. They provide on the job training to new and existing employees. They should choose the training methods appropriate for the new recruits. During the process of training, a supervisor is required to instruct, suggest, criticize, praise, comment and question the employees.

6. Disciplining the workers

Discipline is essential for the effective functioning of every organization. Discipline implies making employees behave properly so as to achieve the goals of the organization. A supervisor must be able to discriminate between positive and negative approaches to discipline and to use them effectively according to the demands of the particular situation. He should also have the ability to understand and to cope with the personal problems of employees in so far as these are related to performance.

7. Appraising the performance of employees

Every supervisor is responsible for evaluating the job performance of his workers and for submitting the appraisal report to higher authorities. A good supervisor understands the objectives and functions for performance appraisal, example, feedback, recognition, performance improvement, promotion of employees etc. To be effective a supervisor must be familiar with the various techniques. In order to conduct an effective appraisal interview, necessary information about employees should be obtained. All problems in effective appraisal should be identified and solved.

8. Controlling the result

Control is an integral and indispensable part of management. A good supervisor is one who understands the process of control. Control consists of four phases: Setting standards, measuring actual performance, comparing the actual with the standards, and taking the

required corrective actions. Control should be based on adequate and accurate information. A supervisor should use the appropriate methods and techniques for controlling the operations of his work group.

9. Labour relations and grievance procedures

A good supervisor should know how to deal with labour problems and maintain sound labour relations in the organization. He should have a working knowledge of labour laws and internal structure of the trade unions. In order to deal effectively with the problems of employees, detailed knowledge of grievance procedures is essential. A supervisor can create and maintain a healthy and productive relationship with employees by using his wit, charm, tact and perseverance.

13.9 REVIEW QUESTIONS

1. What is meant by supervision?
2. State the responsibilities of supervisor.
3. Distinguish between supervision and direction.
4. Describe the functions of a supervisor.
5. Explain the qualities of a supervisor.
6. Describe the essentials of effective supervision.

13.10 CASE STUDY

Case Study – I

Mohan was employed in the dispatch department of a large industrial firm. His job was to open and inspect the incoming items at the receiving warehouse to ensure the proper units have been received and was undamaged. One day while unpacking some very expensive optical equipment he dropped and cracked one of the topics. His supervisor noticed what has happened, walked over to Mohan and said “put it back in the package. We will return it to the transport company and report that it was damaged during transit. Their insurance will cover it.”

Questions

- (a) Should Mohan do as asked by his supervisor?
- (b) Will it be ethical on Mohan’s part to do?

13.11 REFERENCE

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

UNIT-IV

LESSON-14
STAFFING

CONTENTS

- 14.1 Introduction
- 14.2 Meaning and Definition
- 14.3 Features of staffing
- 14.4 Elements or Functions of staffing
- 14.5 Importance of staffing
- 14.6 Need for Staffing
- 14.7 Essentials of a Good staffing policy
- 14.8 Review Questions
- 14.9 References

14.1 INTRODUCTION

Staffing has come to be recognized as a separate managerial function after the Industrial Revolution. Earlier, it was considered to be a part of the organizing function of management. The staffing function assumed great importance due to increasing size of organisations, rapid advancement of technology and growing complexity of human behaviour, etc. In recent years there has been considerable development of knowledge in the field of staffing. The overwhelming role of human resources in organisations has been recognized. As a result management of human resources has become a vital area of management.

14.2 MEANING AND DEFINITION

Staffing is that part of the process of management which is concerned with obtaining, utilizing and maintaining a satisfied work force. Its purpose is to establish and maintain sound personal relations at all levels in the organisation so as to make effective use of personnel to attain the objectives of the organisation and to provide personal and social satisfaction which personnel want.

According to Koontz and O'Donnell, "The managerial function of staffing involves manning the organisational structure through proper and effective selection appraisal and development of personnel to fill the roles designed into structure."

14.3 FEATURES OF STAFFING

The various features of staffing are as follows:

- Staffing is a universal function. It is the responsibility of every manager. In large organisations there exists generally a personnel department. But this department only advises and helps the line managers in performing the staffing function.
- Every manager is continuously engaged in performing the staffing function to ensure successful functioning of his department and to develop his successors. Thus, staffing is an all pervasive function of management.
- Staffing is dynamic function. It is a never ending process. Management of human resources is a delicate task requiring sustained or regular efforts. With changes in the size and environment of the organisation, changes take place in personnel.
- Staffing cannot be entrusted fully to personnel department or any other services department. Its scope is very wide.
- The basic purpose of staffing is the accomplishment of organisational goals through team spirit and optimum contribution from every employee.
- Staffing is a difficult function with extraordinary problems of social, philosophical and psychological nature. In order to handle these problems certain well defined principles have been developed after a great deal of research and experience.

14.4 ELEMENTS OR FUNCTIONS OF STAFFING

Staffing or human resource process consists of a series of steps which are given below:

1. Procurement

Employment of proper number and kind of personnel is the first function of staffing. This involves: Manpower planning, Recruitment, Selection and Placement. Manpower Planning is the process of determining current and future manpower needs in terms of the number and quality of the personnel. Recruitment implies locating acceptable candidates. Selection involves choice of right type of people from the available candidates. This requires evaluating various candidates and selecting those that match the needs of the organisation. Placement means assigning specific jobs to the selected candidates.

2. Development

After placing the individuals on various jobs, it is necessary to train them so that they can perform their jobs efficiently. Proper development of personnel is essential to increase their skill in the proper performance of their jobs. Development involves orientation and training of personnel. Orientation is the socializing process of improving the knowledge and skills of personnel. Development means preparing the employees for additional responsibility or advancement.

3. Compensation

Compensating personnel means determining adequate and equitable remuneration of personnel for their contributions to the organisational goals. Both monetary and non-monetary rewards are decided keeping in view human needs, job requirements, wage laws, prevailing wage levels, organisation capacity to pay, etc. Job evaluation is the process of determining the relative worth of different jobs in the organisation. Performance appraisal involves evaluating the employee's performance in relation to certain standards. Promotions, transfers, etc., are other elements of the reward system.

4. Integration

It involves developing a sense of belonging to the enterprise. Sound communication system is required to develop harmony and team spirit among employees. Effective machinery is required for the quick and satisfactory redressal of all problems and grievances of employees towards accomplishment of organisational goals.

5. Maintenance

Maintenance involves provision of such facilities and services that are required to maintain the physical and mental health of employees. These include measures for health, safety and comfort of employees. Various welfare services may consist of provision of cafeteria, restroom, counseling, group insurance, recreation club, education of children of employees etc. Problem of employee turnover due to retirement, discharge, layoff, etc. is also included here.

14.5 IMPORTANCE OF STAFFING

The basic purpose of staffing is to ensure that right persons occupy the right positions at all times in the organisation. Staffing is a very important function of management. No organisation can be successful unless it can fill and keep filled the various positions with the right type of employees. Effective staffing provides the following benefits:

- It helps in discovering and obtaining competent personnel for various jobs.
- It makes for higher performance by placing right persons on the right jobs.

- It improves job satisfaction and morale of employees through objective assessment and fair compensation for contributions.
- It facilitates optimum utilization of human resources.
- It ensures the continuity and growth of the organisation through the development of managers.

14.6 NEED FOR STAFFING

In recent years, the need for staffing has increased due to the following reasons:

1. Increasing size of organisations

In a large organisation, there are several positions. Systematic programmes for the selection, training and appraisal of employees are required for efficient functioning of the enterprise. This has increased the significance of staffing.

2. Advancement of technology

Significant improvements have taken place in technology. In order to make use of the latest technology, the appointment of right type of persons is necessary. Right personnel can be procured, developed and maintained for new jobs only if the management performs its staffing effectively.

3. Long range needs for man power

In order to execute the long term plans, management must determine the manpower requirements well in advance. It is also necessary to develop managers for succession in future. The need for staffing has increased due to shortage of good managerial talent and high rate of labour turnover.

4. High wage bill

Personnel cost accounts for a major portion of operating costs today. Efficient performance of the staffing function is essential to make the best use of personnel. For example, if right type of people are selected and trained, management can obtain results from the expenses incurred on recruitment, selection and training.

5. Trade unionism

Efficient system for staffing has become necessary to negotiate effectively with organisations of executives. With the spread of education, executives have become increasingly aware of their prerogatives. Collective bargaining has brought about changes in their attitudes. Separation of ownership from management requires a more professional approach towards the staffing function.

6. Human relations movement

Enlightened employers have come to recognize the dignity of labour increasing awareness of the role of human factor in industry. Now managers can use the knowledge of behavioural sciences in moulding the behaviour of employees in the right direction. At the executive level, there is greater need for non-financial motivation. By performing the staffing function well, management can show the significance it attaches to the human resources in the organisation.

14.7 ESSENTIALS OF A GOOD STAFFING POLICY

A Good staffing policy should possess the following characteristics:

- It should take into account the interests of both employer and employees.
- It should be consistent with the basic overall policies of all the organisation.
- It should be complete in every aspect.
- It should be simple and precise.
- It should be reasonably stable and permanent.
- It should be flexible
- It should be responsive to prevailing trends in industry and society.
- It should take into account variations in the capabilities, interest and attitudes of employees.
- It should be properly communicated to those for whom it is intended.
- It should be uniformly applicable to all members of the organisation.
- It should be acceptable to the employees.

14.8 REVIEW QUESTIONS

1. Define Staffing.
2. Explain the importance of staffing.
3. Explain the elements of staffing.
4. Explain the essentials of a good staffing policy.
5. Explain the features of staffing.

14.9 REFERENCES

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-15

RECRUITMENT

CONTENTS

- 15.1 Introduction
- 15.2 Meaning and Definition
- 15.3 Factors affecting recruitment
- 15.4 Theories regarding recruitment
- 15.5 Constraints of recruitment
- 15.6 Sources of recruitment
 - 15.6.1 Internal sources
 - 15.6.2 External sources
- 15.7 Alternatives to recruitment
- 15.8 Review Questions
- 15.9 References

15.1 INTRODUCTION

The human resources are the most important assets of an organisation. The success or failure of an organisation is largely dependent on the caliber of the people working therein. Without positive and creative contributions from people, organisations cannot progress and prosper. In order to achieve the goals or the activities of an organisation, therefore, we need to recruit people with requisite skills, qualifications and experience. While doing so, we have to keep the present as well as the future requirements of the organisation in mind.

15.2 MEANING AND DEFINITION

To recruit means to obtain fresh supplies, or to restore and replenish. Recruitment means discovering applicants for the present or future jobs in an enterprise. Recruitment may be described as an activity that aims to bring the job seekers and the employer in contact with one another.

According to Yoder, “Recruitment is a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force.”

15.3 FACTORS AFFECTING RECRUITMENT

All organisations, whether large or small, do engage in recruiting activity, though not to the same extent. This differs with: the size of organisation, the employment conditions in the community where the organisation is located, the effects of past recruiting efforts which shows the organisation’s ability to locate and keep good performing people, etc.

Factors governing recruitment may broadly be divided as internal and external factors:

Internal Factors

- Recruiting policy of the organisation.
- Human resource planning strategy of the company.
- Size of the organisation and the number of employees employed.
- Cost involved in recruiting employees, and finally;
- Growth and expansion plans of the organisation.

External Factors

- Supply and demand of specific skills in the labour market.
- Political and legal considerations such as reservation of job for SC, ST, etc.
- Companies image perception of the job seekers about the company.

15.4 THEORIES REGARDING RECRUITMENT

Recruitment is a two-way street; it takes a recruiter and a recruitee. Just as the recruiter has a choice whom to recruit and whom not, so also the prospective employee has to make the decision if he should apply for that organisation’s job. The individual makes this decision usually on three different basis, the objective factor, critical contact and subjective factor.

“**The objective factor theory** views the process of organisational choice as being one of weighing and evaluating a set of measurable characteristics of employment offers, such as pay, benefits, location, opportunity for achievement, the nature of the work to be performed and educational opportunities.”

“ **The critical contact theory** suggests that the typical candidate is unable to make a meaningful differentiation of organisation’s offers in terms of objective or subjective factors, because of him limited or very short contact with the organisation. Choice can be made only when the applicant can readily perceive the factors such as an the behaviour of the recruiter, the nature of the physical facilities, and the efficiency in processing paper work associated with the application.”

“**The subjective factor theory** emphasizes the congruence between personality patterns and the image of the organisation, i.e., choices is made on a highly personal and emotional basis.”

15.5 CONSTRAINTS OF RECRUITMENT

No employer could ever freely choose the best candidate because various forces impinge upon such selection. Such constraints are:

1. The image of the organisation

The prospective candidate may not be interested in getting job in the particular organisation either because its reputation or goodwill is not good in the community, or because the conditions of work are unsafe or it is different to the need of the community. All such factors reduce its ability to attract the best personnel available.

2. The unattractive job

If the job is regarded as boring, hazardous, anxiety, creating or lacking in promotion potential, people would not be attracted to such an organisation.

3. Internal organisational policies

If the policy aims at providing promotion to its employee from within, people would be attracted to it, because such a policy enjoys several advantages such as that of creating good public relations, building high morale, encouraging good people who are ambitious and improving the probability of a good selection.

4. Union requirements can also restrict recruiting sources

Some unions emphasize on recruitment to member of the union only. Where such situation occurs, management has to recruit from a restricted supply.

5. Government influence

An employer cannot distinguish any individual, on the basis of physical appearance, sex or religious background for purposes of recruitment.

15.6 SOURCES OF RECRUITMENT

Before an organisation activity begins recruiting applicants, it should consider the most likely source of the type of employee it needs. Some companies try to develop new sources, while most only try to tackle the existing sources they have. These sources accordingly may be termed as

- **Internal sources**
- **External sources**

15.6.1 INTERNAL SOURCES

Internal sources are the most obvious sources. These include personnel already on the pay-roll of an organisation, which is its present working force. Whenever any vacancy occurs, somebody from within the organisation is upgraded, transferred, promoted or sometimes demoted. This source also includes personnel who were once on the pay-roll of the company but who plan to return or whom the company would like to rehire, such as those on leave of absence, those who quit voluntarily, or those on production lay-offs.

Merits

- It improves the morale of employees, for they are assured of the fact that they would be preferred over outsiders when vacancies occur.
- The employer is in a better position to evaluate those presently employed than outside candidates. This is because the company maintains a record of the progress, experience and service of its employees.
- It promotes loyalty among the employees, for it gives them a sense of job security and opportunities for advancement.
- As the persons in the employment of the company are fully aware of, and well acquainted with, its policies and know its operating procedures, they require little training, and the chances are that they would stay longer in the employment of the organisation than a new outsider would.
- They are tried people and can, therefore, be relied upon.
- It is less costly than going outside to recruit.

Demerits

- It often leads to inbreeding and discourages new blood from entering an organisation.
- There are possibilities that internal sources may dry up and it may be difficult to find the requisite personnel from within an organisation.

- Since, the learner does not know more than the lecturer, no innovations worth the name can be made. Therefore, no jobs which require original thinking, this practice are not followed.
- As promotion is based on seniority, the danger is that really capable hands may not be chosen. The likes and dislikes of the management may also play an important role in the selection of personnel.

The various internal sources of recruitment can be broadly classified as Follows:

1. Transfer

Transfer of an employee of an organisation from one work place to another may be used as a source of recruitment to meet personnel demand at the place to which the employee is transferred. Transfer of an employee from one place to another does not ordinarily result in any change in the nature of duties or emoluments. It also does not alter the number and kind of employees working in the enterprise.

2. Promotion

A promotion means appointing an employee to a position of greater responsibility or authority. It is yet another internal source to meet personnel demand. While promotion brings about a change in the nature of duties and authority of the employee concerned as also his emoluments, it does not alter the number and kinds of employees of the enterprise.

3. Present employees

It is an internal source of recruitment of personnel. In the event of any vacancy, employees of the enterprise may be asked to recommend their friends and relatives for employment. It will not only keep the employees happy and in high morale, but also ensure recruitment of competent and sincere persons. This is because, ordinarily, an employee will only recommend those persons in whose capacity for hard and sincere work he has full confidence. For, if the person recommended by him does not perform well, he may be held responsible.

The only point against this method of recruitment is that it may promote favouritism and nepotism. Workers may be recruited not because of their suitability for the jobs, but because they have right contacts in the enterprise who may sponsor their names and tilt the scales in their favour.

15.6.2 EXTERNAL SOURCES

These sources lie outside the organisation. They usually include:

- New entrants to the labour force, ie., young, mostly inexperienced potential employees – the college students;

- The unemployed – with a wide range of skills and abilities.
- Retired experienced person such as mechanics, machinists, welders, accountants.
- Others not in the labour force such as married women and persons from minority groups.

Merits

- External sources provide the requisite type of personnel for an organisation, having skill training and education up to the required standard.
- Since persons are recruited from a large market, the best selection can be made without any distinctions of caste, sex or colour.
- In the long run, this source proves economical because potential employees do not need extra training for their jobs.

Demerits

- However, this system suffers from what is called braindrain, especially when experienced persons are raided or hunted by sister concerns.

The various external sources of recruitment can be broadly classified as Follows:

1. Advertisements

When an enterprise desires to inform or announce to the public that it has a vacancy, it issues an advertisement for this purpose. The medium and content of each advertisement is chosen by the personnel department.

While details of vacancies for blue-collar jobs may be listed on notice boards outside the factory gate, or advertised in the local press, those for managerial and administrative personnel are advertised in national newspapers and periodicals. This is because jobs in senior management or technical cadres requiring specialized skills and experience have to be widely advertised to attract competent persons.

Sometimes, an enterprise may not disclose its name in the advertisement, and instead ask the candidates to reply to a post box number, or to a consulting firm. This may be either because the enterprise is not in favour of revealing its identity for some reasons, or because the advertisement is in respect of a vacancy that is meant to be filled internally, or has already been filled.

However, while advertisements without the name of the advertiser may be all right in the case of a vacancy among higher level positions, those to fill lower level positions should generally carry the name of the enterprise.

2. Personnel consultants

A Consulting firm acts as an intermediary between an applicant and the enterprise. It is a specialized agency which, on receiving requisitions from client companies, advertises the

job descriptions in leading national newspapers and periodicals without disclosing the name of the client-companies concerned. The applications received from candidates are duplicated and passed on to the employers.

Sometimes, these firms may even screen, interview and select the candidate and for a specified period also stand surety for them in case their performance does not satisfy the expectations of the client company.

