

# CHAPTER 1

## NATURE OF MANAGEMENT

### Unit Structure

- 1.0 Objectives
- 1.1 Introduction and Definition of Management
- 1.2 Features
- 1.3 Functions of Management
- 1.4 Importance of Management
- 1.5 Administration and Management
- 1.6 Manager
- 1.7 Functions of a Manager
- 1.8 Roles performed by managers
- 1.9 Summary
- 1.10 Exercise

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### 1.0 OBJECTIVES

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The purpose of this chapter is to introduce you to the field of management in business. In this respect this chapter will

- Introduce and define management.
- Discuss the features, functions and importance of management.
- The difference between administration and management will be explained in detail
- Finally the chapter will end with discussing the concept of manager, manager's functions and the role played in running the organization.

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### 1.1 INTRODUCTION AND DEFINITION OF MANAGEMENT

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Management is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to *Harold Koontz*, "Management is an art of getting things done through and with the

people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals". According to *F.W. Taylor*, "Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way".

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

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

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

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

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

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

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## 1.2 FEATURES

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

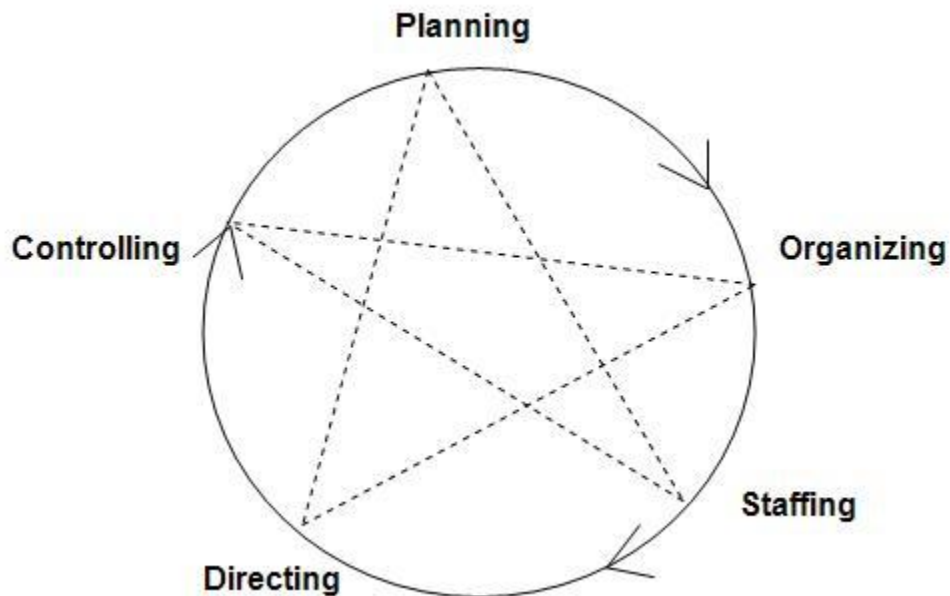
- i) **Management is Goal-Oriented:** The success of any management activity is assessed by its achievement of the predetermined goals or objective. Management is a purposeful activity. It is a tool which helps use of human & physical resources to fulfill the pre-determined goals. For example, the goal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

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## 1.3 FUNCTIONS OF MANAGEMENT

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The functions of Management are common to all alike; weather a business firm or a non-business firm. Management's primary function is the satisfaction of the stakeholders. This typically involves making a profit (for the shareholders), creating valued products at a reasonable cost (for customers), and providing rewarding employment opportunities (for employees). This can be achieved only when management accomplishes its functions. A diagrammatic representation of the functions of management is as under:



**Figure 1**

### 1.3.1 Following are the common Functions of Management:

#### 1. PLANNING:

Planning means looking ahead and chalking out future courses of action to be followed taking into consideration available & prospective human and physical resources. It is a systematic activity which determines when, how and who is going to perform a specific job. It is rightly said "Well plan is half done".

According to Koontz & O'Donnell, "Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur".

Planning requires administration to assess appropriate course of action to attain the company's goals and objectives. For

management to do this efficiently, it has to be very practical and simple. Planning is important at all levels of management. However, its characteristics vary by level of management.

### **STEPS IN PLANNING FUNCTION:**

#### **i) Establishment of objectives:**

- a. Setting of goals and objectives to be achieved.
- b. Stated in a clear, precise and unambiguous language.
- c. Stated in quantitative terms.
- d. Should be practical, acceptable, workable and achievable.

#### **ii) Establishment of Planning Premises:**

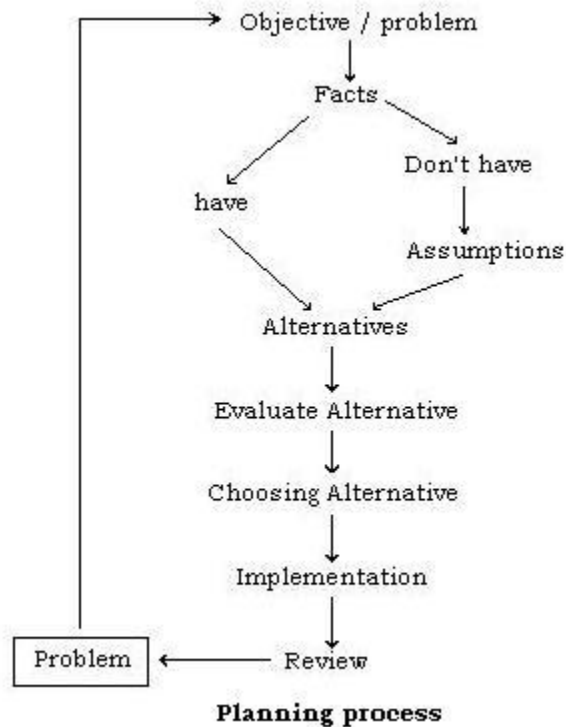
- a. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
- b. Internal premises are controllable whereas external are non controllable.