3. Jobbers and contractors

It is common to avail the services of jobbers and contractors for recruitment of unskilled workers and for filling casual vacancies at the factory gate. At short notice and for a small fee, these people provide the required number of workers to any enterprise that approaches them.

Jobbers and contractors have close links with towns and villages which are a rich source of unskilled workers. They also, sometimes at their own expense, bring the workers to the place of work at own expense and also pay them advance money.

4. Employment exchanges

Public employment exchanges serve as an important source of recruitment of personnel. They register the names of job seekers and pass them on to employers who intimate their vacancies to them.

But generally, only unskilled and inexperienced persons register their names with the employment exchanges. Those with specialized skills and experience are not always keen to register themselves at the exchanges either because they consider it below their dignity, or because they believe registration with an employment exchange cannot get those jobs. Employers too do not approach employment exchanges because of a feeling that they cannot provide applicants having specialized skills and experience.

5. Educational institutions

Employer can also recruit students freshly passing out of universities or professional institutes. Many educational institutions run their own employment bureaus to assist employers in their recruitment activity. But such institutions can only provide young and inexperienced workers.

6. Field trips

An enterprise may send out teams of experts to different places where the kinds of personnel needed by it may be found. But in this case it is necessary to give wide publicity to the date, venue and the time when such a team would interview candidates at a particular place.

7. Unsolicited applicants

These are persons who either gather at the factory gate to serve as casual workers, or reach the employer by letter, telephone, or in person, with requests for appointment against a real or presumed vacancy.

15.7 ALTERNATIVES TO RECRUITMENT

Since recruitment and selection costs are high firms these days are trying to look at alternatives to recruitment, especially when market demand for firm's products and services is sluggish. Moreover, once employees are placed on the payroll, it may be extremely difficult to remove them if their performance is marginal. Some of the options in this regard may be listed:

1. Overtime

Short term fluctuations in work volume could best be solved through overtime. The employer benefits because the costs of recruitment, selection and training could be avoided. The employee benefits in the form of higher pay. However, an overworked employee may prove to be less productive and turnout less than optimal performance.

2. Subcontracting

To meet a sudden increase in demand for its product and services, sometimes, the firm may go for sub contracting instead of expanding capacities immediately. Expansion becomes a reality only when the firm experiences increased demand for its products for a specified period of time. Meanwhile, the firm can meet increased demand by allowing an outside specialist agency to undertake part of the work to mutual advantage.

3. Employee leasing

Hiring permanent employees of another company who passes certain specialized skills on lease basis to meet short-term requirements although not popular in India – is another recruiting practice followed by firms in developed countries. In this case individuals work for the leasing firm as per the leasing agreement. Such an arrangement is beneficial to small forms because it avoids expense and problems of personnel administration.

15.8 REVIEW QUESTIONS

1. What are the various sources of recruitment?
2. List out the most important merits and demerits of various sources of recruitment.
3. Explain the constraints of recruitment.
4. Explain the alternatives of recruitment.
5. Explain the factors affecting the recruitment.
6. Explain the various theories of recruitment.

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UNIT-V

LESSON-16 LEADERSHIP

CONTENTS

- 16.1 Introduction
- 16.2 Meaning and Definition
- 16.3 Significance of leadership
- 16.4 Nature of leadership
- 16.5 Leadership Vs Management
- 16.6 Functions of leadership
- 16.7 Importance of leadership
- 16.8 Qualities of a good leader
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16.1 INTRODUCTION

Leadership is too complex a term to be defined in a simple and straight manner. There are many factors involved in successful leadership and it is not possible to identify or measure all of them. The presence of successful leadership can be felt in terms of the results of group working that is profits, quality of output, employee morale, consumer satisfaction, enterprise image and so on.

16.2 MEANING AND DEFINITION

A leader is one who guides and directs other people. He gives the effort of his followers a direction and purpose by influencing their behaviour. Therefore, leadership may be defined as the quality of behaviour of a person by which he is able to persuade others to seek the goals enthusiastically. It is the force which binds a group together and motivates it towards certain goals.

According to George. R. Terry, “Leadership is the activity of influencing people to strive willingly for mutual objectives.”

Koontz and O'Donnell have defined leadership as "the ability of a manager to induce subordinates to work with confidence and zeal."

Simply stated, leadership is a process involving two or more people in which one attempts to influence the other's behaviour towards the accomplishment of some goals.

16.3 SIGNIFICANCE OF LEADERSHIP

Leadership is a process of influence on a group. It is an important part of a manager's job. A manager must be able to lead the group working under him for inspiring team work for the accomplishment the objectives of the enterprise. Leadership is the ability of a manager to induce subordinates to work with confidence and zeal. it is the driving force which gets things done by others. A good leader achieve maximum co-operation from the group members by motivating. He is also able to co-ordinate the activities of the followers to achieve common objectives. Effective leadership is necessary for inspiring the people to work for the accomplishment of given objectives.

16.4 NATURE OF LEADERSHIP

Leadership is a psychological process of influencing followers or subordinates and providing guidance to them. It is always related to a situation which means a leader may be effective in one situation while ineffective in another to be effective; a leader should change his leadership style depending upon eh requirement of the situation.

1. Leadership is a process influence

Leadership is a process whose important ingredient is the influence exercised by the leader on group members. A person is said to have a influence over others when they are willing to carry out his wishes and accept his advice, guidance and direction. Successful leaders are able to influence the behaviour, attitudes and beliefs of their followers.

2. Leadership is related to a situation

When we talk of leadership it is always related to a particular situation at a given point of time and under a specific set of circumstances. At one pot of time, the subordinates may accept the autocratic behaviour of the leaders while at a different point of time and under a different set of circumstances, only participative leadership style may be successful. That is why, it is that leadership is always a particular and not general. **For example**, factory supervisor who is normally autocratic may be participative in determining vacation schedules and free rein in selecting a departmental representative for safety committee.

3. Leadership is the function of stimulation

Leadership is the function of motivating people to strive willing to attain organisational objectives. Leaders are considered successful when they are able to subordinate, the individual interests of the employees to the general interests of the organisation. A successful leader allows his subordinates to have their individual goals set up by them selves in such a way that they do not conflict with the organisational objectives. When this congruency is achieved, workers act enthusiastically to achieve these goals.

4. Leadership gives an experience of helping attain the common objectives

Under Successful leadership, every person in the organization feels that his operation, however minors it maybe is vital to the attainment of organisation objectives. It happens when the manager feels the importance of individuals, given them recognition and tells them about the importance of activities performed by them.

5. Employees must be satisfied with the leadership provided

Only short term productivity of employees can be increased by pressure and punishment. This approach is not in the long-term interests of the organization. Long term interests of the organization are best served when managers allow subordinates to influence their behaviour. Particularly when subordinates are knowledgeable and competent. A good manager recognizes the fact, that leadership is a shared function. A good leader shares everything with his followers, he shares credit, he shares blame, he shares ideas, opinion and experience.

16.5 LEADERSHIP VS MANAGEMENT

Very often, leadership and management are treated as synonymous to each other. But there are several differences between the two:

- Leadership is possible in both organized and unorganized groups. But management is possible only in formal organisational structures.
- Management formulates broad policies to guide the operations. On the other hand, leadership initiates activity for achieving goals.
- A leader may strive for personal or friendly goal which may or may not be congruent with organisational goals. On the other hand, managers seek primarily to attain organisational goals.
- A manager has to perform all the five functions, such as planning, organizing, staffing, directing and controlling. Leadership functions come under directing through which behaviour is guided in the desired direction. Thus, leadership is a part of management but not all of it.

- A manager depends mainly on formal authority to get things done. But a leader depends on acceptance authority to influence his followers.
- While management is primarily concerned with the welfare of the organisation as a whole leadership is concerned mainly with the welfare of the followers.

16.6 FUNCTIONS OF LEADERSHIP

Leadership is an indispensable part of the directing function and an important factor in organisational effectiveness. Without a good leader, an organisation cannot function successfully. The role of leadership can be judged by the functions which a leader performs:

1. Goal determination

A leader interprets the objectives of the group and lays down policies and programmes for attaining them. He acts as the planner and policy maker.

2. Motivating followers

A leader stimulates people to perform their duties with enthusiasm and sincerity. He is the purveyor of rewards and punishments. He creates confidence in his followers. He inspires team work and secures maximum cooperation from the employees. Effective leadership is necessary to inspire people to willingly work hard for the attainment of common goals. A good leader is also instrumental in bringing about better utilization of manpower.

3. Direction

A leader is an important modifier of behaviour of people working in the organisation. Efficient leadership provides guidance and advice to people and directs their behaviour towards the pre-determined objectives. A leader is able to direct the actions of his followers.

4. Coordination

Leadership is the force which binds a group together. It provides a cohesive force which holds the group intact and develops a spirit of unity. A leader reconciles the goals of the individuals with the organisational goals and creates a community of interests. He acts as the arbitrator and mediator to resolve conflicts, between his followers. He is the controller of internal relations.

5. Representation

A leader is the representative of his group. He takes initiative in all matters of interest to the group and strives to fulfill the psychological needs of his followers. He is the symbol of the group and father figure for his followers.

16.7 IMPORTANCE OF LEADERSHIP

Leadership is important due to the following reasons:

1. Aid to authority

There are serious limits to the use of formal authority in obtaining high performance. Managers having leadership qualities can secure willing cooperation of employees which leads to higher performance.

2. Motive power to group efforts

Group efforts and teamwork are essential for achieving organisational goals. Leadership helps to create mutual cooperation and team spirit among people. It pulls the group towards higher level of performance through human relations.

3. Basis for cooperation

Leadership improves employer-employee relations through man to man relationship and participation. Interactions and two way communication promote positive attitudes and mutual understanding.

4. Integration of formal and informal organisations

When management fails to provide competent leadership, informal leadership will prevail over management in regulating the behaviour of employees. Competent leadership on the part of managers can utilize informal organisation constructively for achieving the company's objectives.

16.8 QUALITIES OF A GOOD LEADER

To be able to provide effective leadership to his subordinates, a leader needs to have certain qualities. According to Ordway, a leader must possess "Physical and nervous energy, a sense of purpose and direction, enthusiasm, friendliness and affection, integrity, technical mastery, decisiveness, intelligence, reaching skills and faith". According to Henry Fayol, the qualities that a leader must possess are as follows:

1. Physical and Mental Vigor

The leader has to put in a hard mental and physical work which requires tremendous stamina and vigor to sustain long an irregular hours of work.

2. Emotional Stability

The leader should not be unduly moved by emotion or sentiment. He should be able rational and logically to analyze the various problems before him and reach a decision without any fear or favour. He should not lose his temper or show in decision even on the face of heavy odds.

3. Sense of Judgment

The leader should be a master of human psychology. He should possess deep understanding of human behaviour, emotions, sentiments, needs, motives etc. This would enable him to anticipate the response to his decisions and actions.

4. Balance

The leader should be rational and objective in his approach he should be free from bias. Prejudice and pre-conceived notions. Only then he would be able to decide issues on their merits.

5. Understanding or empathy

The leader should show understanding for other viewpoints. If he tends to have his own way in all matters he might lose their goodwill.

6. Motivation

Only a person who is himself well motivated can motivate others. The desire to lead people should come from within. If a person is forced to do his job under fear of punishment, he would behave more like a follower than a leader.

7. Communicating Skill

The leader should be good at communicating ideas, feelings, decisions, order etc. He should be a good and effective speaker and writer. Then alone he would be able to persuade, inform, stimulate and direct his subordinates.

8. Ability to Guide

The leader should help his subordinates to learn. Both by word and deed, he should demonstrate to them the best ways of accomplishing the jobs.

9. Sociability

The leader should show keen interest in the subordinates. He should try to meet them often, and encourage them to discuss their problems and difficulties with him. He should be friendly, helpful and easily accessible to all his subordinates.

10. Technical Competence

The leader should possess a thorough knowledge of the theory and practice of his job besides, he should be quite familiar with the jobs done at different work points in his department.

11. Other personal abilities

The leader should have an attractive and pleasing personality. He should possess optimistic and cheerful outlook. He should possess physical and mental health. His subordinates will accept his leadership only when they find him full of youthful figure, energy, vitality, endurance and creativity.

Besides, he should be honest, sincere, fair and reasonable in his dealings with his subordinates. If he is a man of integrity and behaves with his subordinates in a dignified manner, his leadership will be cheerfully and esthetically accepted by one and all.

16.9 REVIEW QUESTIONS

1. Define Leadership.
2. Explain the nature of leadership.
3. Explain the functions of leadership.
4. Distinguish between leadership and management.
5. Discuss the importance of the leadership.
6. Explain the qualities of a good leadership.

16.10 REFERENCES

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LESSON-17

LEADERSHIP STYLES

CONTENTS

- 17.1 Introduction
- 17.2 Autocratic or Authoritarian Leadership
- 17.3 Participative or Democratic Leadership
- 17.4 Free-rein or Laissez-Faire Leadership
- 17.5 Paternalistic Leadership
- 17.6 Bureaucratic or Rules centered Leadership
- 17.7 Manipulative Leadership
- 17.8 Expert Leadership
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17.1 INTRODUCTION

Leadership style refers to a leader's behaviour. The behavioural pattern which a leader adopts in influencing his followers is known as the style of leadership. Different leadership styles exist among leaders in different situations. Leadership style is the outcome of leader's personality, philosophy, and experience and value system. It also depends upon the type of followers and the environment prevailing in the organisation. According to the degree of power exercised by the leader, there can be following styles of leaderships.

17.2 AUTOCRATIC OR AUTHORITARIAN LEADERSHIP

An autocratic leader is one who likes to run the show himself. He takes all decisions himself without consulting the followers. He gives orders and insists that they be obeyed. Subordinates are expected to do what they are told. Thus, under this style all decision-making power is centralized in the leader. He stresses his prerogative to decide and gives no freedom to the followers. He considers his subordinates immature and delegates no authority them. An autocratic leader exercise close supervision over subordinates. He holds out threats of punishment or uses his powers to distribute rewards on the assumption that people are lazy and will avoid work and shirk responsibility.

Advantages

- Autocratic leadership permits quick decisions as a single person takes decisions.
- It provides strong motivation and satisfaction to the leader.
- Many subordinates prefer to work under centralized authority and strict discipline.
- Less competent subordinates are needed at lower levels.
- It can be successful where subordinates are reluctant to take initiative.

Disadvantages

- People dislike this style especially when the motivational style is negative.
- It leads to frustration, low morale and conflict which affect organisational efficiency.
- Due to lack of opportunity to exercise initiative and judgment, future leadership does not develop. Followers remain uninformed, insecure and afraid of leader's power.
- There is resistance to change as workers feel harassed and disturbed.

Autocratic style is likely to be less effective in future because the literacy level and standard of living are rising. People are becoming socially aware and look for egoistic satisfaction from their jobs. The coming generation is less amenable to rigid direction and control which is unquestioned compliance. That is why authoritarian is gradually being resisted.

17.3 PARTICIPATIVE OR DEMOCRATIC LEADERSHIP

A democratic leader makes decisions in consultation with his followers. He decentralized authority and allows the group to share his power. Instead of taking unilateral decisions, he allows the subordinates to discuss the problem and to express their opinion freely. Democratic style is based on the assumption that the leader drives his power by consent of the followers who are mature and can be creative.

Advantages

- It reduces resistance to change and increases acceptance of new ideas.
- It improves the attitudes of employees towards their jobs and the organisation.
- It increases cooperation between management and workers.
- It improves employee morale and reduces complaints or grievances.
- It facilitates the development of future leaders.

Disadvantages

- It may be dilatory leading to delay in decisions.
- It may be used covertly to manipulate employees.
- Participation will not be meaningful unless the subordinates understand thoroughly the complex problems of the organisation.
- It may not be liked by people who want minimum interaction with superiors and colleagues.

17.4 FREE-REIN OR LAISSEZ-FAIRE LEADERSHIP

A free-rein leader gives complete freedom to his followers to establish their own goals and policies. He does not lead and avoids power. He maintains contacts with outsiders to bring the information and resources required by the group. The leader abdicates his authority and lets the groups to operate entirely on its own.

Advantages

- Complete freedom to subordinates improves their motivation and morale.
- There is maximum opportunity for the development of subordinates.

Disadvantages

- As there is abdication of formal leadership role, informal leaders emerge to fill the void.
- The group does not get the benefit of leader's inspired motivation, guidance and socio-emotional support.
- It can succeed only when the followers are highly mature, able and self motivated. Otherwise they will feel insecure, vulnerable and may grope in the dark.
- It ignores the managers' contribution just as autocratic leadership ignores the contribution of the group.

17.5 PATERNALISTIC LEADERSHIP

A paternalistic leader serves as the head of the family and treats his followers like his family members. He assumes a paternal or fatherly role to help, guide and protect the followers. He provides them with good working conditions, fringe benefits and welfare facilities and services. Such a style creates social warmth and group cohesiveness. But the employees may resent the leaders gratitude in industrial organisations. There is little opportunity for them to exercise initiative to grow and realize their full potential. Paternalistic leadership has been quite successful in Japan because of its cultural background.

17.6 BUREAUCRATIC OR RULE-CENTERED LEADERSHIP

The leader's behaviour is characterized by a high degree of reliance on rules, regulations and procedures, to which both he and his subordinates subscribe. As a result, the process of administration reduced to a series of routine actions. The rules specify the obligations of the subordinates, and enjoy upon them to do particular things in specific ways. There is no participation and initiative on their part.

This style of leadership fosters worker apathy. The rules serve as a specification of the minimum level of acceptable performance. It is possible for workers to remain apathetic, for they know just how little they should do to remain secure in their jobs. This leads to what is called bureaucratic sabotage. Rules make it possible for workers to indulge in activity without participation; they enable them to work without being emotionally committed to work. Rules also lead to red tape and the habit of passing the buck, too much paper work and too great a desire to play safe.

17.7 MANIPULATIVE LEADERSHIP

This style of leadership is based on the belief that employees are persons who should be manipulated by the leader so that his goal may be attained. It exploits the aspiration of employees know that they are being manipulated, and therefore, become resentful and bitter. A manipulative leader, however, is very sensitive about the needs and desires of his employees as individuals. But the information gathered as a result of this sensitivity is not used for the benefit of the employees; instead, it is utilized by him for his own personal profit.

The main characteristics of this style of leadership are:

- Personal goals are reached by a manipulation of the employees.
- Employee needs and desires are viewed as tools to extract performance.

The emotional reactions of the subordinates to this style of leadership are:

- A highly motivated work group, believing that it has found a manager who understands its needs, and will help it to realize those needs.
- Distrust arises when the manipulative nature of the leader becomes evident, and the employees discover that they have been duped.

But this style of leadership is effective only in specific situations. For example: When cooperation and coordination have to be achieved on a project and previous leaders were unable to motivate the group properly; or when highly motivated employees are needed for short-duration projects. They are often given the illusion of reward, and are thus motivated for short period.

However, manipulative leadership is not effective when:

- A relationship of longstanding is involved.
- The structure of an open organisation is so controlled that the ability of the manipulator to wheel and deal is severely restricted.

17.8 EXPERT LEADERSHIP

This is an emerging style of leadership, resulting in part from the complexity of modern organisations. The basis for expert leadership is the individual leader's knowledge and ability, and he assumes the role of the leader regardless of his age, sex, physical or other attributes. It depends largely on the approximate mix of skills and the needs of others in a situation. With any change in a particular situation, another person may become the leader, who would meet the needs arising out of the change. In these circumstances, a person is looked upon by group members as an expert who must continuously demonstrate his expertise in order to maintain his position as a leader.

In this style of leadership:

- The perception of group members ensures that the leader's talent and expertise are joined with the needs of the situations.
- Leadership skills are usually transferable. The expert leader who is effective in one situation may really be a "bomb" in another.

The emotional reactions of the followers to this style of leadership are:

- Relief and confidence that the persons in charge knows how to get the jobs done.
- Confusion about why the specialist was chosen to be the leader and lack of respect for his supervisory ability, specially when the situation calling for his expertise no longer exists, and matters are back to normal.

Such expertise can be successful in these situations:

- When the group members are convinced that they can reach their goal by the following the advice and guidance of the expert.
- When a situation develops in which specific expertise is necessary for the survival or performance of the group.

However, the situations in which this style of leadership usually fails are :

- When an individual is no longer recognized as an expert.
- When the situation changes to routine or to one calling for a different kind of expertise.

17.9 REVIEW QUESTIONS

1. Explain Autocratic style of leadership with its merits and demerits.
2. What is democratic style of leadership? Explain its merits
3. Discuss briefly about the free-rein style of leadership.
4. Write a short note on paternalistic style of leadership.
5. Explain the Expert style of leadership in detail
6. Briefly explain the manipulative style of leadership.

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LESSON-18

LEADERSHIP THEORIES AND APPROACHES

CONTENTS

- 18.1 Introduction
- 18.2 Trait Theory
- 18.3 Behavioural Theory
- 18.4 Situational Theory
- 18.5 Leadership as a Continuum
- 18.6 Composite approach to leadership
- 18.7 Group-oriented approach
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- 18.10 Path-Goal Theory of leadership
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18.1 INTRODUCTION

Behavioural scientists have conducted extensive research to find out what makes a leader effective. Is it the personality of the leader or his behaviour, or the type of followers he has, or the situation in which he works, or a combination of all these? The researchers have failed to give one satisfactory answer. They have developed different theories or approaches to leadership. These theories may be studied under broad categories.

18.2 TRAIT THEORY

Trait theory is the oldest approach to leadership. It is based on the belief that a leader is a person who possesses exceptional traits or qualities. This theory seeks to determine the universal personal traits of effective leaders. Good personality, imagination, initiative, emotional stability, sincerity, mental ability, courage, persuasion, etc., are considered to be the traits of a successful leader. The study of the lives of successful leaders reveals that they had most of these traits to some degree.

In early stages, it was believed that these traits are inborn. But this view was considered incorrect when it was found that many leaders had acquired their traits through training and experience rather than by inheritance.

The trait theory is very simple. It helps management to develop leadership through. But trait theory suffers from several weaknesses. First, it has failed to give clear cut results. It puts undue emphasis on personal traits and does not consider the whole environment of leadership. Personal traits are only one part of the whole environment. There is no sure connection between personal traits and leadership effectiveness. Leadership is always related to a particular situation. A person may prove very successful in one situation but fail in another situation. There have been many people with the traits specified for leader but they were not good leaders. Secondly, no generalization can be made about leadership traits because the various research studies show wide variations in these traits. People have various traits in different degree. Thirdly, measurement of a trait is very difficult. Such measurement usually occurs after a person becomes a leader and it is, therefore, difficult to suggest the traits which are prerequisites of a successful leader:

Some of the important qualities of an effective leader are given below:

1. Physical vigour

A leader should have good health and physical fitness. He needs tremendous stamina and mental vigour to sustain long and irregular hours of works.

2. Intelligence

A leader generally has somewhat higher levels of knowledge and skills than his followers. He should have the ability of think scientifically, analyse accurately and interpret clearly the problems faced by the group. He also requires technical competence and sound general education.

3. Emotional stability

A good leader should be emotionally mature and with a balanced temperament. He also has a high frustration tolerance. He should be free from bias and prejudice and consistent in action. He can think rationally and logically.

4. Open mind

A leader should be flexible or adaptable in his attitude. He should be ready to absorb and adopt new ideas as required by the situation. He is prepared to accommodate others viewpoints and alter his decisions, if necessary. He has the ability to look at things objectively and is sympathetic to other feelings.

5. Inner drive

A good leader has the strong inner urge to keep achieving. Only a self-motivated leader can inspire others to work hard. He is willingly to shoulder the responsibility for his actions. He should also be honest and dependable.

6. Vision and foresight

A leader should have the ability to think imaginatively and to visualize future trends. He can look ahead, think creatively and take initiative. He has conceptual clarity and self-confidence. He has a sense of judgement and optimistic outlook.

7. Human relations attitude

A successful leader recognizes the worth and dignity of his followers. He always tries to develop social understanding with people and is considerate in his approach. He has social skills to win the cooperation, confidence and loyalty of the followers. He can communicate well and persuade others. He has adequate knowledge of human relations. He is friendly and cheerful, fair and reasonable.

18.3 BEHAVIOURAL THEORY (FOLLOWERS THEORY)

The behavioural approach to leadership emphasizes that leadership is the result of effective role behaviour. It depends more on a person's acts than on his traits. Traits no doubt influence but followers and the environment also exercise influence. The suitable behaviour is the outcome of interactions between the leader, the followers, the goals and the environment. Some leadership acts are favourable while others are unfavourable. The unfavourable or dysfunctional behaviour is the result of inability to accept subordinates' ideas, poor communication, lack of emotional maturity and poor human relations. Functional behaviour makes a leader successful while dysfunctional behaviour will make him ineffective.

The behavioural approach is superior to trait approach in so far as it stresses upon what a leader does rather than he is. The attention here is on leadership styles. Several research studies, example, Ohio State University, University of Michigan, Blake, and Mouton's Management Grid etc., have been conducted to analyse leader's behaviour and its effect on leadership effectiveness. But no one style has been found to be normative or ideal. A particular behaviour may be effective in one situation but ineffective in another. The time factor becomes a vital element which has not been considered in this theory. Leadership style is a multi-dimensional concept and it is flexible.

THE MANAGEMENT GRID

Robert Blake and Jane Mouton developed the managerial grid. This is two dimensional graphic models of alternative combinations of leadership styles or behaviour. The two dimensions are: Concern for production and Concern for people. These are shown respectively on horizontal and vertical axis of the graph on a 1 to 9 scale. A leader's style is a combination of both the dimensions as indicated by a point on the grid. Blake and Mouton have identified five combinations out of 81 possible combinations. These five illustrative combinations are as follows:

Impoverished (1.1) – The manager has low concern for both production and people. Under it exertion of minimum effort is required to get work done and sustain organisation membership. The leader avoids controversy and confrontation.

Country Club (1.9) – Thoughtful attention to needs of people for satisfying the relationship leads to a comfortable friendly organisation atmosphere and work tempo. The leader keeps his term in good humour and secures good relations. He has maximum concern for people and minimum concern for production.

Middle of the Road (5.5) – Adequate organisation performance is possible through balancing the necessity to get out work while maintaining morale of people at a satisfactory level. The leader balances tasks with concern for people through compromise. He has moderate concern for both production and people.

Task Management (9.1) – Efficiency in operations results from arranging conditions of work in such a way that human element interferes to a minimum degree. The task is well-planned and authority is well-defined. This is the task oriented or authoritarian style involving suppression of conflicts. The leader is mainly concerned with production with little concern for people.

Team Management (9.9) – Work accomplishment is from committed people and interdependence through a common stake in organisation purpose that leads to relationships of trust and respect. This is team leader style which the leader consults his team and harmonises goals. The leader has maximum concern for both production and people. It is considered as the best leadership style.

The management grid can be used to enable managers to identify their current leadership behaviour. Managers who are found to have low concerns for people and for production can be given training to help them to move to 9.9 style. The grid approach is useful not only for leadership training but organisational development also.

The grid approach is popular among managers. But it is highly controversial among theorists due to lack of empirical evidence. It is an attitudinal and conceptual description of leaders because it measures the values of managers. It does not tell why a manager falls in one part of the other of the grid. In reality the extreme positions shown in the grid are seldom found in their pure form.

18.4 SITUATIONAL THEORY

Situational approach to leadership recognizes the leadership is a function of the environment in which it is exercised. The Movement or situation is the outcome of interaction between the leader, the followers, and the tasks. This theory contends that there is no one best leadership style universally applicable to all situations. A leader can be effective only if he is able to adapt his style according to the dynamics of the situational

variables. There are significant differences between jobs, individuals, organisations and the cultural environments. These differences determine the appropriate style in a given situation.

Fried Fielder has developed a contingency model of leadership. According to this model, three major situational variables exert powerful influence on the leader's behaviour and effectiveness. These are:

- Leader-member relations.
- Task structure
- Leader position power.

Leader-member relation refers to the degree of confidence and respect the subordinates have in the leader. The better the relationship between leader and subordinates, the easier it will be for the leader to exercise influence. Task structure implies whether the task of subordinates is routine or complex. More structured is the task greater the influence the leader can exercise. Leader position power refers to the ability of the leader to influence the behaviour of the subordinates through legitimate power.

These three variables determine whether a given situation is favourable or unfavourable to a leader. The favourableness of a situation is the degree to which the situation enables the leader to exercise influence over the group. Fielder has identified eight possible combinations of the three situational variables. As a leadership situation varies from high to low on these variables, it falls into one of the eight combinations. The recommended leadership style varies with the situation. Under extreme conditions, a task oriented style is preferred, example, management of a restaurant. On the other hand, employee oriented style is more appropriate for moderate levels of certainty for favourableness, example, management of a research laboratory.

The situational theory explains why a manager may be very successful in one situation but unsuccessful in another situation. It suggests that leadership is a function of three factors, such as: (a) the leader; (b) the followers; and (c) the situation. However, this theory suffers from the following limitations:

- The theory stresses a leader's present ability and potential in a given situation. It does not explain whether the individual will fit another situation.
- The theory does not emphasise the process by which good leaders can be developed in the organisation.

Despite its limitations, situational approach is considered to be more comprehensive explanation of leadership than the trait or behavioural approach.

18.5 LEADERSHIP AS A CONTINUUM

In practice, leadership styles cannot strictly be classified in the categories as given. In the real situation, there is a blend of different leadership styles depending upon the situation. Tannenbaum and Schmidt have developed the concept of “*Leadership Continuum*” to highlight variety of leadership behaviour. The continuum describes the range of possible leadership behaviour available to a manager. At the left end of the continuum is ‘boss-centered’ (autocratic) leadership and at the right end is the ‘subordinate centered’ (free-rein) leadership. As we move from the left extreme towards the right extreme, the degree of control exercised by the leader decreases and degree of freedom for subordinates increases. Each type of action on the continuum represents a combination of authority and freedom.

The continuum approach to leadership behaviour reflects the dynamic nature of leadership. It also suggests that there is no ideal or normative style of leadership. In order to be successful, a leader should adapt his style to the requirements of the situation. While choosing his style along the continuum, a leader should consider the following factors:

- Leader’s own characteristics like his value system, his feeling of security, his leadership inclinations and his confidence in the subordinates.
- Characteristics of subordinates, example, their need for independence, their desire to assume responsibility for decision-making, understanding and identification with organisational goals, knowledge and experience to deal with problems, etc.
- Situational variables such as type of organisation, nature of the problem, pressure of time, group cohesiveness, etc.

18.6 COMPOSITE APPROACH TO LEADERSHIP

It is clear from the foregoing description that leadership is a product of many forces that act and interact simultaneously. Every manager must achieve some degree of integration of these varying and complex forces otherwise a void in his leadership may arise. An integrated model of leadership has been proposed by George Terry.

It shows that leadership is made up of four main variables:

1. The Leader

Leader’s personal values shape his perceptions and behaviour. Leader’s confidence in the group members, extent of power sharing and general circumstances, the leader’s preferences are important characteristics. Leader’s awareness of self is also significant.

2. The Followers

The forces within the followers include identification with the leader’s objectives, interest and involvement in solving problems, knowledge and experience, need for independence, etc.

3. The organisation

Nature and type of organisation exercise significant influence on leadership. When the degree of interdependence between specialized units is high, lateral relationships are essential for coordination. This is because the followers tend to centre their attention on their own work and do not see the impact of their actions on others. Similarly, technology governs the degree to which the task is structured. In case of highly structured tasks, the leader has more influences because employees work behaviour is specified and major decisions are centralized. Standard Operating instructions and detailed manual are provided and little is left for the group members to decide. When the task is uncertain a permissive and passive leadership tends to more effective because exact make-up of work is unknown.

4. The Environment

Leadership should be in harmony with the external environment. Social values, economic and political conditions, etc., bring about changes that lead to redefinition of acceptable and effective leadership.

18.7 GROUP ORIENTED APPROACH

Under the group oriented approach, which is only an extension of the situational approach, leadership is viewed as the performance of those acts which help the group to achieve its preferred objectives, such acts being called group roles or functions. It also seeks to define leadership as “a role which an individual occupies at a given time in a given group.”

Leadership roles may be variously classified. For example, K. Benne and P. Sheats have set out 27 different leadership roles as follows:

(A) Group Task roles

- Initiator contributor
- Information seeker
- Opinion seeker
- Information giver
- Opinion giver
- Elaborator
- Coordinator
- Orienter
- Evaluator-critic
- Energizer
- Procedural technician
- Recorder

(B) Group Building and Maintenance roles

- Encourager
- Harmoniser
- Compromiser
- Gate keeper and expediter
- Standard setter and ego ideal
- Group observer and commentator
- Follower

(C) Individual roles

- Aggressor
- Blocker
- Recognition seeker
- Self-confessor
- Play boy
- Dominator
- Help Seeker
- Special interest pleader

Accordingly, a leader plays more than one role and each of it is with a view to attaining different objectives. Moreover, different individuals may emerge as leaders at different points of time to provide direction to the direction to the activities of their followers.

18.8 FUNCTIONAL APPROACH

The concept of functional leadership “stems from the underlying idea that leadership acts are those which help a group to achieve its objectives is to satisfy its needs. The person who can assist or facilitate the group most in reaching a satisfactory state is most likely to be regarded as the leader. The functional approach tried to match personalities and styles with the kinds of leadership that must be exercised. An organisation must decide about the leadership functions it requires, and then determine how these functions may be distributed most effectively. Different group leaders perform different functions. A division of leadership responsibility is recognition by the group of the strength and weaknesses of the persons involved. Occasionally, leadership responsibility is divided to maintain group cohesiveness.

This approach places an emphasis on “the study of a leader as person rather a study of the group.” It considers both the individual and the situation in which leadership occurs. This approach assumes those groups are continually faced with two inter-related tasks. The first is that groups must find ways in which they should deal with the problems associated with the attainment of the goals that have been agreed upon that is they must resolve the task problems, such as asking for a clarification of issues, summarizing the contribution of others, proposing new ideas and courses of action, giving and receiving information, coordinating ideas and suggestions made by others.

Second, group members must find ways to improve and strengthen the group itself, they must resolve their internal maintenance problems to achieve their goals by giving the minority group a chance to be heard, by mediating in disputes within the group and resolving the conflicts therein, by maintaining open channels of communication, and by giving an opportunity to group members to express their feelings.

Some have argued that this approach hastened the process of group thinking and group decision making, and makes possible improvements in management methods which encourage supervisors or managers to delegate their decision making power to their subordinates. W.H. Whytes assets: “The current focus on groups brings about among leaders a loss of individuality, and encourages conformity and mediocrity. This approach does not make value judgements as to whether a leader should or should not practice a particular leadership pattern. It only poses certain questions as to the consequences which are associated with different leadership styles and then leaves to the practitioner the problem of deciding which particular leadership practices will be most effective in a given situation. For example, Bavelas has found that “Concentrated leadership results in a more efficient performance and a lower morale.” Similarly, Kahn and Katz have found that “the supervisors or producing group units tended to take clear control of several leadership functions, such as planning and coordination. They delegated responsibility to other and encouraged subordinates to take decisions and initiative in many activities.”

18.9 THE INTERACTIONIST APPROACH

The basic assumptions of this approach are that “leadership cannot be studied in isolation because it represents an interaction among members of a group.” It stresses the quality of the leader subordinate relationship as an important determinant of productivity, morale and other goals which are considered to be desirable by organisations. In this approach, the high productive, the low productive or effective and ineffective work groups performing the same tasks in an organisation are selected and then the leader follower interaction is studied. Research indicates that the “leaders to highly productive units do not appear to devote a greater part of their time and effort to technical or job oriented functions, but focus their attention on the human aspects of their subordinates relationships and attempt to build effective work groups with high performance goals.” On the other hand, the low productive or ineffective leader frequently demands “more than his subordinates than can be done, criticizes him before others, treats him with scant regard

for his feelings, derides him for making mistakes, initiates action without consulting him, and refuses to accept his ideas and suggestions or explain to him the reasons for the action he has taken.”

High and low production leaders differ from one another not only in their relationships with their subordinates but also their relationships with their supervisors. It has been found by one investigator that high production leaders tend to have greater influence on their own supervisors in respect of their pay, working conditions and promotions than the low production leaders.

The basic facts are:

- The supervisors of high productive units spend the better part of their time developing their work groups into close, highly cohesive teams than the supervisors of low production units.
- A general rather than a close supervision is more often associated with a higher rather than a lower level of productivity.
- The greater the pressure brought to bear upon the subordinates by their supervisors to increase production, the lower the level of productivity and the lower the confidence or trust which they place in their supervisors.