#### **iii) Choice of alternative course of action:**

- a. A number of alternative course of actions have to be considered.
- b. Evaluated each alternative in the light of resources available
- c. Chose the best alternative.

#### **iv) Securing Co-operation:**

After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence. This motivates them, valuable suggestions can come and employees will be more interested in the execution of these plans.



**Figure 3**

**v) Follow up/Appraisal of plans:**

After the selected plan is implemented, it is important to appraise its effectiveness and correct deviations or modify the plan as required.

Planning is basically a decision making function which involves creative thinking and imagination that ultimately leads to innovation of methods and operations for growth and prosperity of the enterprise

**2. ORGANIZING:**

Organizing is the function of management which follows planning. It is a function in which the synchronization and combination of human, physical and financial resources takes place. All the three resources are important to get results. Therefore, organizational function helps in achievement of results which in fact is important for the functioning of a concern. Hence, a manager always has to organize in order to get results.

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

1. Identification of activities - All the activities which have to be performed in a concern have to be identified, grouped and classified into units.
2. Departmentally organizing the activities - dividing the whole concern into independent units and departments is called departmentation.
3. Classifying the authority - Authorities bringing smoothness in a concern's working.
4. Co-ordination between authority and responsibility: Each individual is made aware of his authority and knows whom they have to take orders from and to whom they are accountable and to whom they have to report.

Thus an organization structure should be designed to clarify who is to do what tasks and who is responsible for what results and to furnish decision-making and communications networks reflecting.

### **3. STAFFING:**

The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personals to fill the roles assigned to the employers/workforce. Staffing pertains to recruitment, selection, development and compensation of subordinates.

#### **NATURE OF STAFFING FUNCTION:**

- i) Staffing is an important managerial function
- ii) Staffing is a continuous activity
- iii) The basis of staffing function is efficient management of personals.
- iv) Staffing helps in placing right men at the right job
- v) Staffing is performed by all managers depending upon the nature of business, size of the company, qualifications and skills of managers, etc.
- vi) Since, the success of the organization depends upon the performance of the individual, staffing function of manager deserves sufficient care & attention of the management.

### **4. DIRECTING:**

Directing is a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Planning, organizing, staffing has got no importance if direction function does not take place.

- **CHARACTERISTICS OF DIRECTION:**

- i) **Pervasive Function** - Directing is required at all levels of organization.
- ii) **Continuous Activity** - Direction is a continuous activity as it continuous throughout the life of organization.
- iii) **Human Factor** - Since human factor is complex and behavior is unpredictable, direction function becomes important.
- iv) **Creative Activity** - Direction function helps in converting plans into performance
- v) **Executive Function** - Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise;

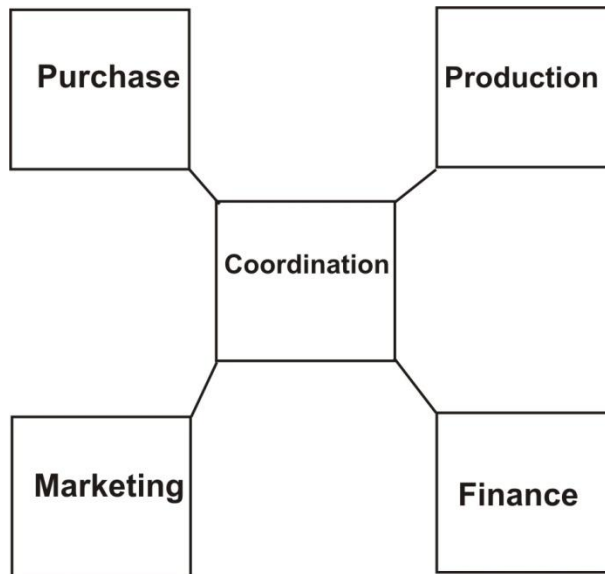
To sum up, the plans may be the best feasible ones, the activities may be systematically organized, the staff may be highly efficient, but the organization will not succeed, if there is no proper direction. Mere planning, organizing and staffing are not sufficient to set the tasks in motion. Directing involves not only instructing people what to do, but also ensuring that they know what is expected from them.

## 5. CO-ORDINATION:

Co-ordination tries to achieve harmony between individual's efforts towards achievement of group goals and is a key to success of management. Management seeks to achieve co-ordination through its basic functions of planning, organizing, staffing, directing and controlling.

Co-ordination is achieved through planning, organizing, staffing, directing and controlling. Co-ordination is life-line of management. It is required in each and every function and at each and every stage and therefore it cannot be separated.





**Figure 4**

## **6. CONTROLLING:**

Controlling is measuring and correcting individual or organizational performance to ensure that events conform to plans. It involves measuring performance against set goals and plans showing where deviations from the standards exist and helping to correct those deviations. The control process is cyclical which means it is never ending. Employees often view controlling negatively. No matter how positive the changes may be for the organization,

Controlling is a four-step process of establishing performance standards based on the firm's objectives, measuring and reporting actual performance, comparing the two, and taking corrective or preventive action as necessary.