To sum up, it may be observed that leadership is not the property of an individual but a complex relationship of such variables as attitudes, needs, personal characteristics of the followers and the traits and characteristics of the leaders themselves. Therefore, in viewing the leadership concept, it is necessary to bear in mind that leadership is influenced by the foregoing factors and the various means that are chosen to influence inter personal relationships. According to Warwick, leadership is a combination of at least five processes – the leader, the Led, the time, the place and the circumstances. To concentrate on any one of these factors is to over simplify an intricate phenomenon.

18.10 PATH-GOAL THEORY OF LEADERSHIP

This theory was initially developed by Robert House of the University of Toronto and it was refined by House and Mitchell. It is called path-goal approach because its primary concern is the leader’s influence on his follower’s perception of the work goals, personnel goals and paths to achievement of these goals. It is based on the notion that a leader’s behaviour motivates and satisfies his followers to such an extent that it promotes the attainment of the follower’s goals and clears the path to attainment of these goals. It uses “expectancy frame-work” from motivation theory of Vroom Leadership; according to this path-goal theory is closely related to motivation, on the one hand, and the power, on the other. In essence, the theory attempts to explain the impact that leader behaviour has on the follower’s motivation, satisfaction and performance.

The general propositions of the path-goal theory are:

- The leader's behaviour is acceptable and satisfying to followers only to the extent to which behaviour is an immediate source of satisfaction to them or is instrumental in bringing about their future satisfaction.
- The leader's behaviour has a motivational effect on his followers, only to the extent to which such behaviour makes satisfaction of their needs contingent upon effective performance and improves their environment by providing opportunities for coaching, guidance, support and rewards that are necessary for effective performance.

The theory considers in other words, the effort performance linkage and performance goal satisfaction linkages.

According to the authors of the theory there are four basic or major styles of leadership behaviour. These are:

(a) Directive Leadership

Here the subordinates know exactly what is expected of them and specific directions are given by the leader. There is no participation by the subordinates. When the demands of tasks on hand are ambiguous or when organisational procedures, rules and policies are not clear, a directive leader may complement the task by providing the necessary guidance and psychological structure for his followers. When the demands of the task are clear to the followers, a high level of directive leadership may impede effective performance.

(b) Supportive Leadership

The leader is friendly and approachable and shows a genuine interest for subordinates. This style of leadership has its most positive effect on the satisfaction of followers who perform tasks that are full of stress, and are frustrating and unsatisfactory or unsatisfying.

(c) Participative Leadership

The leader asks for and uses suggestions from subordinates but takes the decision by himself.

(d) Achievement oriented Leadership

The leader sets challenging goals for subordinates and shows confidence in them to attain these goals and perform well. For follower's performing ambiguous, non repetitive tasks, the higher the achievement orientation of the leader the more confident they would be that their efforts would pay-off in effective performance. Contrary would be the case, when followers perform unambiguous and repetitive tasks.

Robert House has concluded that:

“A high degree of direction in autonomous or ambiguous situations increases satisfaction by clarifying the path to goal achievement. In contrast, strongly defined tasks are performed best with greater employee satisfaction when the leader demonstrates high consideration.”

“The autonomous jobs are most intrinsically satisfying than structured activities are, as a result, leader behaviour will be less relevant to the needs or performance of subordinates than when the path is more difficult to negotiate.”

The path-goal theory is a relatively recent one, and it warrants further research to test its applicability.

18.11 REVIEW QUESTIONS

1. Explain the Trait's theory in detail.
2. Explain the situational theory in detail
3. Explain the behavioural theory in detail
4. Explain the various approaches to leadership.
5. Explain the path-goal theory in detail.

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LESSON-19

MOTIVATION

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19.1 INTRODUCTION

Motivation is the core of effective management action. The phrase 'motivation is the core of management' implies that is the central task of management to motivate his subordinates to work for the attainment of common organisational goals. Motivation is not a simple concept. It involves a complex combination of individual's needs, tensions, discounts and expectations.

19.2 MEANING AND DEFINITION

Motivation is the process of influencing or stimulating a person to take action by creating a work environment where by the goals of the organization and the needs of the people are satisfied. In an organization, people are said to be motivated if they perform their jobs effectively and efficiently.

The word 'Motivation' has been derived from the word 'Motive' which means an idea, need or emotion that prompts into action.

Debin has derived Motivation as “the complex of forces starting and keeping a person at work in an organization. Motivation is something that moves the person to action’ and continues him in the course of action already initiated”.

Motivation is a process of getting the needs of the people realized with a view to induce them to work for the accomplishment of organizational goals.

19.3 ROLE AND SPECIFICATION OF MOTIVATION

Rensis Likert has called Motivation as the ‘Core of Management’. Motivation is an important function which every manager performs for actuating the people to work for the accomplishment of objectives of the organisation.

Motivation is an effective instrument in the hands of a manager for inspiring the workforce and creating a confidence in it. By motivation the work force, management creates ‘will to work’ which is necessary for the achievement of organisational goals.

The following results may be expected if the employees are properly motivated:

The workforce will be better satisfied if management provides them with opportunities to fulfill their physiological and psychological needs. The workers will co-operate voluntarily with the management and will contribute their maximum towards the goals of the enterprise.

Workers will tend to be as efficient as possible by improving upon their skills and knowledge so that they are able to contribute to the process of the organisation. This will also result in increased productivity.

The rates of Labour turnover and absenteeism among the workers will be low.

There will be good human relations in the organization as friction among the workers themselves and between the workers and the management will decrease.

The number of complaints and grievances will come down. Accident rate will also be low.

There will be increase in the quantity of production. Wastage and scarp will be less. Better quality of products will increase the public image of the business.

19.4 ELEMENTS OF MOTIVATION

In any motivational system, there are three elements, namely

The individual who is being motivated.

The job and

The work situation

The Individual

Every individual, whether a top ranking manager or a lower – level worker is a unique being. Workers may differ from one another in several respects, such as age, sex, education, intelligence, personality, physical characteristics experience, heredity and social and cultural background. These differences will determine the needs and determine the needs and attitudes of workers. They will also determine how each worker will react to motivational devices such as monetary and non-monetary incentives.

The Job

Every job within the set-up an organization prescribes different requirements and holds a different level of attractiveness for each worker. Routine jobs are not liked because of the monotony and dullness involved in doing them. But sometimes even challenging jobs may not hold attraction for some people. This means there will rarely be a job which is regarded as a source of enjoyment and pride by one and all.

The Work Situation

The environment within which work is to be performed also creates motivation. This includes

Organizational goals and values which help to identify desired outcomes or results and the nature of behaviour that will help to achieve them.

The type of technology and structural relationship which together determine how work is to be divided and integrated.

Leadership style in terms of participation is decision making and

The reward such as salary perquisites benefits, promotional prospects, status etc.

19.5 NATURE AND CHARACTERISTICS OF MOTIVATION

A Psychological Concept

Motivation deals with workers on the psychological plane. Even workers with extraordinary abilities will not be able to perform a desired task within they are effectively motivated.

Effective performance on the part of workers can be said to be the result of their abilities backed by proper motivation. Thus performance = abilities opportunity x motivation.

Motivation is total net piece meal

A worker cannot be motivated in parts of successful in parts of motivation, he should be treated as an indivisible unit, taking into account all the urges and aspirations. A motivational device which promotes fulfillment of some needs of workers are not others, will fall short of its objectives of evoking total commitments of workers.

Motivation is determined by human needs

A worker will perform to desired activity only so long as he sees his action as a means of continued fulfillment of his strategy felt needs once particular need is satisfied for good. He may lose interest in the activity that provides him satisfaction of the said need. In such a case he will have to be provided awareness of satisfaction of his other needs so that he continues to be included to pursue the said activity.

Motivation may be financial or non-financial

Motivation may be provided in several ways depending upon the need, emotions and sentiments of workers, it may be classified as financial and non-financial. Financial motivation seeks to satisfy physiological and security needs and it is by way of wages, allowances, bonus prize and other perquisites on the other hand, non-financial motivation which seeks to satisfy social, recognition and creative needs may be by way of appreciation for the work done, higher status and greater responsibility, or increased participation in decision-making.

Motivation is a Constant Process:

Human needs are infinite No sooner a person has satisfied one need than he seeks to satisfy another. As very aptly put by Mc.George, "Man is a waiting animal as- soon as one of his needs is satisfied another appears in its place. This process is unending".

19.6 IMPORTANCE OF MOTIVATION

The importance of motivation in an organisation can be summed up as follows:

1. High Performance Level

Motivated employees put higher performance as compared to other employees. The high performance is a must for an organization and motivation is a vital requirement for high performance. A number of researches have proved the relationship have proved to relationship for high performance. A number of researches have proved the relationship between high performance and high motivation.

2. Low employee thornier and Absenteeism

A motivated employee stays on the organization more and their absenteeism is quitter low. High turnover and absenteeism create many problems in the organization. Recruiting, training and developing of number of new personnel does not take long time but it is expensive too. In a competitive economy, this is almost an impossible task. Moreover, this also affects reputation of the firm adversely. Motivation brings these rates lower.

3. Acceptance of organizational changes

The changes in organization are as usual phenomenon due to various such as change in technology, value system etc., and organization has to cope with these changes to cope up with the requirement at time. When the changes are introduced in the organization there is a tendency to resist them by the employees. However if they are properly motivated they accept those changes with zeal and enthusiasm and support in their proper implementation too.

4. Proper utilization of Human Resources

Motivation includes men to work and it results in increased production and productivity because men try to put their efforts to produce more and more form the benefit of the organization and thus their efficiency increases. Moreover, the inherent qualities of workers are developed by employee's different techniques in the interest of the organization so that they are able to use the methods, system and technology effectively.

5. Best utilization of other Resources

All other resources except human resources can produce no result unless the men try to put them in action. Men should be motivated to carry out plans policies and programmes laid down by the organization by utilizing the other resources to the best of their efforts.

6. Willingness to Work

The function of motivation influences the willingness of people to work and willingness comes from within. It may be possible that a man has a capacity in work and he is physically mentally and technically fit for work but he may not be willing to work. Motivation concerns to create a need any desire on the part of the workmen to present his better performance.

7. Building of good Labour Relations

All the members of the organization concentrate their efforts to achieve the objectives of the organization and carry out the plans in accordance with the policies and programmes laid down by the organization if the management introduces motivation plans. Both parties labour and management plans. Both benefit by such plans. On the other hand, efficiency and wages of operating forces increase due to consolidated efforts of the motivated people and the labour problems such as absenteeism, labour turnover, indiscipline, grievances etc are considered reduced. Thus motivation helps build good labour relations.

8. Basis of Co-operation

In a zeal to produce more, the members work as a team to pull the weight effectively, to yet their loyalty to the group and to the organization, to carry out properly the activities allocated and generally to play an efficient part in achieving the goals which the

organization has undertaken. Thus motivation the basis of co-operation to get the best result out of the efforts of the men on the job.

9. Improvement upon skill and knowledge

All the members will try to be as efficient as possible and improve upon the skill and knowledge, so that they may be able to contribute to the progress at the organisation as much as possible because they know that they, in turn will get what have been promised and ultimately they will be able to satisfy their personal as well as social needs.

10. Builds Human Relations

Motivation builds human relations, because the human concept of Labour has changed and now labour is treated as human being. He is behaved as a man not as commodity. This attitude contributes towards motivation to people at work. Now workers are invited to participate in the decision making function of the management. Thus motivation builds human relations.

19.7 MASLOW'S THEORY OF MOTIVATION

Introduction

Maslow was the pioneer in contributing to a systematic scheme of need hierarchy. He arrived at a conclusion, after a proper research, that there are certain perceived needs of their employees and when they join any organization they somehow believe that the needs can be better satisfied by doing so. Thus they have a perceived expectation from organization working. If the perceived needs are satisfied according to their expectation they feel satisfied and motivated. On the other hand, if there is a gap between these, two, they become slow or refuse to work.

The following are the important propositions advanced by A.H. Maslow about human behaviour.

Man's needs have a Hierarchy of Importance:

Maslow thinks that a man's needs are arranged in series of levels. As soon as needs on a lower level are by and large fulfilled, those on the next higher level will emerge and demand satisfaction. The need hierarchy is as follows:

Basic Physiological Needs:

The needs that are taken as the starting point for motivation theory are the so called physiological needs. These needs relate to the survival and maintenance of human life. These needs include such things food, clothing, shelter, air, water and other necessities of life.

Safety and security needs:

After satisfying the physiological needs, people want the assurance of maintaining a given economic level. They want job security, personal bodily security, security of source of income, provision for old age, insurance against risks etc.

Social Needs:

Man is a social being. he is, therefore, intensified in conversation, sociability, exchange of feelings and grievances, companionship, recognition, belongingness etc.

Esteem and Status Needs:

These needs embrace such things as self-confidence, independence, achievement, competence, knowledge and success. They are also known as egoistic needs. they are concerned with prestige and status of the individuals.

Self-fulfillment Needs:

The final step under the need priority model is the need for self-fulfillment or the need to fulfill what a person considers to be his mission in life. It involves realizing one's potentialities for continued self-development and for being creative.

After his other needs are fulfilled, a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough dash and initiative to work, it is beneficial to him in particular and to the society in general. The sense of achievement gives him satisfaction.

Conclusion

A survey of 200 factory workers in India reported that they give top priority to job security, earnings and personal benefits. All lower order needs studies have also revealed that those needs which are thought to be most important like social needs, egoistic needs and self realization are also thought to be the best satisfiers. One study of two thousand and eight hundred (2800) managers in eleven countries reported that security belonging, esteem and self-realization needs are progressively less satisfied according to the pattern of the needs priority model.

19.8 MC.GREGOR'S X AND Y THEORIES OF MOTIVATION

Introduction

Mc.Gregor has based his theories of motivation on assumptions about basic human nature. These assumptions range from good, hardworking, creative, and responsible to bad, lazy unimaginative and irresponsible. these assumptions are unrealistic because human beings are neither completely good nor completely bad Gregor has termed his theories as 'X' theory (negative/pessimistic) and 'Y' theory (positive/optimistic).

“X” Theory

'X' theory is traditional in its outlook. the role or part played by the manager is more. It completely excludes workers from the process of managerial decision-making. The theory is based on certain very negative assumptions:

Inherent dislike for work

People in general have a deep aversion (dislike) to work. They would use even the slightest pretext to use shirk work (or_ do it half heartedly.)

Lack of ambition and love for direction

People are often unambitions. They are not keen to accept any responsibility; it is only due to the fear of harmful consequences arising from refusal to do so. Most of the time they would prefer being directed by their superiors.

Lack of Creativity

Most workers prefer the status-quo they are adverse to break new ground, or try out unconventional methods to solve problems. This breeds a sense of complacency with their work, the existing methods and procedures even when these have become outdated.

Satisfaction of Physiological and Safety needs being the only goal

For most workers, the only motivating force is satisfaction of physiological and safety needs. The basic instinct of a human being is to seek self preservation and few people can think beyond satisfaction of the basic human needs. Thus, the main motivation for workers is adequate wages and job security or the threat of being deprived of them.

Close often coercive control a must

Most workers need to instructed, controlled and closely supervised. In other words, a worker must work only as ordered. He is not to have any say in decision-making. He is not to be encouraged to make any suggestions about his work or work conditions and in case he does one forward with, any these should not be taken seriously.

Conclusion

X theory regards coercive authority as the only effective means to supervise and control workers. Decision-making in all fields and at all levels is considered as an exclusive domain of managers Decision, whether right or wrong have to be made by managers only.

“Y” Theory

The 'Y' theory is the exact opposite of the negative/positive X theory. Y theory keenly emphasizes active partnership and co-operation between workers and management so as to accomplish the enterprise objectives.

According to the 'Y' theory workers are not habitual work shirkers, and it is wrong to think that they work only under fear of punishment properly motivated, they would willingly accept responsibility, and display creativity and imaginative in their work performance .

'Y theory is based on the following assumptions.

Work as natural as play

In favourable conditions, a worker would take to work as naturally as play or any other interesting activity. Work is a purposeful activity and once the worker understands its purpose, he will exert himself to perform it to the best of his ability, irrespective of the remuneration. It is wrong to think that all work is interesting and that, for this reason a worker is instinctively averse to work. In fact, like eating and playing, it does not lose its charm even though performed as a regular routine.

Self-control

Most workers are not, by nature, lazy or adverse to accepting responsibility. The fact of the matter is that people can be self-directed and creative at work because it is part of human nature to feel enthusiastic about performing one's job or accepting increased responsibility.

Creativity

Initially, a person may not be psychologically matured but it is wrong to assume that he lacks the potential to mature. In any case, recognition of creativity and self-motivation on the part of workers depends on the attitude and pre-disposition of the management. If there is positive outlook workers may be encouraged to display initiative and creativity in resolving work problems.

Money not the only motivator

A person is promoted to work to satisfy his physiological and safety needs. But it is wrong to think that motivation can only occur at these two levels . Given favourable conditions, workers would willingly accept responsibility and discharge it successfully with a view to seeking recognition from others. In fact, in a right motivation environment, workers might also, without any extrinsic regard, seek to achieve their potential to the maximum. To sum up, motivation occurs at all levels, and not just at physiological and safety levels.

Self direction

As people are by nature self-directed and creative, it is only left to the management to provide a right environment for this purpose. Such environment will consist in in-built flexibility promotion of authentic relationships, internal commitment and psychological success.

Conscious efforts must be made to involve workers in the spheres of planning, organization, direction and control of all activities of the enterprise once the workers develop a sense of belonging to the enterprise, they can be trusted to show a sense of imagination and zeal toward solving managerial problems.

X Theory	Y Theory
1. Most people have an inherent dislike for work.	1. Given proper environment most people will take to work as naturally as play.
2. Most people are unambitious, averse to accepting responsibility and prefer to be directed by others.	2. With proper motivation, most people would willingly accept responsibility and go in for self-direction.
3. Most people lack creativity in resolving organizational problems.	3. Creativity is not the monopoly at a few and in a right environment people can be made to display this trait on an idea scale.
4. Only satisfaction of physiological and safety needs will motivate workers.	4. Satisfaction of physiological and safety needs is not the only source of motivation, which also occurs at social, esteem and self actualization levels.
5. Close, often coercive control is the only means to achieve organization objectives.	5. With proper motivation people may be self-directed and creative.

19.9 “Z” THEORY OF MOTIVATION

The "Z" theory, proposal by William Ouchi, is an integrated motivational model, based on the Japanese management practices. It provides an example of how management can transfer the organizational environment and bring about close, co-operative and trusting relationships between workers, managers and other groups. The distinguishing features of the 'Z' theory are as follows:

Life time employment

There should be life-time employment granted to all employees so as to promote a strong bond between them and the organization. During adverse business conditions, shareholders/ owners should forgo dividend/ profits rather than resort to retrenchment of workers.

Restricted Promotions

Up ward mobility of workers through promotions should be restricted as it only leads to saturation in advancement prospects. Instead, the emphasis should be on horizontal mobility. So that employees do not suffer from a sense of stagnation arising from working at the same post for a long time.

Greater workers involvement

Promotions or financial incentives are only a short term motivational device. On the other hand, if employees are involved in working with their superiors or on specific projects, they will be motivated more intensely due to prospectus of greater income in future.

Participated decision-making

Employees should be allowed increasing participation in the decision-making process, particularly in regard to matters which significantly affect them. If financial decisions are based on the alternatives suggested by the lower-level workers, after analysis of the problems on hand, they will feel a sense of responsibility because of such involvement and will be enthusiastic in implementation of such decisions.

Informal control systems

Organizational control system should be as informal as possible. There should be greater emphasis on co-operative and sharing of information. Resources and plans rather than on formal authority-responsibility relationship. Employees should be frequently shifted from one job to another. So that they get to have an integrated view of the organizational functions and how each function affects the others.

Stable and cohesive work environment

The work environment should be appropriately stable and cohesive to provide for increasing satisfaction of multiple employee needs. Mutual relationship marked by trust, openness, candour and co-operation will induce employees to develop a sense of commitment to the organization.

The 'Z' theory has been criticized on grounds. First, it is based on the Japanese Management Practices which have evolved from that country's unique cultural setting. As such, it may not be relevant in organizations based in different cultural settings. Secondly there is little by way of research findings to indicate that the firms following this theory of motivation have achieved greater productivity than others. Lastly, it does not provide guidelines as to at which point of time it may be applied in any organization.

19.10 REVIEW QUESTIONS

1. Define Motivation.
2. Explain the importance of motivation.
3. Explain the characteristics of motivation.
4. Explain the elements of motivation
5. Describe the Maslow's theory of motivation in detail.
6. Discuss Mc.Gregor theory X and theory Y of motivation.

19.11 REFERENCES

- ** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.
- ** Dingar Pagare, Principles of Management, Sultan Chand & Sons Publications.

LESSON-20

NATURE AND PROCESS OF CONTROLLING

CONTENTS

- 20.1 Introduction
- 20.2 Meaning and Definition
- 20.3 Nature and Purpose of control
- 20.4 Need and significance of control
- 20.5 Elements of Control
- 20.6 The control process
- 20.7 Problems in the control process
- 20.8 Characteristics of an ideal control system
- 20.9 Case Study
- 20.10 Review Questions
- 20.11 References

20.1 INTRODUCTION

Control function is exercised in all organizations to ensure the optimum utilization of scarce resources. Control like other managerial functions, is performed at all levels of management. Controlling is an integral part of the management process and it is found in all areas of business. It is the task of every manager to control the activities of his subordinates. Each manager has to perform control function in the organization. However, the nature and scope and limit of control function may differ from one level to another.

20.2 MEANING AND DEFINITION

Controlling may be defined as the process of analyzing actual operations and seeing that actual performance is guided towards expected performance. It involves comparing operating results with plans and taking corrective action when results deviate from plans. It is mechanism by which someone or something is guided to follow the predetermined course.

According to Koontz and O'Donnell, " The managerial function of controlling is the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished."

20.3 NATURE AND PURPOSE OF CONTROL

The main characteristics of managerial control are as follows:

1. Control is an essential function of management

This function is performed by every manager at all levels of the organization. Control is in fact a follow-up action to the other functions of management. The other managerial functions cannot be completed effectively without performing the control function.

2. Control is an ongoing process

It involves continuous measurement of results and review of standards. It does not stop anywhere. "Just as the navigator continually takes reading to ascertain whether he is relative to planned course, so should the business manager continually take reading to assure himself that his enterprise or department is on course.

3. Control is forward-working because past cannot be controlled

However, always the past performance is measured and in the light of such measurement corrective action for a future period is identified. No one can measure the outcome of an event which has not taken place.

4. Control involves measurement

Control is a process of measurement, comparison and verification. It involves a check on the performance of individuals and does not curtail the freedom of action. Control requires feedback information on actual operations.

5. The essence of control is action

The purpose of control is achieved only when corrective action is taken to correct deviations and performance is adjusted to predetermined standards. Control results in corrective action which may leads to changes in other managerial functions. A good system of control permits timely action so that there is a minimum waste of time and money.

6. Control is an integrated system

It is a set of interlocking sub-systems or a coordinated structure of activities.

20.4 NEED AND SIGNIFICANCE OF CONTROL

A good control system provides the following significances:

It enables management to verify the quality of various plans and policies. A good control system provides timely information to management which is very useful in taking corrective actions. Control reveals deficiency in planning, so that suitable action can be taken to improve plans and policies.

A control system ensures the achievement of objectives. It provides the clue as to whether suitable progress is made towards the achievement of objectives. Where necessary it makes adjustments in operation, so that the desired goals can be accomplished.

Control helps managers to discharge their responsibilities when a manager delegates authority to his subordinates; he remains responsible for the performance of work. Through control, he can ensure that subordinates are performing the assigned tasks. In this way, control facilitates delegation and decentralization of authority. It helps to expand the span of supervision.

Control keeps the subordinates under check and creates the discipline among them. Control process puts a psychological pressure on subordinates for better performance. They are inspired to achieve the results according to predetermined standards when they are aware that their performance will be evaluated. That, control ensures that every individual in the organisation contributes to his maximum ability.

Effective control ensures efficiency and effectiveness in the organisation. It focuses on organizational objectives, and on the maximum utilization of available resources.

Control helps in achieving coordination which is the essence of management. It forces the individuals to integrate their efforts and to work as team for the achievement of standards.

20.5 ELEMENTS OF CONTROL

The important elements of control are as follows:

1. Planning:

Control is not possible in the absence of planning. Planning involves the setting of objectives to be accomplished, as also the action that needs to be taken to accomplish them. It is necessary that the goals and objectives are specific. Also, the course of action that has been charted to reach them should be specific. Only then it will be possible to know if the action is proceeding along the right lines, and whether the objectives achieved are as per the plans. Control is concerned with deviations from the charted course and also with taking measures to set things right. Thus for control to be effective, planning must precede it.

2. Action:

Prevention is better than cure. It is the duty of the manager to guide operations along the desired lines. He must tell his subordinates what to do, and teach and lead them to do it. Certainly, he should not assume the role for a fire brigade, which moves into action only when fire actually breaks out. In such a situation, the manager should be quick to act. And he should be quick not only in identifying deviations, but also in rectifying them.

3. Delegation of authority:

Control implies authority – authority to detect deviations, and authority to take the necessary corrective action. It would be impossible for a manager to exercise control in the absence of proper authority.

4. Information feedback:

For control to be effective there must be a prompt flow of information to the manager. Reports on the performance at the lower levels must be available to him on a regular basis. And instructions from him as to the necessary corrective action should also promptly reach the person concerned. The system of communication to a manager is called 'feed back'. An effective feedback enables the manager to know where and when deviation from any plan has taken place.

20.6 THE CONTROL PROCESS

The process of control involves the following steps:

1. Determination of Standards

A standard may be defined as a yardstick consisting of a specific set of factors, relating to a particular entity (organization, departments, groups of workers or individuals), which may be in the form of a specification or measurable quantity to provide guidelines for acceptable levels of performance.

The overall goals or objectives of an organization represent the standards for organizational performance as a whole. These goals are broken down into sub-goals for individual departments for the organization, which become standards for performance of the respective departments. The departmental goals are further translated into standards as to quality, production, cost, time standards, Sales quotas, schedules, budgeting, and such other specific standards. These standards serve as the criteria to exercise control, i.e., to measure and appraise performance, and to correct the deviations, if any.

The standards for the purpose of exercise of control may be classified as :

(a) Tangible standards

A Tangible standard as regards performance may be defined as a standard which is specific, definite and clearly intelligible, and it is possible for the persons concerned to know when the standard is reached. These may be:

Physical Standards

They are non-monetary standards which are quite commonly applied at operating levels, such as in the factory or which ship where raw material are used, labour in hired, services are performed and goods are produced. Measurement of performance in such a case may be quantitative or qualitative, it is quantities when standard; are expressed in terms of man-hours per unit of output, or units of production per machine hour, etc. It is qualitative when thickness, hardness, durability, or colour of the goods, is made the basis of control.

Cost Standards

Capital standards are fixed to measure the return on investment, An enterprise may, for example, plan 10% net return and then see how far its actual performance helps in the accomplishment of this target.

Programme Standards

They are determined with a view to accomplishment of a certain programme, they are mainly qualitative in nature and as such, subjective.

(b) Intangible standards:

An intangible standard is one, which cannot be precisely measured, assessed or quantified. To that extent, it makes the control function difficult to be performed. For example, it is difficult to lay down an criteria to assess employee morale, consumer satisfaction, or product leadership. In the absence of proper quantitative or qualitative standards, measurement of performance will have to depend on the subjective, even arbitrary, credibility due to lack of objectivity.

Employee Morale

It often refers to attitudes of groups of employees based on the feelings with which they view their work. As it happens, an individual will view his work favorably or otherwise based on the extent of agreement between his expectations and the rewards provided to him, Moreover, his attitude may be influenced by a multiplicity of factors. Consumer satisfaction that factors which contribute to consumer satisfaction or otherwise may be varied, such as, price, quality, durability and timely availability of goods and services, after-sales service, enterprises, image and so on.

Product Leadership

There have to be more than one yardstick to assess the product leadership of any enterprise, the determinants in this respect would be the types and quality of goods, pioneered role in the introduction of basic products, product improvement, consumer satisfaction, promotional ability, etc.

2. Measurement and appraisal of performance

Having set standards, the next task is the control process if to ensure that the performance at various levels is as per those standards.

This involves the laying down of the methods of evaluating performance, e.g., observation, inspection and reporting.

If the standards of priority set, and it is possible to get the necessary feedback as to what exactly is happening at the different levels of a technical nature actual performance can be easily measured to detect deviations if any,

But measurement and appraisal of performance becomes difficult in the case of less technical kinds of work performed at places away from the workshop, assembly line or the accounting machine.

3. Correlation of Deviations

Measurements and appraisal of the actual performance is done with a view to detecting deviations from the pre-determined standards. But more important than this is to take the necessary corrective action, not only to rectify the present deviations but also to prevent any deviations in future.

This calls for an analysis of the causes of deviations and may be, a review of the plan itself. Reports and explanations received from the subordinates are of great help in the diagnosis of the deviation. But whatever corrective action is decided upon. It should be implemented promptly and effectively, therein lies the success of the entire control system.

Management is an integrated process

The last step in the control process i.e., correcting of deviations, is nothing but an extension of the other managerial functions, viz, planning, organizing, directing and co-ordinating. In any action to correct a deviation, one or more of these functions will naturally be performed simultaneously.

Obviously, control can be viewed as a separate function only to the extent that it concerns itself with detecting deviations; Setting of the standards is essentially a planning function. And correlation of deviation is nothing but performance of a number of other managerial functions. Management is an integrated process and system, one function easily and naturally combines and integrates with the other.

20.7 PROBLEMS IN THE CONTROL PROCESS

The main difficulties in the process of control are as follows:

1. Magnitude of change

Control system is designed to cope with changes of a certain magnitude. For example, management has installed a control system to cope with normal absenteeism in the factory. The system provides for overtime and other means of tackling absenteeism. These corrective actions are programmed into the decision rules of the foremen. These corrective actions can work so long as the assumptions are met, example five percent of the employees are absent. But if 75 percent of the workers go home after lunch due to food poisoning after eating in the canteen, the foreman can do little to correct the change is outside the range which the control system was designed to handle.

2. Time Rate of Change

Due to time lags in feedback, the control system cannot respond quickly to change in the situation. As a result there is a slow down in the adaptive process. Time lags develop in a control system because organizational controls often depend on written reports about feedback. It takes time to write and transmit the reports. When the activity is changing rapidly, the problem might become very serious by the time the corrective action is taken.

3. Erroneous Standards

Mistakes in setting standards are perhaps the most critical problem in a control system. When standards are incorrect, it becomes difficult to discriminate between proper and improper results of the activity. The decision maker is not certain whether the deviation is the results of the activity being out of control or due to the mistakes in standards.

4. Workers Resistance

Generally, employers consider any control system as a trial to exert pressure on them. Opposition arises at every step in the control process. When standards are established employees put pressure to scale down the targets. At the time of measuring actual performance and its comparison with the standards, employees complain that the targets are non-feasible, control people are biased and the time span is too short to permit a fair evaluation. They also resent the authority of the control section to sit in judgment and ask for explanation. When the corrective action is being taken, disagreement occurs mainly over the location of the decision level concerning the remedial action.

5. Communication problems

A control system is dependent on information for its operation. The necessary information concerning standards, actual performance and corrective actions must be transmitted correctly and quickly. Semantic and other barriers to communication can distort the information flow.

20.8 CHARACTERISTICS OF AN IDEAL CONTROL SYSTEM

An ideal system of control is one that makes the controlling function easy, effective and smooth. It should contain the following features:

1. Suitable

The control system should be appropriate to the nature, needs and circumstances of the enterprise and each level of activity inside it for instance; the flow of information concerning actual results should fit to the organisation structure. The methods and techniques employed for control should be appropriate. The control system must focus on the objectives of the organisation and should reflect organizational needs.

2. Flexible

A good control system must keep pace with the continuously changing environment of business. It must be adaptable to new developments and responsive to changing conditions including revision of plans. Only a flexible system can be pragmatic or practical.

3. Economical

The control system must be worth its cost and should justify the expenses involved. A control system is justifiable if the savings anticipated from it exceeds the expected cost. For example, a small scale concern cannot afford expensive and elaborate control system.

4. Objective

A control system should be easy to understand and must report deviations quickly. Report on actual performance should be made available to management at right time. Corrective action should be able to be taken without delay.

5. Simple

A control system should be easy to understand and simple to maintain. A complicated system may restrict operations and people may lose faith in it.

6. Prompt

To be effective, a control system must report deviations quickly. Report on actual performance should be made available to management at right time, corrective action should also be taken without delay.

7. Forward Looking

A control system is ideal only when it points out deviations even before they taken place. As for as possible it should seek to prevent deviations rather than remedy them after they have taken place.

8. Suggestive

An ideal control system should not simply reveal deviations, it should also indicate solutions to the problems caused by deviations.

9. Strategic Point Control

A good control system should focus attention on critical or key points that need to be regulated. This is known as control by exception.

10. Motivational

Control system should aim at motivating people by fulfilling their needs. It should provide a sense of worthwhile accomplishment of employers control system can be made motivating by linking rewards with performance and by getting standards with the participation of subordinate standards with the participation of the control process.

20.9 CASE STUDY

Case Study – I

Mr.Vinaykant, general manager of Lucky Enterprises Limited, has a problem controlling and the numerous branches of the company throughout the country.

Every quarter, he receives reports about the overall performance of the company and each of its branches. These enable him to know the deviation from the planned targets in each area of operations and to enforce immediate corrective action, where necessary.

But this bristles with difficulties. He has to make up his mind whether the control measures should be tightly or moderately enforced. True, tight control would bring him complete information about the functioning of the company at all levels, make it possible for him to devise suitable measures to diagnose the problems, facilitate introduction of corrective measures without loss of time and enable effective coordination of activities. But it will also sap the branch managers of all authority and initiative. Moreover

communication from the head office takes time to reach the branches and this will considerably delay action in emergency situations.

Dilution of centralized control would offer its own advantages. It would give the branch managers wide freedom, encourage initiative among them, raise their morale and enable quick and correct decisions which could only be made by the men on the spot. But it would also create certain problems. For example, the positions of branch managers will have to be filled only by exceptionally capable, trustworthy and enterprising men. Coordination would become a difficult problem and the head office might know nothing about the kind of problem faced by the branches.

Questions:

- (a) As the management consultant hired to advise the general manager on this issue, what kind of control you would recommend?
- (b) Do you think only a judicious mix of the two kinds of control measures could prove effective under the circumstances?

Case Study – II

Hindustan Corporation is a leading consumer product manufacturing concern. It is a multi-product and multi unit organization. Though its products are enjoying good brand loyalty, the entry of competitive products from “Asian Tigers” (Countries like Thailand, Taiwan, Singapore etc.,) has caused alarming situation. The Chairman and Managing Director of the Hindustan Corporation Mr. Abhiman reviewed the situation and came to the conclusion that the company can withstand the pressures of close competition only when its scarce resources are optimally used with effective cost control. Mr. Abhiman summoned all of his plant managers and informed about the precarious situation. He further ordered each of them to install an effective control system within 10 days. The plant manager in turn called the Assistant manager and passed on the order to him. The Assistant manager then assigned the task to his Foremen to attend the same.

After 10 days, the foreman informed to the Assistant manager that he could not find a control system suitable to the companies need despite his review of current literature from reputed journals.

Questions:

- (a) Do you think that the foreman should have worked little hard in tracing a suitable system of control through books and journals?
- (b) Suggest ways and means open for developing effective control system?

20.10 REVIEW QUESTIONS

1. What is meant by Control?
2. Explain the characteristics of ideal control.
3. Explain the element of control.
4. Describe the control process in detail

20.11 REFERENCES

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

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LESSON-21

TECHNIQUES OF MANAGERIAL CONTROL

CONTENTS

- 21.1 Introduction
- 21.2 Traditional Techniques
- 21.3 Modern Techniques
- 21.4 Case Study
- 21.5 References

21.1 INTRODUCTION

Control is the monitoring process for ensuring that scarce resources are utilized in the most effective and productive way, so as to achieve the organizational objective, Planning is essential to the effectiveness of any control system, because then only a manager can compare what should have happened to what has actually happened, As such, the techniques which are useful in planning, can be equally effective in control.