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## **1.4 IMPORTANCE OF MANAGEMENT**

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1. **It helps in Achieving Group Goals** – Management converts disorganized resources of men, machines, money etc. into useful enterprise. It arranges, assembles, organizes and integrates the factors of production. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.
2. **Optimum Utilization of Resources** – Management utilizes all the physical and human resources productively. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. This leads to optimum utilization of resources and avoid wastage.

3. **Reduces Costs** – It gets maximum results through minimum input by proper planning and by using minimum input and getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.
4. **Establishes Sound Organization** –To establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for fulfillment of this, it establishes effective authority and responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors and who are subordinates.
5. **Establishes Equilibrium** – It enables the organization to survive in changing environment. It adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.
6. **Essentials for Prosperity of Society** – Efficient management leads to better economical production which helps in turn to increase the welfare of people.. It improves standard of living, increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income.

## CHECK YOUR PROGRESS

1. Define the following terms:
  - a. Management
  - b. Planning
  - c. Organizing
  - d. Directing
  - e. Coordinating
2. Give the chart of planning process.
3. “Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way”. Explain.

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## 1.5 ADMINISTRATION AND MANAGEMENT

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

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

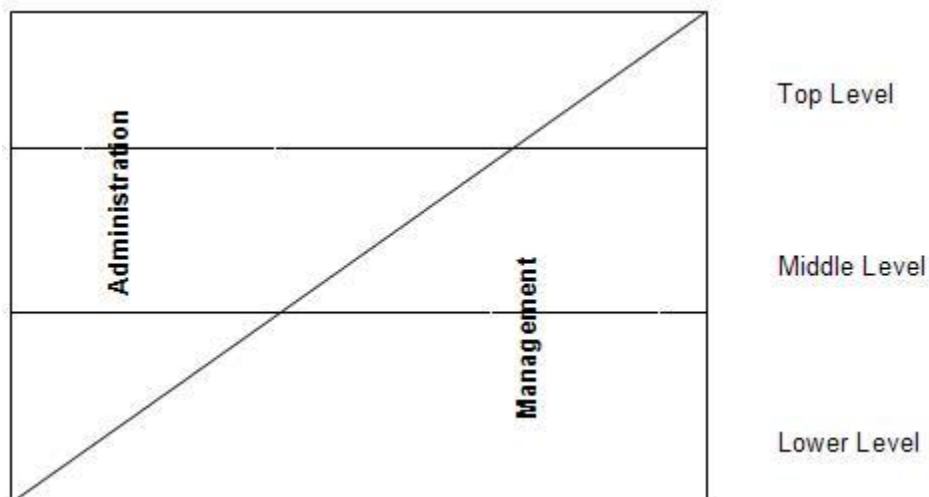
The difference between Management and Administration can be summarized under two categories: -

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

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

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

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



**Figure 5**

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

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## 1.6 MANAGER

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### 1.6.1 DEFINITION:

A Manager is the person responsible for planning and directing the work of a group of individuals, monitoring their work, and taking corrective action when necessary. For many people, this is their first step into a management career.

Managers may direct workers directly or they may direct several supervisors who direct the workers. The manager must be familiar with the work of all the groups he/she supervises, but does not need to be the best in any or all of the areas. It is more important for the manager to know how to manage the workers than to know how to do their work well.

A manager's title reflects what he/she is responsible for. An Accounting Manager supervises the Accounting function. An Operations Manager is responsible for the operations of the company. The Manager of Design Engineering supervises engineers and support staff engaged in design of a product or service. A Night Manager is responsible for the activities that take place at night. There are many management functions in business and, therefore, many manager titles. Regardless of title, the manager is responsible for planning, directing, monitoring and controlling the people and their work.

### 1.6.2 SKILLS REQUIRED BY A MANAGER:

Not everyone can be a manager. Certain **skills**, or abilities to translate knowledge into action that results in desired performance, are required to help other employees become more productive. These skills fall under the following categories:

- **Technical:** This skill requires the ability to use a special proficiency or expertise to perform particular tasks. Managers acquire these skills initially through formal education and then further develop them through training and job experience. Technical skills are most important at lower levels of management.
- **Human:** This skill demonstrates the ability to work well in cooperation with others. A manager with good human skills has a high degree of self-awareness and a capacity to understand or empathize with the feelings of others. Human

skills are critical for all managers because of the highly interpersonal nature of managerial work.

- **Conceptual:** This skill calls for the ability to think analytically. Analytical skills enable managers to break down problems into smaller parts, to see the relations among the parts, and to recognize the implications of any one problem for others. The higher the management level, the more important conceptual skills become.

Although all three categories contain skills essential for managers, their relative importance tends to vary by level of managerial responsibility.

Following are some of the skills and personal characteristics that a manager should acquire through observation, formal training or on the job:

- **Leadership** — ability to influence others to perform tasks
- **Self-objectivity** — ability to evaluate yourself realistically
- **Analytic thinking** — ability to interpret and explain patterns in information
- **Behavioral flexibility** — ability to modify personal behavior to react objectively rather than subjectively to accomplish organizational goals
- **Oral communication** — ability to express ideas clearly in words
- **Written communication** — ability to express ideas clearly in writing
- **Personal impact** — ability to create a good impression and instill confidence
- **Resistance to stress** — ability to perform under stressful conditions
- **Tolerance for uncertainty** — ability to perform in ambiguous situations

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## 1.7 FUNCTIONS OF A MANAGER

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**Following are the main functions of manager:**

- **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary

steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.