21.2 TRADITIONAL TECHNIQUES

The various techniques of managerial control under traditional techniques are as follows:

- Personal observation
- Good organization Structure
- Unity of plans
- Statistical reports and analysis
- Budgetary control
- Profit and Loss Control
- External audit control
- Overall Control criteria

1. Personal Observation

Observation of actual operations at the work place is the most effective and the oldest method of control. Certain kinds of information and impression can be secured only through face –to-face contacts. It helps the manager in taking corrective measures on the

spot. Personal observation has also a psychological impact on the employees. They try to achieve better results when they know that they are being observed personally by their superior. Personal observation is the most direct and undistorted means of control. The observer exactly knows what is wrong and can take action forthwith. For example, a factory manager goes round the plant, watches the machines and operation in action and checks the output no control device can completely substitute personal observation. However, personal observation is a time – consuming process and a manager cannot afford personal observation all the time. Moreover, personal observation may have a negative impact in certain cases. Enlightened and self motivated employees do not likely to be closely supervised. Employees often resent interference involved in personal observation the bias of the observer may afford the evaluation.

2. Good organization structure

In a good organization structure everybody knows the part he has to play and how his role relates to those of others. Such a healthy system of roles and relationships helps to improve productivity and removes obstacles to performance. It helps to ensure that activities are carried out as planned.

3. Unity of Plans

Unity of objectives, policies, procedures and methods helps to make control more effective. When the objectives of the organization are integrated with the objectives of employees, the cooperation and loyalty o people can be secured. Such cooperation helps in ensuring that work is carried out in a predetermined manner. The philosophy of management by objectives has been developed to achieve identity or congruence between the objectives of management and those of the employees.

4. Statistical reports and analysis

Statistical reports and analysis are an important instrument of control. Analysis of statistical data in the form of averages, percentages, ratios, correlation, etc., is helpful in control of production, quality, inventory etc. Statistical reports are analytical documents in the form of tables, graphs etc. They provide factual data and trends useful for managerial control. These reports reveal whether prescribed policies are being followed or not.

5. Budgetary control

A budget is a statement expressed in financial terms, example, sales revenue, total expenditure, etc., or in physical terms, example, units of output, number of employees, etc. As a financial plan, a budget indicates estimated revenues and costs for a certain future period. A budget serves as an important device or managerial control. It provides a standard by which actual operations can be evaluated.

6. Profit and Loss control

Profit and loss control implies control through comparison and analysis of profit or loss of different departments or divisions or branches of the enterprise. A separate proforma profit and loss statement is prepared for each product line or branch. Estimated costs and revenues are used in these statements. Such estimates are based on average level of efficiency expected of each division or branch. The actual expenses and revenues are then compared with the estimates. Any deviations are analysed and suitable corrective actions are taken. In this way contribution of each division and its relative efficiency can be determined.

Profit and loss control can be applied for measuring overall performance as well as for individual divisions or departments. Its effectiveness can be increased when income and expense figures are compared with those of the past years. Profit and loss control serves as a tool of feed forward control by enabling management to take preemptive measures for obtaining the desired results.

7. External Audit control

External audit control involves audit of the financial accounts of an enterprise by a qualified and independent chartered accountant. In case of joint stock companies a external audit is compulsory under the companies act 1956. Its object is to ensure that the interests of shareholders and other interested parties are protected against manipulations and malpractices by management. The external auditors is appointed by the shareholders in the annual general meeting. He conducts a close and careful examination of the books of accounts and other relevant documents of the company. External audit control helps to ensure the accuracy of financial accounts but it does not consider operational aspects of business.

8. Overall control criteria

Most of the control techniques are designed to regulate specific aspects like costs, profits, etc. Such piecemeal control measures are not sufficient for a business enterprise. Control of overall performance is required to judge the total effectiveness of an organization. Such control evaluates management's total efforts. Moreover, control of overall performance helps to overcome weaknesses of partial control measures. Control of overall performance is all the more important in the case of large enterprises which have several autonomous units located in different parts of the country.

Some of the important tools of controlling overall performance are as follows:

- Budget summaries which are a resume of all individual budgets and which present an overall picture of the enterprise.
- Written and comparative reports from different departments.
- Inter-firm comparisons.

- Internal audit which involves continuous examination of operations by the managers of the enterprise.
- Ratio analysis indicating trends in the profitability, liquidity and solvency of business as a whole.
- Value analysis used to judge relationship between cost and functions of any product, material or service.
- Control through key result areas, example: market position, productivity, product leadership, executive development etc.

21.3 MODERN TECHNIQUES

The various techniques of managerial control under traditional techniques are as follows:

1. Return on Investment
2. Programme Evaluation and Review Technique
3. Management Information system
4. Cybernetics
5. Management Audit

Let us briefly discuss about the same

1. Return on Investment

Profit earned in relation to the capital employed in a business is an important control device, If the rate of return on the capital employed in optimum. i.e. if it adequate to satisfy the owners (shareholders) of the undertaking and is also satisfactory for the type of business carried on by it, it can be assumed that the business operating with a reasonable degree of efficiency. The return an investment is computed by dividing the not operating profit (before interest and tax) by operating capital employed in the business.

2. Programme Evaluation and Review Technique

It is broadly similar to the Critical Path Analysis (CPA), Critical Path Method (CPM) and Network Analysis techniques. The PERT is concerned with the planning and controlling of complex projects consisting of many inter-related activities and events, some of which are performed simultaneously in parallel, and others which are performed sequentially, one after the other.

The PERT is extensively used for planning the construction of buildings, manufacture of a variety of products, establishment of an advertising campaign, etc. Even small-sized business establishments can derive considerable advantages from the systematic and logical technique of PERT.

3. Management Information System

Management information system may be defined as an organized system to provide all levels of management with relevant Information for the control of their functions at the most relevant time and at an acceptable level of accuracy, with an appropriate degree of privacy and at an economical cost.

The MIS may be developed to help various organizational functions, such as, wage payment, inventory control, accounting, and so on. Information gathered by the MIS may be relating to past, present or future projections and the sources of such information maybe Internal and/or external.

However, computers can be useful only in processing of non-quantifiable Information-such as opinions-which is equally important to decision-making. Therefore, the MIS should be so designed that it gives equal attention to quantifiable and non-quantifiable inputs.

4. Cybernetics

Cybernetics is an important concept for the control system. it may be defined as the science of communication and control in compels and man-machine system. It is the foundation in modern factories for interval movement of raw and processed materials and manufacturing operations performed by automated equipment.

5. Management Audit

According to Taylor and Perry, management audit is a method to evaluate the efficiency of management at all levels throughout the organization, or more specifically, it comprises the investigation of a business by an independent body from the highest executive level downwards in order to report as to its efficiency or otherwise, with recommendations to ensure its effectiveness where such is not the case. The objectives of management audit may be summarized as follows:

- (a) Whether the basic aims and objectives of the enterprise are being fulfilled in practice.
- (b) Whether the enterprise is being successful in adapting itself to technological change.
- (c) Whether the management structure is suitable.
- (d) Whether management is efficient at all levels and the extent to which economics are possible.
- (e) Whether the policies with regard to staff recruitment and training are adequate, and whether staff morale is satisfactory.
- (f) Whether there is a proper communications system both upwards and downwards throughout the enterprise, including a proper management information system.

- (g) Whether the return on capital employed is adequate, and how it compares with other companies in the same industry.
- (h) Whether the enterprise's share of the market is increasing or declining and how it compares with its main competitors; and
- (i) Whether its relationship with the outside world is effective and whether its corporate image in the eyes of the outsiders is satisfactory.

21.4 CASE STUDY

Case Study – I

Bijlee Udyog limited was incorporated about ten years ago to take over three medium size concerns, manufacturing a variety of electrical goods. Over the years, the operations of the company were expanded and several new items were added to the production line.

Each of the manufacturing units was headed by a general manager having an independent staff look after sales, engineering, personnel, stock control and plant maintenance. At the head office, the departments looking after each of these functions were under the charge of an executive director who exercised general control over the respective functions in each unit.

Every year, the head office prepared manufacturing sales and finance budgets for the company as a whole, and for each of the units. Though there was no budget for plant maintenance, each general manager was authorized to spend up to Rs. 10,000, at a time, on the purchase of machinery and equipment. For capital purchases exceeding this sum, he had to seek sanction from the head office.

The general managers had pointed to the inadequacy of the authorization a number of times, but in vain. However, of late, reports had been reaching the head office that the general managers had hit upon a novel method to short-circuit the paltry authorization. They would purchase machinery and equipment worth several times more than the sanctioned limit, but in such a way that at any one time the payment for the same did not exceed Rs. 10,000.

Questions:

- (a) Does the company have an effective budgetary control system?
- (b) What measures would you recommend to plug the loopholes in the existing control measures?

21.5 REFERENCE

** Dr. C.B. Gupta, Business Management, Sultan Chand & Sons Publications.

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LESSON-22

BUDGETARY CONTROL

CONTENTS

- 22.1 Introduction
- 22.2 Meaning and Definition
- 22.3 Objectives of Budgetary control
- 22.4 Characteristics of good budgeting
- 22.5 Essentials of budgetary control
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- 22.7 Limitations of Budgetary control
- 22.8 Classification and types of budgets
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 - 22.9.2 Steps involved in ZBB
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22.1 INTRODUCTION

A budget is a blue print of a plan expressed in quantitative terms. Budgeting is techniques for formulating budgets. Budgetary control, on the other hand, refers to the principles, procedures and practices of achieving given objectives through budgets.

Rowland and William have differentiated the three terms as: “Budgets are the individual objectives of a department, whereas Budgeting may be said to be the act of building budget. Budgetary control embraces all and in addition includes the science of planning the budgets as an overall management tool for business planning and control”.

22.2 MEANING AND DEFINITION

A budget is a plan of action expressed in financial terms or non financial terms. It is prepared for a definite period of time. It is a planned estimate of future business conditions such as the sales, cost and profit. A budget is a tool, which helps the management in planning and control of business activities.

According to ICMA, England, a budget is, “ a financial and / or quantitative statement, prepared and approved prior to a defined period of time, of the policy to be pursued during the period for the purpose of attaining a given objective”.

It is also defined as, “a blue print of a projected plan of action of a business for a definite period of time.”

22.3 OBJECTIVES OF BUDGETARY CONTROL

- To define the goal of the enterprise.
- To provide long and short period plans for attaining these goals.
- To co-ordinate the activities of different departments.
- To operative various cost centres and departments with efficiency and economy.
- To eliminate waste and increase the profitability.
- To estimate capital expenditure requirements of the future.
- To centralise the control system.
- To correct deviations from established standards.
- To fix the responsibility of various individuals in the organisation.
- To ensure that adequate working capital is available for the efficient operation of the business.
- To indicate to the management as to where action is needed to solve problems without delay.

22.4 CHARACTERISTICS OF GOOD BUDGETING

1. A good budgeting system should involve persons at different levels while preparing the budgets. The subordinates should not feel any imposition on them.
2. There should be a proper fixation of authority and responsibility. The delegation of authority should be done in a proper way.

3. The targets of the budgets should be realistic, if the targets are difficult to be achieved then they will not enthuse the persons concerned.
4. A good system of accounting is also essential to make the budgeting successful.
5. The budgeting system should have a whole-hearted support of the top management.
6. The employees should be imparted budgeting education. There should be meetings and discussions and the targets should be explained to the employees concerned.
7. A proper reporting system should be introduced; the actual results should be promptly reported so that performance appraisal is undertaken.

22.5 ESSENTIALS OF BUDGETARY CONTROL

There are certain steps, which are necessary for the successful implementation of a budgetary control system. They are as follows:

1. ORGANISATION FOR BUDGETARY CONTROL

A proper organisation is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets

The Chief Executive is the overall in charge of budgetary system. He constitutes a budget committee for preparing realistic budgets. A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made responsible for their departmental budgets.

2. BUDGET CENTRES

A budget centre is that part of the organisation for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organisation. The budget centres are also necessary for cost control purposes. The appraisal of performance of different parts of the organisation becomes easy when different centres are established.

3. BUDGET MANUAL

A budget manual is a document which spells out the duties and the also the responsibilities of the various executives concerned with the budgets. It specifies the relations among various functionaries.

A budget manual covers the following matters:

- i) A budget manual clearly defines the objectives of budgetary control system. It also gives the benefits and principles of this system.
- ii) The duties and responsibilities of various persons dealing with preparation and execution of budgets are also given in a budget manual. It enables the management to know of persons dealing with various aspects of budgets and clarify their duties and responsibilities.
- iii) It gives information about the sanctioning authorities of various budgets. The financial powers of different managers are given in the manual for enabling the spending of amount on various expenses.
- iv) A proper table for budgets including the sending of performance reports is drawn so that every work starts in time and a systematic control is exercised.
- v) The specimen form and number of copies to be used for preparing budget reports will also be stated. Budget centres involved should be clearly stated.
- vi) The length of various budget periods and control points be clearly given.
- vii) The procedure to be followed in the entire system should be clearly stated.
- viii) A method of accounting to be used for various expenditures should also be stated in the manual.
- ix) A budget manual helps in knowing in writing the role of every employee, his duties, responsibilities, the ways of undertaking various tasks etc. it also helps in avoiding ambiguity of any time.

4. BUDGET OFFICER

The Chief Executive, who is at the top of the organisation, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them, if the situation so demands. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and takes necessary steps to rectify the deficiencies, if any. He works as a co-coordinator among different departments and monitors the relevant information. He budget officer will be able to carry out his work fully well only if he is conversant with the working of all the departments.

5. BUDGET COMMITTEE

In small-scale concerns, the accountant is made responsible for preparation and implementation of budgets. In large scale concerns a committee known as Budget Committee is formed. The heads of all the important departments are made members of this committee. The committee is responsible for preparation and execution of budgets.

The members of this committee put up the case of their respective departments and help the committee to take collective decisions, if necessary. The Budget Officer acts as the co-coordinator of this committee.

6. BUDGET PERIOD

A budget period is the length of time for which a budget is prepared. The budget period depends upon a number of factors. It may be different for different industries or even it may be different in the same industry or business. The budget period depends upon the following considerations:

- a) The type of budget i.e., sales budget, production budget, raw materials purchase budget, capital expenditure budget. A capital expenditure budget may be for a longer period i.e., 3 to 5 years; purchase, said budgets may be for one year.
- b) The nature of demand for the products.
- c) The timings for the availability of the finances.
- d) The economic situation of the cycles.
- e) The length of trade cycles.

All the above-mentioned factors are taken into account while fixing the period of budgets.

7. DETERMINATION OF KEY FACTOR

The budgets are prepared for all functional areas. These budgets are inter-dependent and inter-related. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as key Factor or Principal Factor. There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all other budgets will be prepared by keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited; so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available.

The key factor may not necessarily remain the same. The raw material supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sale staff, etc. Similarly, other factors may also improve at different times. They key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exists.

22.6 ADVANTAGES OF BUDGETARY CONTROL

The budgetary control system helps in fixing the goals for the organisation as a whole and concerted efforts are made for its achievements. It enables economies in the enterprise. Some of the advantages of budgetary control are:

1. MAXIMISATION OF PROFIT:

The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and co-ordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.

2. CO-ORDINATION:

The working of different departments and sectors is properly co-ordinated. The budgets of different departments have a bearing on one another. The co-ordination of various executives and subordinates is necessary for achieving budgeted targets.

3. SPECIFIC AIMS:

The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal of the organisation. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims.

4. TOOL FOR MEASURING PERFORMANCE:

By proving targets to various departments, budgetary control provides a tool for measuring managerial performance. The budgeted targets are compared to actual results and deviations are determined. The performance of each department is reported to the top management,. This system enables the introduction of management by exception.

5. ECONOMY:

The planning of expenditure will be systematic and there will be economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extend to industry and then to national economy. The national resources will be used economically and wastage will be eliminated.

6. DETERMINING WEAKNESS:

The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts are concentrated on those aspects where performance is less than the stipulated.

7. CORRECTIVE ACTION:

The management will be able to take corrective measures whenever there is a discrepancy in performance. The deviations will be regularly reported so that necessary action is taken at the earliest. In the absence of a budgetary control system the deviations can be determined only at the end of the financial period.

8. CONSCIOUSNESS:

It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.

9. REDUCES COSTS:

In the present day competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more.

10. INTRODUCTION OF INCENTIVE SCHEMES.

Budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes.

22.7 LIMITATIONS OF BUDGETARY CONTROL

Despite many good points of budgetary control there are some limitations of this system. Some of the limitations are discussed as follows:

1. UNCERTAIN FUTURE

The budgets are prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation, which is presumed to prevail in future may change. The change in future conditions upsets the budgets, which have to be prepared on the basis of certain assumptions. The future uncertainties reduce the utility of budgetary control system.

2. BUDGETARY REVISIONS REQUIRED

Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail necessitating the revision of budgetary targets. The frequent revision of targets will reduce the value of budgets and revisions involve huge expenditures too.

3. DISCOURAGES EFFICIENT PERSONS

Under budgetary control system the targets are given to every person in the organisation. The common tendency of people is to achieve the targets only. There may be some efficient persons who can exceed the targets but they will also feel contented by reaching the targets. So budgets may serve as constraints on managerial initiatives.

4. PROBLEM OF CO-ORDINATION

The success of budgetary control depends upon the co-ordination among different departments. The performance of one department affects the results of other departments. To overcome the problem of co-ordination a Budgetary Officer is needed. Every concern cannot afford to appoint a Budgetary Officer. The lack of co-ordination among different departments results in poor performance.

5. CONFLICT AMONG DIFFERENT DEPARTMENTS

Budgetary control may lead to conflicts among functional departments. Every departmental head worries for his department goal without thinking of business goal. Every department tries to get maximum allocations of funds and this raises a conflict among different departments.

6. DEPENDS UPON SUPPORT OF TOP MANAGEMENT

Budgetary control system depends upon the support of top management. The management should be enthusiastic for the success of this system and should give full support for it. If at any time there is a lack of support from top management then this system will collapse.

22.8 CLASSIFICATION AND TYPES OF BUDGETS

The budgets are usually classified according to their nature. The following are the types of budgets, which are commonly used.

A) Classification According to Time

1. Long-term budgets.
2. Short-term budgets.
3. Current budgets.

B) Classification on the Basis of Functions

1. Operating Budgets
2. Financial Budgets
3. Master Budget

C) Classification on the Basis of Flexibility

1. Fixed budget.
2. Flexible budget

A) CLASSIFICATION ACCORDING TO TIME

1. LONG TERM BUDGETS

The budgets are prepared to depict long term planning of the business. The period of long term budgets varies between five to ten years. The long term planning is done by the top level management; it is not generally known to lower levels of management. Long time budgets are prepared for some sectors of the concern such as capital expenditure, research and development, long-term finances etc. These budgets are useful for those industries where gestation period is long i.e., machinery, electricity, engineering, etc.