- **Organizing:** After a plan is in place, a manager needs to organize his team and materials according to the plan. Assigning work and granting authority are two important elements of organizing.
- **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developing employees. A manager in a large organization often works with the company's human resources department to accomplish this goal.
- **Leading:** A manager needs to do more than just plan, organize, and staff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires the manager to coach, assist, and problem solve with employees.
- **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track.

All managers at all levels of every organization perform these functions, but the amount of time a manager spends on each one depends on both the level of management and the specific organization.

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## **1.8 ROLE PERFORMED BY MANAGERS**

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A manager wears many hats. Not only is a manager a team leader, but he or she is also a planner, organizer, cheerleader, coach, problem solver, and decision maker — all rolled into one. And these are just a few of a manager's roles. In addition managers' schedules are usually jam-packed. Whether they're busy with employee meetings, unexpected problems, or strategy sessions, managers often find little spare time on their calendars.

In his classic book, *The Nature of Managerial Work*, Henry Mintzberg describes a set of ten roles that a manager fills. These roles fall into three categories:

- **Interpersonal:** This role involves human interaction.
- **Informational:** This role involves the sharing and analyzing of information.
- **Decisional:** This role involves decision making.

### Mintzberg's Set of Ten Roles

<b>Category</b>	<b>Role</b>	<b>Activity</b>
<b>Informational</b>	<b>Monitor</b>	Seek and receive information; scan periodicals and reports; maintain personal contact with stakeholders.
	<b>Disseminator</b>	Forward information to organization members via memos, reports, and phone calls.
	<b>Spokesperson</b>	Transmit information to outsiders via reports, memos, and speeches.
<b>Interpersonal</b>	<b>Figurehead</b>	Perform ceremonial and symbolic duties, such as greeting visitors and signing legal documents.
	<b>Leader</b>	Direct and motivate subordinates; counsel and communicate with subordinates.
	<b>Liaison</b>	Maintain information links both inside and outside organization via mail, phone calls, and meetings.
<b>Decisional</b>	<b>Entrepreneur</b>	Initiate improvement projects; identify new ideas and delegate idea responsibility to others.
	<b>Disturbance handler</b>	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environments.
	<b>Resource allocator</b>	Decide who gets resources; prepare budgets; set schedules and determine priorities.
	<b>Negotiator</b>	Represent department during negotiations of union contracts, sales, purchases, and budgets.

**Table 1**



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## 1.9 SUMMARY

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“Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way”. It has to be done through and with the people in formally organized groups. Some of its features are: it integrates human, physical and financial resources, it is goal-oriented, it is a continuous process, it is all pervasive and finally it is a group activity.

There are six functions of management viz. planning, organizing, staffing, directing, coordinating and controlling. All these functions are unique in themselves and they assist in smooth functioning of an organization.

Administration means setting of major objectives, and broad programmes and projects. Whereas, management involves conceiving, initiating and bringing together the various elements; together towards meeting organization pre-determined goals. A Manager is the person responsible for planning and directing the work of a group of individuals, monitoring their work, and taking corrective action when necessary. Managers need to acquire technical, human and conceptual skills. Manager has to perform all the functions of management. This is the first step into a management career.

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## 1.10 EXERCISE

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- i) Define and explain the concept of management.
- ii) Explain the features of management.
- iii) Discuss in detail the functions of management
- iv) Explain the importance of management for an organization.
- v) Practically, there is no difference between management & administration. Justify
- vi) Who is called a manager? What skills does he need to be successful?
- vii) What functions do managers perform?
- viii) **Explain the role of a manager according to Mintzberg?**



## Chapter 2

# DEVELOPMENT OF MANAGEMENT THOUGHTS

### Unit Structure

- 2.0 Objectives
- 2.1 Introductions
- 2.2 The Evolution of Management Thought
- 2.3 *Contingency Approach to Management*
- 2.4 Contribution of Frederick Winslow Taylor, Henri Fayol, Elton Mayo
- 2.5 Lessons for Management Theory & Practice from India: Gandhi's Philosophy on Trusteeship the Concept of Seven Sins
- 2.6 Arthashastra - Lessons for Management Theory and Practice
- 2.7 *Summary*
- 2.8 Exercise

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## 2.0 OBJECTIVES

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After studying the unit the students will be able to:

- Know the evolution of management thoughts through various schools of thoughts.
- Discuss the System contingency approaches to management.
- Understand the contribution of F. W. Taylor, Henri Fayol and Elton Mayo to the development of management.
- Elaborate the various management functions.
- Discuss the responsibilities of business/management to the society

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## 2.1 INTRODUCTIONS

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Through the practice of management and the continued development of commerce and wealth we are transforming our lives. While appreciating the past success of 'management' we would also recognise that today's accelerating pace of change is

putting pressure on our organisations to be at the forefront of management thinking.

In his comprehensive book 'The Evolution of Management Thought' Daniel A Wren writes, "*Within the practices of the past there are lessons of history for tomorrow in a continuous stream. We occupy but one point in this stream. The purpose... is to present...the past as a prologue to the future.*"

So with the aim of accelerating the development of our management practice for the future let us examine that stream of evolving management thought of the past.

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## **2.2 THE EVOLUTION OF MANAGEMENT THOUGHT**

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The evolution of the discipline of management has helped to develop a body of knowledge about the practice of management. Within the field of management, eight schools of thought have contributed significantly to the development of management.

The following table brings together the theories of management and the issues that they address.

### **Theories of management and the problems they address**

<b>Theories of management skills</b>	
The human relations school	The motivational problem
The organisation behaviour school	Improving the integration of people into organisations
The information and decision school	The management decision-skills problem
<b>Theories of management functions</b>	
Scientific management	The human productivity problem
The quantitative school	The application of objective functions to management
The strategic management school	The organisation long-range planning problem
<b>Theories of organisation systems</b>	

Administrative management	The organisation problem
The organisation theory school	The organisation design problem

**Table 1**

In this chapter, we will focus on four well-established schools of management thought: the scientific management school, the classical organization theory school, the behavioral school, and the management science school. Although these schools or theoretical approaches developed historical sequence, later ideas have not replaced earlier ones. Instead, each new school has tended to complement or coexist with previous ones. At the same time, each school has continued to evolve, and some have even merged with others.

### **2.2.1 THE SCIENTIFIC MANAGEMENT SCHOOL:**

*Scientific Management theory arose in part from the need to increase productivity. In the United States especially, skilled labor was in short supply at the beginning of the twentieth century. The only way to expand productivity was to raise the efficiency of workers. Therefore, Frederick W. Taylor, Henry L. Gantt, and Frank and Lillian Gilbert devised the body of principles known as scientific management theory.*

F W Taylor is considered to be the father of scientific management. Henry Gantt, Frank and Lillian Gilberth and Harrington Emerson supported Taylor in his efforts. Together with Taylor they revolutionized management thinking. Scientific management is the name given to the principles and practices that grew out of their work of Taylor and his followers and that are characterized by concern for efficiency and systematization in management. Four basic part of a series of ideas developed by Taylor are as follows:

- Each person's job should be broken down into elements and performed in a scientific way.
- Workers should be scientifically selected and trained to do the work.
- There should be co-operation between management and workers. And
- There should be division of labour between managers and workers.

Among the other significant contribution to this school of thought was Henry L Grant. He emphasized the psychology of the worker and the importance of morale in production. Grant devised a wage payment system and developed a chart in system of control for scheduling production operation which became the basis for modern scheduling techniques like CPM and PERT.

Frank and Lillian Gilbert concentrated on time-and-motion study to develop more efficient ways of performing repetitive tasks. Time-and-motion study and piece-rate incentives are two major managerial practices developed and widely in use today.

Harrington Emerson in his book “Twelve Principles of Efficiency” states that a manager should carefully define objectives, use the scientific method of analysis, develop and use standardized procedure, and reward employees for good work.

### **2.2.2 CLASSICAL ORGANIZATION SCHOOL:**

Scientific management theory concerned the optimization of individual workers and work processes. During the same period, classical organization theory complimented scientific management by providing a framework for the structuring the organization. The leading proponents of classical organization theory were Henri Fayol (a French engineer), Lyndall Urwick (a British company manager), and Max Weber (a German sociologist).

Classical organization theory is the “B” in bureaucracy. Weber defined the organization elements which comprised the “ideal bureaucracy.” These included:

- A clearly defined set of rules and procedures
- Division of labor according to functional expertise
- A clear chain of command
- Individual advancement based on merit
- Professional managers

As you can see, many aspects of Weber’s “ideal bureaucracy” are simply measures that ensure fairness and objectivity.

The Classic organizational theory has been derived from organizational structures and procedures during the industrial revolution which emphasis the Economic rationale for the factory system and believed that all formal organizations are force multipliers. It main features:

- Organizations exist to accomplish production-related and economic goals.

- There is one best way to organize for production, and that way can be found through systematic, scientific inquiry.
- Production is maximized through specialization and division of labor.
- People and organizations act in accordance with rational economic principles.

The Classic organizational theory is followed by Neoclassical Organization Theory and the Modern Structural Organization Theory which talked about the important source of the power and politics, organizational culture, systems theory, specialization and division of labor.

### ***2.2.3 BEHAVIORAL MANAGEMENT SCHOOL:***

The behavioral management theory is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations, and group dynamics, improved productivity.

The theorists who contributed to this school viewed employees as individuals, resources, and assets to be developed and worked with — not as machines, as in the past. Several individuals and experiments contributed to this theory.

The Elton Mayo and Roethlisberger Hawthorne experiment in Chicago from 1924 to 1932 concludes that human relations and the social needs of workers are crucial aspects of business management. Abraham Maslow, developed one of the most widely recognized need theories, a theory of motivation based upon a consideration of human needs. His theory of human needs had three assumptions:

- Human needs are never completely satisfied.
- Human behavior is purposeful and is motivated by the need for satisfaction.
- Needs can be classified according to a hierarchical structure of importance, from the lowest to highest.

The Two Factor theory of Douglas McGregor that, the Theory X manager has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the Theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation.

As a group, these theorists discovered that people worked for inner satisfaction and not materialistic rewards, shifting the focus to the role of individuals in an organization's performance.

#### **2.2.4 MANAGEMENT SCIENCE SCHOOL:**

During World War II the allies faced many complex problems and to overcome these problems operational research teams were set up, consisting of mathematicians, physicists and other scientists, who pooled their knowledge to solve problems. After the war, their ideas were applied to industrial problems which were previously unsuccessfully solved by conventional means. With the aid of the electronic computer, these procedures became known as the "management science" school relying heavily on quantitative methods.