2. SHORT-TERM BUDGETS

These budgets are generally for one or two years and are in the form of monetary terms. The consumer's goods industries like sugar, cotton, textile, etc. use short-term budgets.

3. CURRENT BUDGETS

The period of current budgets is generally of months and weeks, these budgets relate to the current activities of the business. According to I.C.W.A. London. "Current budget, which is established for use over a short period of time, is related to current conditions."

B) CLASSIFICATION ON THE BASIS OF FUNCTIONS

1. OPERATING BUDGETS

These budgets relate to the different activities or operations of a firm. The number of such budgets depends upon the size and nature of business. The commonly used operating budgets are:

- a) Sales Budget:
- b) Production Budget:
- c) Production Cost Budget:
- d) Purchase Budget:
- e) Raw Material Budget :
- f) Labour Budget:
- g) Plant utilization Budget :
- h) Manufacturing Expenses or Production Overhead Budget:
- i) Administration and selling Expenses Budget:
- j) Capital Expenditure Budget:
- k) Cash Budget.

a) SALES BUDGET

Sales budget is a forecast of sales to be made in a given period. It is the responsibility of the sales manager to prepare a sales budget after taking into account the past sales market conditions and the efforts made to promote sales. In this budget, the break up figures may be given in respect of the following:

1. Products
2. Areas or Territories
3. Types of customers
4. Salesmen
5. Period.

b) PRODUCTION BUDGET

It is usually based on the sales budget and the level of inventory to be maintained. It is defined as an estimated quantity of goods to be produced in a given period. It also depends on the availability of materials and plant capacity.

c) PRODUCTION COST BUDGET

It shows the break up of various elements of cost and subdivisions. It is based on production budget and shows the estimated cost of production if the production is carried out according to production budget.

d) PURCHASE BUDGET:

It is concerned with the purchases to be made in a budget period. The purchases may be of direct or indirect materials or fixed assets etc. Its aim is to make the purchases at the minimum cost.

e) RAW MATERIAL BUDGET

It is concerned with the raw material to be purchased and stocked to have a economical purchase and over stocking.

f) LABOUR BUDGET:

It shows the estimate of labour requirement in a budget period. It enables the personnel department to recruit and train the labourers in time.

g) PLANT UTILIATION BUDGET

It helps to how many shift to be made and the timing for maintenance.

h) MANUFACTURING EXPENSES OR PRODUCTION OVERHEAD BUDGET:

It shows the production overheads to be incurred in a budget period. It divides the overhead as fixed, variable and semi-variable.

i) ADMINISTRATION AND SELLING EXPENSES BUDGET

It shows the administration and selling overheads to be incurred in a budget period. It divides the overhead as fixed, variable and semi-variable.

j) CAPITAL EXPENDITURE BUDGET

It shows the detailed plan of additions, improvements and replacement of fixed assets to be made in budget period. It helps the management to control capital expenditure.

k) CASH BUDGET:

This budget gives an estimate of the anticipated receipts and payments on cash during the budget period. It shows the estimated cash receipts on account of cash sales and other receipts and the estimated payments on account of cash purchases, creditors and other expenses. It reveals the expected cash position of a concern. So that surplus cash may be invested or arrangements may be made for bank overdraft or loan if there is shortage of cash.

The operating budget for a firm may be constructed in terms of programmes or responsibility areas, and hence may consist of:

- i) Programme Budget, and
- ii) Responsibility Budget.

(a) PROGRAMME BUDGET

It consists of expected revenues and costs of various products or projects that are termed as the major programmes of the firm. Such a budget can be prepared for each product line or programmes. Programme budgets are, thus, useful in locating areas where efforts may be required to reduce costs and increase revenues. They are also useful in determining imbalances and inadequacies in programmes so that corrective action may be taken in future.

(b) RESPONSIBILITY BUDGET

When the operating budget of a firm is constructed in terms of responsibility areas it is called the responsibility budget. Such a budget shows the plan in terms of persons responsible for achieving them. It is used by the management as a control device to evaluate the performance is compared to the targets (budgets), set for them and proper action is taken for adverse results, if any. The kinds of responsibility areas depend upon

the size and nature of business activities and the organisational structure. However, responsibility areas may be classified under three broad categories:

- a) Cost / Expense Centre
- b) Profit Centre
- c) Investment Centre

2. FINANCIAL BUDGETS

Financial budgets are concerned with cash receipts and disbursements, working capital, capital expenditure, financial position and results of business operations. The commonly used financial budgets are:

- a) Cash Budget
- b) Working Capital Budget
- c) Capital Expenditure Budget
- d) Income Statement Budget
- e) Statement of Retained Earnings Budget
- f) Budgeted Balance Sheet or Position Statement Budget.

3. MASTER BUDGETS

Various functional budgets are integrated into master budget. This budget is prepared by the ultimate integration of separate functional budgets. According to I.C.W.A. London, "Master budget is prepared by the budget officer and it remains with the top level management. This budget is used to co-ordinate the activities of various functional departments and also to help as a control device."

C) CLASSIFICATION ON THE BASIS OF FLEXIBILITY

1. FIXED BUDGET:

The fixed budgets are prepared for a given level of activity the budget is prepared before the beginning of the financial year. If the financial year starts in January then the budget will be prepared a month or tow earlier, i.e., November or December. The changes in expenditure arising out of the anticipated changes will not be adjusted in the budget. There is a difference of about twelve months in the budgeted and actual figures. According to I.C.W.A. London, "Fixed budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained." Fixed budget are suitable under static conditions. If sales, expenses and costs can be forecasted with greater accuracy then this budget can be advantageously used.

2. FLEXIBLE BUDGETS:

A flexible budget consists of a series of budgets for different level of activity. It, therefore, varies with the level of activity attained. A flexible budget is prepared after taking into consideration unforeseen changes in the conditions of the business. A flexible budget is defined as a budget which by recognizing the difference between fixed, semi-fixed and variable cost is designed to change in relation to the level of activity.

The flexible budgets will be useful where level of activity changes from time to time. When the forecasting of demand is uncertain and the undertaking operates under conditions of shortage of materials, labour etc., then this budget will be more suited.

22.9 ZERO BASED BUDGETING

As the name suggests, it is starting from a 'scratch'. The normal technique of budgeting is to use previous year's cost levels as a base for preparing this year's budget. This method carries previous year's inefficiencies to the present year because we take last year as a guide and decide 'what is to be done this year when this much was the performance of the last year'. In zero base budgeting every year is taken as a new year and previous year is not taken as a base. The budget for this year will have to be justified according to preset situation. Zero is taken as a base and likely future activities are decided according to the present situations. In the words of Peter A Pyher, "A planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (Hence zero base) and shifts the burden of proof to each manager to justify why he should spend money at all. The approach requires that all activities be analysed in 'decision packages' which are evaluated by systematic analysis and ranked in order of importance."

In zero-base budgeting a manager is to justify why he wants to spend. The preference of spending on various activities will depend upon their justification and priority for spending will be drawn. It will have to be proved that an activity is essential and the amounts asked for are really reasonable taking into account the volume of activity.

22.9.1 TRADITIONAL BUDGETING VS ZERO BASED BUDGETING

TRADITIONAL BUDGETING Vs ZERO BASE BUDGETING			
	Basis of Difference	Traditional Budgeting	Zero-Base Budgeting
1.	Emphasis	It is more accounting oriented than decision oriented. Depends upon past data and lays emphasis on 'how much'.	It is decision oriented Lays emphasis on 'why'.
2.	Approach	Its approach is monitoring toward expenditures.	Its approach is towards achievement of objectives.
3.	Focus	Its focus is on increase or decrease in expenditures over the past.	Its focus is on cost benefit analysis.
4.	Communication	In traditional budgeting communication is usually vertical.	It encourages communication both vertically and horizontally.
5.	The method preparation of traditional budget is based upon extrapolation.	The method preparation of traditional budget is based upon extrapolation.	Its preparation is based upon selection of decision package in view of cost-benefit analysis.

22.9.2 STEPS INVOLVED IN ZERO BASED BUDGETING

The following steps are involves in zero base budgeting:

1. The objective of budgeting should be determined. When the objective is clear, then efforts will be made to achieve that objective. Different organisations may have different objectives. One concern may try to reduce the expenditure on staff; another may try to discontinue one project in preference to another. So the first step will decide about the object and then other steps will be possible.
2. The extent to which zero base budgeting is to be applied should be decided. Whether it should be used for all operational areas or its should be applied in some areas only should be decided beforehand.

3. The next step is ZBB is developing of 'decision packages'. A decision package is "a document that identifies a specific activity in such a manner that management can evaluate and rank it against other activities competing for limited resources, and decide whether to approve or disapprove it."
4. Cost and benefit analysis should be undertaken. We should consider the cost involved and the likely benefits to accrue. Only those projects should be taken first where benefit is more as compared to the cost involved. Cost benefit analysis will help in fixing priority for various projects on the basis of their utility to or ranking of decision packages.
5. The final step involved in zero-based budgeting is concerned with selecting, approving decision packages and finalising the budget.

22.9.3 ADVANTAGES OF ZERO BASED BUDGETING

ZBB is a revolutionary concept and is relatively a new management tool for planning and control of activities. It involves people at all levels in the organisation and promotes team spirit. The plans and budgets based upon ZBB are much improved than those based upon traditional budgeting. There are a number of benefits that arise from zero-base budgeting. Some of the important advantages of ZBB are enumerated below.

1. It enables management to allocate funds according to the jurisdiction of the programme. The priority can be fixed for various activities and their for implementation will be in the same order.
2. Zero-base budgeting improves efficiency of the management. Every manager will have to justify the demand for resources. Only those activities will be undertaken which will have justification and will be essential for the business.
3. Zero-base budgeting will help in identifying economical and wasteful areas. Emphasis will be given to economical activities and alternative courses of action will also be studied.
4. The management will be able to make optimum use of resources. The expenditure will be undertaken only when it will have justification. A list of priorities is prepared and cost-benefit analysis will be the guiding principle in fixing the priority.
5. Zero-base budgeting will be appropriate for those areas whose output is not related to production. It becomes difficult to evaluate the performance of those sides which are not directly related to production but undertake other activities. This technique will be helpful in determining the utility of each and every activity of the business.
6. Budgeting will be related to organisational goals. Something will not be allowed on the plea that it was done in the past. Only those things will be allowed which will help in realising organisational goals.

22.9.4 LIMITATIONS OF ZERO BASED BUDGETING

In spite of many advantages, there are a number of limitations arising mainly from difficulties in operation of ZBB. Some of the important limitations are as below:

1. Computation of cost benefit analysis, which is essential for ZBB, is not possible in respect of non-financial matters.
2. Difficulties in formulation and ranking of decision packages as every manager may not have the necessary expertise.
3. The system of zero-base budgeting has not scope to adjust for the changes and, thus, flexible budgeting is not possible.
4. It involves a lot of time and cost of operating ZBB is also very high.

22.10 REVIEW QUESTIONS

1. What do you mean by budgeting?
2. Explain the merits and demerits of budgeting.
3. Explain the various types of budgets.
4. What are the essentials of effective budgetary control?
5. What is ZBB? Explain its merits and demerits.

22.11 REFERENCES

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LESSON-23

COMMUNICATION

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- 23.1 Introduction
- 23.2 Meaning and Definition
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23.1 INTRODUCTION

Communication is an indispensable element in human relationships. Human beings interact with one another through communication. There is communication when a salesman talks to a customer or supervision gives order to a worker. When we read a book, its author communicates with us. When we watch the TV or a film or write a letter, there is communication of ideas and feelings. Effective Communication is essential in any type of human grouping business, government, military, hospitals, universities community, and homes. In fact, it is difficult to imagine any kind of inter personal activity which does not depend upon communication.

23.2 MEANING AND DEFINITION

The word "Communication" has been derived from the Latin word 'Communis' which implies common.

According to Theo Haimann, "Communication is the process of passing information and understanding from one person to another. It is the process of imparting ideas and making oneself understood by others".

"Communication is the process by which information is transmitted between individuals and/or organizations so that an understanding response results"

Communication is defined by **W.H.Newman & C.F.Sumner** as "exchange of facts, ideas opinions or emotions of two or more persons". Yet another definition of communication is given as "interchange or words, letter, symbols or messages: and as a way that the organization member shares meaning and understanding with another."

23.3 OBJECTIVES OF COMMUNICATION

In order to have effective communication, the communication must have the following objectives:

1. INFORMATION

Information is the message which has passed on from one person to another and understood by both parties in order to make communication effectively. Information's always factual & objective.

Kinds of information:

A) External information

Information concerned with outside world (i.e.) outside the organisation-eg., suppliers, creditors, public etc.,

B) Internal information

Information within the organization (i.e.) information to members of the internal organization.

Sources of information

The following may be considered as the sources of information:

1. Old files
2. observation
3. massmedia
4. library research
5. chambers of commerce
6. Meetings, seminars & conferences
7. Personal interview
8. questionnaires
9. Trade Fairs & exhibitions.

2. ADVICE

Advice is also a kind of information given by people in order to bring about a good change on the receivers. Advice will be successful only if a change is brought in the receiver. Since it involves personal opinions, it is likely to be subjective.

3. ORDER

Order is an authoritative communication. It is directive to somebody & not to do something. Usually orders are given to the subordinates of an organization

TYPES OF ORDERS:-

- A) Written & oral orders
- B) General & specific orders
- C) Procedural & Operational orders
- D) Compulsory & recommended orders

Instructions:

Instruction is a particular type of order in which the guidance is also given as to do a particular job.

4. SUGGESTION

One of the important of communication is to give suggestion. It is to give a particular idea to a person or a group to carry out a particular work. Sometimes the lower level staffs are capable of giving positive suggestions

5. PERSUASION

Persuasion is the process of convincing a particular person to do a particular activity workers are persuaded to do the production activity quickly.

6. WARNING

Warning is a forceful means of communication. When the employee does not follow the rules & regulations, it becomes necessary to warn him.

7. EDUCATION

Education involves both teaching and learning. Its main aim is to widen the knowledge & to improve the skills. It is carried over in 3 steps:-

- a) at the management level
- b) At the level of employees
- c) At the level of outside public.

8. RAISING MORALE

Morale stands for mental health. It is a powerful factor to increase the efficiency. It creates a sense of togetherness & makes the workers to work in co-operation.

9. MOTIVATION

Motivation will help the management to get things done. It's not an order. Motivation is important so that they work willingly & eagerly. The motivation may either be in cash or in kind.

23.4 ELEMENTS OF COMMUNICATION PROCESS

Any communication has 4 elements:

1. Sender

For any communication there should be a sender. Without the sender there cannot be any communication. Hence there should be a sender or a transmitter to pass on some information.

2. Message

The need of communication arises only when an idea or impulse is generated in a person's mind. If this idea or impulse is to be communicated to someone, there must be some purpose behind it.

3. Media

The media is the method or way selected to communicate. A number of mediums such as telephone, postal etc., are available for communication. Hence the communicator should carefully select the medium if he wants his communication to be effective.

4. Receiver

The main purpose of any communication is that it should reach receiver effectively. He is the person who gives the feed back/ answer. Hence for any message there should be a receiver. These are the main elements of communication.

23.5 IMPORTANCE OF COMMUNICATION

1. Improves managerial Performance

Communication enables a manager to diagnose the various problems and to secure information for decision making. Thus, communication enables a Manager to plan logically, to organize systematically, to direct effectively and to control efficiently.

2. Facilitates Leadership

Communication enables a Manager to understand the attitudes, feelings and ideas of his subordinates.

3. Increases job satisfaction

Individuals get greater satisfaction from their jobs. When they are told clearly how well they are doing and what they should do to improve performance through communication a Manager can keep his subordinates informed of the results of their efforts.

4. Reduces time and effort:

An effective system of communication results in great saving of time and efforts.

5. Enhances co-ordination

Individuals working in an organisation perform different activities. It is necessary to integrate and unify these activities and human efforts communication helps to energize and co-ordinates human efforts by transmitting information. Ideas and feelings. It makes team-work possible by promoting Mutual trust and Co-operative.

6. Helps public relations

A business enterprise comes in contact with several social groups e.g. customers, shareholders, government and the public. It must maintain harmonious relationships with these groups. Communication enables the Management to maintain contacts with these groups and to develop a favourable image of the enterprise, in the outside world. Public relations are mainly the job of effective communication with the external environment.

23.6 CHANNELS AND TYPES OF COMMUNICATION

A channel of communication is the path through which messages are transmitted from the sender to the receiver. Channels of communication may be formal or informal. For every business organization communication is necessary. Each organization follows various types of communication they may be listed as follows;

- Internal communication
- External communication

INTERNAL COMMUNICATON

Communication which takes place inside an organization is called as internal communication. Internal communication may again be classified into following types;

1. FORMAL COMMUNICATION

2. INFORMAL COMMUNICATION

3. CONSENSUS.

They can be explained as follows.

1. FORMAL COMMUNICATION:

Formal communication is an official communication & it follows prescribed channels through which all members communicate .It is considered as a standard system of an organisation. Formal communication can move vertically or horizontally. Hence, we classify this communication into 2 types.

A) Vertical communication

The communication which flows downwards from superiors to subordinates or from subordinates to superiors is called as vertical communication.

The former communication type is called as downward communication & the latter is called as upward communication.

B) Horizontal communication

Communication between departments or people on the same level is called as horizontal communication. For effective co-ordination among the departments and to achieve goal of an organization this type of communication is necessary.

2. INFORMAL COMMUNICATION

In addition to these formal channels of communication, there exists in every organization an informal channel, often called as “grapevine communication”. It’s an integral part of communication system in organization.

GRAPEVINE COMMUNICATION

Grapevine communication is an informal channel of communication. It follows no rigid rules, but spreads like gripe vine, in any direction, anywhere rapidly. It’s basically a channel of horizontal communication.

Some people derive great pleasure from gathering secret information & transmitting it to others. Certain situations like insecurity of service, certain innovations, etc which are likely to affect the job prospectus of the employees are sure to activate the leaders of grape vine.

Demerits of grapevine :

1. Distortion:

One of the major draw backs of the grapevine is that it spreads quickly & it may sometimes prove harmful even to the employees.

2. Incomplete Information:

The grapevine information is usually incomplete. So there is every possibility of its being misunderstood or misinterpreted.

3. Damaging quickness:

The swiftness with which the grapevine transmits information may even be damaging. A rumour may have spread and caused serious damage.

III.CONSENSUS

The concept of consensus is quite familiar to political atmosphere. Consensus involves consultation; decisions are arrived after consensus only.

ADVANTAGES OF CONSENSUS

1. Since decisions are taken after consultation members find easy to accept them and hence brings an agreement between managers and trade unions.
2. It helps to maintain unity & harmony in an organization.
3. Unnecessary conflicts are avoided.

DISADVANTAGES

1. A member is forced to subscribe to a view which he does not like.
2. Sub ordinates get a feeling that the superiors are incapable of taking independent decisions, & they lose their confidence.

EXTERNAL COMMUNICATION

External communication consists of transferring information outside the organisation. Each and every organization is connected to external world like customers, suppliers, press, government departments, branches, subsidiaries & general public-the communication with these persons are called as external communication.

23.7 METHODS OF COMMUNICATION

ORAL COMMUNICATION

Oral communication involves exchanges of message through spoken words. It may take place by face-to-face contacts through mechanical devices like telephone. Face to face conversation is the most natural way of transmitting the message. Face-to-face communication may take place through lectures, group discussions, interviews, committee meetings broad cast and social gatherings.

Merits

1. Economical

Oral Communication is relatively less expensive both in terms of time and money

2. Personal touch

Oral Communication is more effective due to direct contact between the sender and the receiver.

3. Speed

Oral Communication is faster as compared to written communication.

4. Flexibility

Oral Communication is more flexible

5. Quick response

In oral communication, response or reaction to the message can be obtained on the spot. Queries, doubts or misgiving can also be removed easily. Therefore, oral communication leads to better understanding and mutual satisfaction.

Demerits

1. Lack of record

Oral communication does not provide an authentic and permanent record of communication unless the conversation is tape-recorded.

2. Time Consuming

Oral communication in the form of face to face talk may become time consuming and costly.

3. Lengthy message

If the subject matter to be communicated is quite lengthy, oral communication may not produce satisfactory results.

4. Physical distance

When there is a long physical distance between the speaker and the listener, oral communication may be ineffective. Communication through mechanical devices is not very reliable due to the possibility of breakdown in the mechanical system. Oral communication is not possible when the parties are at distance places and no telephone service is available.

5. Misunderstanding

Oral communication may be misunderstood or not heard due to mutual distrust or suspicion between the speaker and the listener. Inattention or poor listening on the part of the receiver also creates problems.

WRITTEN COMMUNICATION

Written communication is transmitted through written words in the form of letters, circulars, memos, bulletin, instruction cards, manuals, handbooks, reports, returns, etc. Managers frequently use written communication in the course of performing their functions. It is frequently used to issue specific orders and instructions to subordinates.

Merits

Written Communication provides the following advantages:

1. Effectiveness

Written messages are more carefully formulated than oral messages. Therefore, written communication tends to be more clear and specific. It is more orderly and binding on subordinates.

2. Lengthy messages

Written communication is more appropriate when the message is quite lengthy or where it is to be conveyed to a large number of persons simultaneously.

3. Economical

Written communication is cheaper when the sender and the receiver are situated at distant places.

4. Repetition

Written communication can be used again and again. Sometimes written communication is also used to elaborate and complement oral messages.

5. Permanent record

Written communication provides reliable record for future reference. It is very difficult to alter the contents of a written message. When the subject matter of communication needs to be preserved for future, written communication is the only way out.

6. Better response

Response to written communication is generally well thought out because the receiver gets sufficient time to understand and evaluate the message.

Demerits

Written communications is subject to the following limitations:

1. Time consuming

Written communication requires greater time in the preparation and transmission of messages. Therefore, it tends to be slower than oral communication. Written messages give rise to queries for clarification and elaboration which leads to further loss of time and money.

2. Expensive

As it takes long time to convey the message, written communication is more expensive especially for transmitting short messages over short distances.

3. Inflexibility

Once a written message is sent there is no scope left for making amends for inaccuracy that may have crept into it. Moreover, a written message once transmitted cannot be withdrawn.

4. Little secrecy

It is difficult to maintain complete secrecy about written messages.

5. Lack of personal touch

Written communication tends to be very formal and lack personal touch. One cannot make use of postures to convey one's feeling and emotions with a written message.

6. Misunderstanding

There is greater chance of the message being misunderstood. If the written message is poorly drafted it may create confusion and conflict. Written communication may be blocked due to bureaucratic procedures in the organisation.

FACE-TO-FACE COMMUNICATION

It may appear to be identical with oral communication. All face-to-face communications are oral but all oral communications are not face-to-face communication. Immediate feedback is possible here.

Merits of Face-to-Face communication

1. The message being communicated also gets the assistance of facial expressions and gestures.
2. Face-to-Face communication is particularly suitable for discussions because there is immediate feedback.
3. Face-to-Face communication provides the speaker with much better opportunity for adjustment.

Limitations of Face-to-Face communication

1. Face to face communication is extremely difficult in the modern large sized organizations.
2. It is very difficult to effectively get a message across to large gathering.
3. A limitation that the face-to-face communication shares with oral communication is that the listener may not be attentive.

VISUAL COMMUNICATION

Facial expressions and gestures, printed pictures, posters, slides, films strips, etc., fall under visual communication through visuals is very effective, no words are uttered, no signs made and get the message gets across.

Example:

- a. To pieces of bone put in a cross-wise fashion with a skull panned in between signifies danger.
- b. In cinema house – slide showing a lighted cigarette with a cross mark on it signifies – ‘no smoking’

Visual communication can be used to transmit very elementary and simple ideas. It is very useful in the representation of statistical data. Successful communication makes a very effective use of facial expressions and gestures.

AUDIO - VISUAL COMMUNICATION

Audio-Visual communication that makes use of telecast, short films on the cinema screen and videotapes is the latest medium of communication. It is a combination of sight and sound. It may use written words also. Information transmitted through audio-video visual means is retained much longer than through any other means. Audio-visual communication is found most suitable for mass publicity, mass propaganda and mass education.

NETWORK COMMUNICATION

The recent trend in the field of communication is through network. This is possible by means of Internet. Internet is a network of networks. Anyone connected to the Internet can communicate with and access information stored on any of the computers.

Through Internet it is possible for the communication to send e-mail, voice mails, etc., this mode of communication is very useful for many multi-national business for international communication.

SILENCE

We do not communicate through words, signs and signal alone we communicate through silence also. Silence can effectively communicate a number of responses. In daily life, silence usually means agree or acceptance. If a proposal is put before us and we remain quiet, it implies that is acceptable to us.

GESTURAL COMMUNICATION

Communication through gestures or postures is known as Gestural communication. It is often used to supplement oral communication. Gestural communication is very useful in conveying feelings, emotions and attitudes. For example, handshake with a subordinate or a pat on his back helps to motivate the subordinate. A person can convey much through wave of hands, parting of lips, movement of eyes, etc. Similarly, gestures by the audience indicate reaction or response to the oral message.

Each media of communication has its strength and weaknesses. In practice, different media are used simultaneously to make communication effective. Oral communication is more useful when the message to be conveyed is complex or when the time available is very short. It is also appropriate when reaction of the receiver is needed quickly. Where the message is lengthy and reliable records are to be kept for future reference, written communication is more useful.

23.8 BARRIERS TO COMMUNICATION

Communication is the process of transmitting an idea to another person called the receiver. All communication is not perfect communication. Sometimes there may be miscommunication due to number of factors. This occurs due to barriers to communication

WRONG CHOICE OF MEDIUM

Communication may oral, written, visual or audio-visual. Correct choice of medium has to be made, depending on the time available, the finances involved, the urgency then 'telephone' may be used to convey the message. On the other hand if the message does not involve any urgency then postal may be selected. If any wrong choice is made then communication becomes ineffective. Hence proper choice has to be made order to ensure effective communication.

PHYSICAL BARRIERS

Noise

Noise is quite often a barrier to communication. In factories, oral communication rendered difficult by the loud noise of machines. Electronic noise like blaring often interferes communication by telephone or loudspeaker system.

Time and distance

Time and distance also act as barriers to the smooth flow of communication. Telephone and telex places mechanical barriers occur and in such cases the distance between the transmitters and the receiver becomes a mighty barrier. Some factories function in shifts. There is a kind of communication gap between persons working in different shifts.

SEMANTIC BARRIERS

Interpretation of words

Most of the communication is carried on through words, whether spoken or written. But words are capable of communicating a variety of meanings. It is quite possible that the receiver of a message does not assign the same meaning to a word as the transmitter had intended which lead to miscommunication. The communicator before interpreting the word must keep in mind various factors such as social, economical, cultural and educational backgrounds of the receivers.

By passed instructions:

By passing is said to have occurred if the sender and the receiver of the message attributes different meanings to the same word or use different words for the same meaning.

Denotations and connotations :

Words have two types of meaning: Denotative and connotative. The literal meaning of a word is called denotative meaning. It has a straight meaning without indicating any positive or negative qualities. For e.g. Words like 'table' 'book' 'chair' are denotative. In contrast connotative meanings include qualitative judgments and personal reactions. 'Hone', 'Competent', 'Cheap', 'Sincere' etc are connective words. Some of these words like 'honest' 'sinner' have favorable connotations. But some words like 'cheap' give both favorable and unfavorable meanings in different contexts.

For e.g. they gave us a cheap stuff - Unfavorable meaning

As this shop, they sell this cheap - Favorable meaning

Different comprehension of reality

The reality of an object, an event, or a person is different to different people. No two persons perceive reality in same manners. On account of different idea and opinions, they compare reality in a different way. This may sometime lead to miscommunication.

(a) Abstracting

Abstracting may be defined as the process of focusing attention on some details and omitting others. In numerous cases, abstracting is both necessary and desirable. Due to shortage of time, money, space and purpose it becomes impossible to explain the event in detail. Abstracting is very often used while preparing business reports. .

(b) Slanting

Slanting is giving a particular bias or slant to the reality. In slanting, we are aware of the existence of other aspect, but we deliberately select a few and make them representative of the whole. Unfortunately, the aspects that we select are usually unfavorable. To overcome this barrier we should try to be objective in our observations.

(c) Inferring

What we directly see, hear feel, taste, and smell or can immediately verify and confirm constitutes a fact but the statements that go beyond the facts and the conclusions based on facts are called inferences. While drawing inferences, we should carefully distinguish between facts and assumptions and make sure that our inferences are based on verifiable facts.

SOCIO – PSYCHOLOGICAL BARRIERS

Attitudes and opinions

Personal attitudes and opinions often act as a barrier to effective communication. If information agrees with our opinions and attitudes, we tend to receive it favorably. But if information disagrees with our views or tends to disagree with our belief we do not react favourably.

Emotions

Emotional states of mind play an important role in the art of communication. If the sender is worried, excited, afraid, nervous, his thinking will be blurred and he will not be able to organize his message properly. If he is angry, he will not take the message in proper light. Hence the emotions of the receiver also affect the communication process.

The closed mind

A person with a closed mind is very difficult to communicate with. He will never give importance to other's opinion. He is not prepared to reconsider his opinions. Hence a closed mind person completely rejects, and avoids other's opinion.

Status consciousness

Status consciousness exists in every organization and is one of the major barriers to effective communication subordinates are afraid of communicating upward and unpleasant information. Status consciousness process to be very serious barrier to face-to-face communication. The subordinate feels nervous and fails in communicating what exactly he wanted to say.

The source of Communication

If the receiver has a doubt about the source of communication, these are likely to be a barrier to communications. If a statement comes from grapevine, the manager will not give importance to it. But if the statement comes from a trusted supervisor, he will believe it.

In attentiveness

People often become inattentive while receiving a message particularly if the message contains new ideas. The human mind rejects new ideas if they conflict with the present beliefs and receives only what they believe. Some times a person becomes inattentive because of distractions.

Faulty transmission

A message is never communicated from one person to another completely. This is true particularly in case of oral messages. Some times transmission can never be perfect. In the process of transmission, a part of the message gets lost. A scientific study reveals that in oral communication about 30 percent of the information is lost in each transmission.

Poor retention

Poor retention of communication also acts as a barrier. Studies reveal that employees retain only about 50 percent of the information communicated to them. The rest is lost.

Unsolicited communications

Unsolicited communication has to face a stronger barrier than solicited communication. Unsolicited communication means the communication, which comes without our request. So it is not eagerly listened.

23.9 MAKING COMMUNICATION EFFECTIVE (GATEWAYS)

Effective communication is vital to effective management. Therefore, it is necessary to overcome the barriers to communication. Although perfect communication may not be possible, yet considerable improvements can be made in communication. The following guidelines may be followed to make communication effective:

1. Sound Organisation Structure

The organisation structure should be with a few levels of authority. The organisation policy, Rules and procedures must be clean and explicit. These should encourage free flow of communication in the organisation.

2. Clean Message

The beginning of all communication is some message. The message can be concerned conveyed properly only when it is clearly formatted in the mind of the communicator. The sender must encode the message in the direct and simple language so that the receiver can understand it without difficulty. He should be sensitive to the needs, feelings and perceptions of the receiver. He should use the appropriate language with which the receiver is quite familiar.

3. Two-way Communication

Two way communication required continuous dialogue between the sender and the receiver. Upward communication should be encouraged. The sender should try to know the reaction or response to the message through face to face contacts and other ways.

4. Multiple channels

Exclusively reliance on official channels or chains of command creates delays and distraction in communication. All possible channels should be used to speed up communication and to avoid communication over loads. Informal communication channels should be used to support formal channels and to overcome gaps in formed communication systems.

5. Good listening

A communication should be a good listener, so that he can collect-reaction or response to his message. When the message is listened with attention and interest, the receiver can get a much better understanding of what is being said. For this purpose, all distractions must be removed. The speaker must be patient and cool-headed. He should stop talking in between the message.

6. Effective control

There should be a continuous programme of evaluating the flow of communication in all directions. This would highlight the problems, identify their cause and suggest corrective measures to make communication effective. The communication system should provide for some checks and balances to prevent suppression of points from the message, especially in upward communication.

7. Modern Instruments

Use of sophisticated instruments of mechanical services helps to improve speed and accuracy in communication. Electronic computers, intercom, telex, Dictaphone etc permit faster and more accurate transmission and processing of information in the organisation.

8. Human relations attitude

Cordial interpersonal relations based on mutual trust and confidence must be developed. This will enable the persons to appreciate the viewpoint of each other and will make them more receptive to new ideas. As a result, the problems of status quo and differences in perceptions can be overcome.

23.10 PRINCIPLES OF COMMUNICATION

The basic principles of effective communication are as follows:

1. CLARITY OF THOUGHT

The communication cycle begins with the generation of idea in the mind of the transmitter. A great deal of clarity is needed at this stage. The communicator must be clear about 3 points.

- a. What is the objective of communication
- b. What is to be communicated?
- c. Which medium will prove to be the most suitable for this purpose?

2. CLARITY OF EXPRESSION

The receiver learns about the idea in the transmitter's mind through the coded messages. If encoding is faulty, the message may be misinterpreted. So it is important to be careful while encoding the message. The following points about the choice of words need attention:

Use simple words

Short words are more effective than long words. It is better to use 'tell' or 'inform' for -----, 'Show' is better than 'demonstrate'. Hence using simple words will make the communication effective

Use concrete words

Concrete expressions create visual images that are easy to comprehend. “Good are soon being dispatched” is a generalized statement. It is better to definite. “Goods will be dispatched on 2nd July”.

Avoid Jargon

‘Jargon’ refers to the special language of a trade, profession, or field of study. Jargon creates difficulties of understanding. So it is better to avoid Jargon. It is better to give the date instead of using words like ‘instant’ and ‘ultimo’.

Avoid colloquialism:

Colloquialism refers to words common in speech. They are supposed to be unsuitable for written communication. ‘Direct’, ‘lovely’, ‘nice’ are words used in colloquial language.

Use synonyms carefully:

Synonyms are words having similar meanings. Different words have different shades of meaning. Hence it is important to be careful while using synonyms. ‘Crowd’, ‘audience’, and ‘mob’ refer to groups of people. But we cannot use one for the other. We cannot say, “The crowd listened to him patiently”. The correct word to be used in the sentence is ‘audience’.

Prefer active constructions

We should prefer active constructions because they are easier to understand. So we should not prefer passive constructions.

(EX) Rama killed Ravana (Active)	-	Better to use
Ravana was killed by Rama (passive)	-	Awkward

Avoid ambiguity

If our message can mean more than one thing it is ambiguous. Ambiguity is very often caused by a careless use of pronouns and adverbs. Sometimes faulty pronunciation is another cause of ambiguity

Use short sentences

Whether communication is oral or written, it is better to use very short sentences. Long sentences tend to be complex and need greater concentration.

3. COMPLETENESS

In business communication, completeness of facts is absolutely necessary. Incomplete communication irritates the reader.

4. CORRECTNESS

In internal communication while preparing reports some important facts will be collected this will lead to important decisions. So we should be sure that we are using correct facts and expressing them in correct language.

5. BRIEVITY

When we communicate something, it should be brief. If more words are used than required then one message will be lost.

6. ATTENTIVENESS

Inattentiveness is one of the barriers to communication. So where transmitting or receiving the message we should be very attentive.

7. INTEGRITY

The principle of integrity requires the all communications should be in conformity with the general objectives of the organization. Communication is a means: it is not an end itself. The end is the welfare of the organization. Therefore the process of transmission must be in conformity with the organizational goals.

8. TIMELINESS

All messages must be transmitted and responded to at the most appropriate time. Outdated information is useless. The principle of timeliness must be followed to prove communication most effective.

9. OBJECTIVITY

All communication should be factual. But even facts can be presented to mislead statistics are nothing but facts. But even statistics can be employed to distort reality. So we should be objective while transmitting information and exclude our emotions.

10. ADAPTABILITY

We must adapt our communication to the needs of the receiver. We must keep before us his educational background, psychological make-up etc., Adaptability requires flexibility.

11. THE USE OF INFORMAL CHANNEL

There exists in every organization, apart from the various formal channels, an informal channel, the grapevine, which is a supplement to formal channel of communication.

23.11 REVIEW QUESTIONS

1. Define Communication.
2. Explain the different methods of communication.
3. What are the important elements in communication?
4. Explain the importance of communication.
5. State and explain the barriers to communication.
6. Explain the principles of effective communication.
7. How will you make communication effective?

23.12 REFERENCES

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