The contribution of the quantitative school was greatest in the areas of planning and control. However, many doubted the ability of this school to deal effectively with "people." The techniques in this school consisted of capital budgeting, production scheduling, optimum inventory levels and development of product strategies

The management science school differs from the classical and behavioral schools in the following ways:

- The classical or scientific management approach concentrates on the efficiency of the manufacturing process. The management science school places greater weight on the overall planning and decision-making process.
- It relies heavily on the use of computers and mathematical models in planning;
- It is focused on the evaluation of effectiveness of models like the techniques of the use of models in managerial decision making: the return on investment analysis for example. .

In essence, by using computers and quantitative analysis techniques, the management science school has made it possible to consider the effect of a number of variables in organizations which may otherwise have been overlooked. It must be emphasized that statistical evidence alone may not be sufficient to solve various management problems. The more comprehensive techniques of the behavioral school or the administrative management approach may still be needed to complement. Especially the behavioral school has the ability to look at the welfare of staff and can identify the reasons behind certain behavior.

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## 2.3 CONTINGENCY APPROACH TO MANAGEMENT

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The contingency approach believes that it is impossible to select one way of managing that works best in all situations like promoted by Taylor.

The contingency approach believes that it is impossible to select one way of managing that works best in all situations like promoted by Taylor. Their approach is to identify the conditions of a task (scientific management school), managerial job (administrative management school) and person (human relations school) as parts of a complete management situation and attempt to integrate them all into a solution which is most appropriate for a specific circumstance. Contingency refers to the immediate (contingent or touching) circumstances.

The manager has to systematically try to identify which technique or approach will be the best solution for a problem which exists in a particular circumstance or context.

An example of this is the never ending problem of increasing productivity. The different experts would offer the following solutions:

- Behavioral scientist: create a climate which is psychologically motivating;
- Classical management approach: create a new incentive scheme;
- Contingency approach: both ideas are viable and it depends on the possible fit of each solution with the goals, structure and resources of the organization.

The contingency approach may consider, for policy reasons, that an incentive scheme was not relevant. The complexity of each situation should be noted and decisions made in each individual circumstances.

It should be realized that the contingency approach is not really new because Taylor already emphasized the importance of choosing the general type of management best suited to a particular case. Henri Fayol, in turn, also found that there is nothing rigid or absolute in management affairs.

Similar ideas were expressed in the 1920s, by Mary Parker Follett (1865-1933) who was greatly interested in social work and was a genius for relating individual experience to general principles. Her concept of the law of the situation referred to the necessity of acting in accordance with the specific requirements of



a given situation. She noted that these requirements were constantly changing and needed continuous efforts to maintain effective working relationships.

The contingency approach seeks to apply to real life situations ideas drawn from various schools of management thought. They claim that no one approach is universally applicable and different problems and situations require different approaches. Managers must try to find the approach that is the best for them in a certain given situation, so they can achieve their goals.

It is important to note that the contingency approach stresses the need for managers to examine the relationship between the internal and external environment of an organization. Critics of the contingency approach have blamed it to lack theoretical foundation and are basically intuitive. Managers today are advised to analyze a situation and use ideas from the various schools of thought to find an appropriate combination of management techniques to meet the needs of the situation.

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## **2.4 CONTRIBUTION OF FREDERICK WINSLOW TAYLOR, HENRI FAYOL, ELTON MAYO**

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### **2.4.1 FREDERICK WINSLOW TAYLOR:**

Taylor was born in 1856 to a wealthy [Quaker](#) family in [Germantown, Philadelphia, Pennsylvania](#). After the [depression of 1873](#), Taylor became an industrial apprentice patternmaker, gaining shop-floor experience at a pump-manufacturing company.

Taylor is regarded as the father of [scientific management](#). In [Peter Drucker's](#) description; Frederick W. Taylor was the first man in recorded history who deemed work deserving of systematic observation and study. On Taylor's 'scientific management' rests, above all, the tremendous surge of affluence in the last seventy-five years which has lifted the working masses in the developed countries well above any level recorded before, even for the well-to-do.

Taylor believed that the industrial management of his day was amateurish, that management could be formulated as an academic discipline, and that the best results would come from the partnership between a trained and qualified management and a cooperative and innovative workforce. Each side needed the other, and there was no need for [trade unions](#).

Taylor's approach is also often referred to, as *Taylor's Principles*, or frequently disparagingly, as *Taylorism*. Taylor's scientific management consisted of four principles:

1. Replace rule-of-thumb work methods with methods based on a scientific study of the tasks.
2. Scientifically select, train, and develop each employee rather than passively leaving them to train themselves.
3. Provide "Detailed instruction and supervision of each worker in the performance of that worker's discrete task" (Montgomery 1997: 250).
4. Divide work nearly equally between managers and workers, so that the managers apply scientific management principles to planning the work and the workers actually perform the tasks.

Taylor had very precise ideas about how to introduce his system. It is only through *enforced* standardization of methods, *enforced* adoption of the best implements and working conditions, and *enforced* cooperation that faster work can be assured. And the duty of enforcing the adoption of standards and enforcing this cooperation rests with *management* alone.

Taylor thought that by analyzing work, the "One Best Way" to do it would be found. He is most remembered for developing the [time and motion study](#). Taylor's system was widely adopted in the United States and the world until its demise in the 1930's as organized labor pushed for a minimum wage based on hourly pay, as opposed to Taylor's contention that pay ought to be based on performance. In practice "Taylorism" too often fell short of collaboration between labor and management and, frequently, was a mask for business exploitation of workers. The enduring and unquestionable contribution of Frederick Taylor is that management is firmly established as something done by trained, professional practitioners and is elevated as the subject of legitimate scholarship.

#### **2.4.2 GEORGE ELTON JOHN MAYO ( 26 DECEMBER 1880 - 7 SEPTEMBER1949):**

Mayo was an [Australian psychologist](#), [sociologist](#) and [organization theorist](#). He lectured at the [University of Queensland](#) from 1911 to 1923 before moving to the [University of Pennsylvania](#), but spent most of his career at [Harvard Business School](#) (1926 - 1947), where he was professor of industrial research. Mayo is known as the founder of the [Human Relations Movement](#), and is known for his research including the [Hawthorne Studies](#), and his book *The Human Problems of an Industrialized Civilization* (1933). The research he conducted under the

Hawthorne Studies of the 1930s showed the importance of groups in affecting the behavior of individuals at work. However it was not Mayo who conducted the practical experiments but his employees Roethlisberger and Dickinson. This enabled him to make certain deductions about how managers should behave. He carried out a number of investigations to look at ways of improving productivity, for example changing lighting conditions in the workplace. What he found however was that work satisfaction depended to a large extent on the informal social pattern of the work group. Where norms of cooperation and higher output were established because of a feeling of importance, physical conditions or financial incentives had little motivational value. People will form work groups and this can be used by management to benefit the organization. He concluded that people's work performance is dependent on both social issues and job content. He suggested a tension between workers' 'logic of sentiment' and managers' 'logic of cost and efficiency' which could lead to conflict within organizations.

Flowing from the findings of these investigations he came to certain conclusions as follows:

- Work is a group activity.
- The social world of the adult is primarily patterned about work activity.
- The need for recognition, security and sense of belonging is more important in determining workers' morale and productivity than the physical conditions under which he works.
- A complaint is not necessarily an objective recital of facts; it is commonly a symptom manifesting disturbance of an individual's status position.
- The worker is a person whose attitudes and effectiveness are conditioned by social demands from both inside and outside the work plant.
- [Informal groups](#) within the work plant exercise strong social controls over the work habits and attitudes of the individual worker.
- The change from an established society in the home to an adaptive society in the work plant resulting from the use of new techniques tends continually to disrupt the social organization of a work plant and industry generally.
- Group collaboration does not occur by accident; it must be planned and developed.

#### **2.4.3 HENRI FAYOL, (1841-1925):**

Fayol's career began as a mining engineer. He then moved into research geology and in 1888 joined Comambault as Director. Comambault was in difficulty but Fayol turned the operation round. On retirement he published his work - a comprehensive theory of administration - described and classified administrative management roles and processes that became recognized and referenced by others in the growing discourse about management. He is frequently seen as a key, early contributor to a classical or administrative management school of thought.

His aspiration for an "administrative science" sought a consistent set of principles that all organizations must apply in order to run properly.

F. W. Taylor published "The Principles of Scientific Management" in the USA in 1911, and Fayol in 1916 examined the nature of management and administration on the basis of his French mining organisation experiences.

Fayol argued that principles existed which all organisations - in order to operate and be administered efficiently - could implement. This type of assertion typifies a "one best way" approach to management thinking. Fayol's five functions are still relevant to discussion today about management roles and action.

1. to forecast and plan – purveyance examine the future and draw up plans of action.
2. to organise build up the structure, material and human of the undertaking.
3. to command maintain activity among the personnel.
4. to bind together, unify and harmonise activity and effort.
5. to see that everything occurs in conformity with policy and practice.

Fayol also synthesised 14 principles for organisational design and effective administration as under:

1. Division of work: Division of work and specialization produces more and better work with the same effort.
2. Authority and responsibility: Authority is the right to give orders and the power to exact obedience. Authority creates responsibility.
3. Discipline: Good discipline requires managers to apply sanctions whenever violations become apparent.
4. Unity of command: An employee should receive orders from only one superior.

5. Unity of direction: Organizational activities must have one central authority and one plan of action.
6. Subordination of individual interest to general interest: The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
7. Remuneration of personnel: Salaries to employees should be fair and provide satisfaction both to the employee and employer.
8. Centralization: The objective of centralization is the best utilization of personnel.
9. Scalar chain: A chain of authority exists from the highest organizational authority to the lowest ranks.
10. Order: The right materials and the right employees are necessary for each organizational function and activity.
11. Equity: equity is a combination of kindness and justice. Both should be considered when dealing with employees.
12. Stability of tenure of personnel: To attain the maximum productivity of personnel, a stable work force is needed.
13. Initiative: Zeal, energy, and initiative are desired at all levels of the organizational ladder.
14. Esprit de corps: Teamwork is fundamentally important to an organization.

#### **2.4.4 PETER FERDINAND DRUCKER (NOVEMBER 19, 1909 – NOVEMBER 11, 2005):**

The Man Who Invented Management He took Schumpeter's advice to heart, beginning a career in consulting while continuing his life as a teacher and writer. Drucker's most famous text, *The Practice of Management*, published in 1954, laid out the American corporation like a well-dissected frog in a college laboratory, with chapter headings such as "What is a Business?" and "Managing Growth." It became his first popular book about management, and its title was, in effect, a manifesto. He was saying that management was not a science or an art. It was a profession, like medicine or law. It was about getting the very best out of people. As he himself put it: "I wrote *The Practice of Management* because there was no book on management. I had been working for 10 years consulting and teaching, and there simply was nothing or very little. So I kind of sat down and wrote it, very conscious of the fact that I was laying the foundations of a discipline."

Drucker emerged as one of Corporate America's most important critics. When conglomerates were the rage, he

preached against reckless mergers and acquisitions. When executives were engaged in empire-building, he argued against excess staff and the inefficiencies of numerous "assistants to." In a 1984 essay he persuasively argued that CEO pay had rocketed out of control and implored boards to hold CEO compensation to no more than 20 times what the rank and file made. What particularly enraged him was the tendency of corporate managers to reap massive earnings while firing thousands of their workers. "This is morally and socially unforgivable," wrote Drucker, "and we will pay a heavy price for it."

- It was Drucker who introduced the idea of decentralization -- in the 1940s -- which became a bedrock principle for virtually every large organization in the world. He was the first to assert -- in the 1950s -- that workers should be treated as assets, not as liabilities to be eliminated.
- He originated the view of the corporation as a human community -- again, in the 1950s -- built on trust and respect for the worker and not just a profit-making machine, a perspective that won Drucker an almost godlike reverence among the Japanese.
- He first made clear -- still the '50s -- that there is "no business without a customer," a simple notion that ushered in a new marketing mind-set.
- He argued in the 1960s -- long before others -- for the importance of substance over style, for institutionalized practices over charismatic, cult leaders.
- And it was Drucker again who wrote about the contribution of knowledge workers -- in the 1970s -- long before anyone knew or understood how knowledge would trump raw material as the essential capital of the New Economy.

## CHECK YOUR PROGRESS

1. Match the following

The human relations school	Improving the integration of people into organisations
The organisation behaviour school	The motivational problem
The information and decision school	The human productivity problem

Scientific management	The management decision-skills problem
The quantitative school	The organisation problem
The strategic management school	The organisation long-range planning problem
Administrative management	The organisation design problem
The organisation theory school	The application of objective functions to management

2. Fill in the blanks:

- is regarded as the father of [scientific management](#).
- F. W. Taylor published ----- in the USA in 1911.
- is known as the founder of the [Human Relations Movement](#).
- introduced the idea of decentralization in the 1940.

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## **2.5 LESSONS FOR MANAGEMENT THEORY AND PRACTICE FROM INDIA: GANDHI'S PHILOSOPHY ON TRUSTEESHIP THE CONCEPT OF SEVEN SINS**

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Gandhi has propagated the Philosophy of Trusteeship for the people who practice entrepreneurship where he emphasized that the wealth that they possess is not theirs, they are only trustees for the common man. They are accountable for its use and misuse.

Similarly he dwells on the concept of Seven Sins which lays down the ways to lead personnel, social and political lives for an individual.

### **2.5.1 THEORY OF TRUSTEESHIP:**

Gandhiji said that everything belonged to God and was from God. Therefore it was for His people as a whole, not for a particular individual. When an individual had more than his proportionate portion he became a trustee of that portion for God's people. God who was all-powerful had no need to store. He created from day to day; hence men also should in theory live from day to day and not stock things. If this truth was imbibed by the people generally, it would become legalized and trusteeship would become a legalized institution.

He further explained, "Supposing I have come by a fair amount of wealth – either by way of legacy, or by means of trade and industry – I must know that all that wealth does not belong to me; what belongs to me is the right to an honorable livelihood, no better than that enjoyed by millions of others. The rest of my wealth belongs to the community and must be used for the welfare of the community. I want them (zamindars) to outgrow their greed and sense of possession, and to come down in spite of their wealth to the level of those who earn their bread by labour. The labourer has to realize that the wealthy man is less owner of his wealth than the labourer is owner of his own, viz., the power to work.

As for the present owners of wealth, they would have to make their choice between class war and voluntarily converting themselves into trustees of their wealth. They would be allowed to retain the stewardship of their possessions and to use their talent to increase the wealth, not for their own sakes, but for the sake of the nation and, therefore, without exploitation. The State would regulate the rate of commission which they would get commensurate with the service rendered and its value to society. Their children would inherit the stewardship only if they proved their fitness for it.

Gandhiji's talked of economic equality which did not mean that everyone would literally have the same amount. It simply meant that everybody should have enough for his or her needs. The real meaning of economic equality was: "To each according to his need". If a single man demanded as much as a man with wife and four children that would be a violation of economic equality.

- **PRACTICAL TRUSTEESHIP FORMULA:**

The practical trusteeship formula endorsed by Gandhiji is as follows:

1. Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one. It gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.
2. It does not recognize any right of private ownership of property except so far as it may be permitted by society for its own welfare.



3. It does not exclude legislative regulation of the ownership and use of wealth.
4. Thus under State-regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interests of society.
5. Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that would be allowed to any person in society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time so much so that the tendency would be towards obliteration of the difference.
6. Under the Gandhian economic order the character of production will be determined by social necessity and not by personal whim or greed.

The philosophy of Trusteeship believes in inherent goodness of human beings. It involves the capitalists and landlords in the service of society without any element of coercion. It doesn't want the destruction of capitalists. Gandhiji himself believed that their destruction would result in the end of the workers

### **2.5.2 THE CONCEPT OF SEVEN SINS:**

Mahatma Gandhi said that seven things will destroy us. All of them have to do with social and political conditions.

- Wealth Without Work
- Pleasure Without Conscience
- Knowledge Without Character
- Commerce (Business) Without Morality (Ethics)
- Science Without Humanity
- Religion Without Sacrifice
- Politics Without Principle

**Wealth without Work:** This means that a person gets something for nothing by just manipulating markets and assets. There are professionals and businessmen who are able to accumulate wealth without working. Enjoy benefits from government programs without any financial burden. No risk and no responsibilities.

**Pleasure without Conscience:** The pleasurable activities are devoid of any social responsibility or accountability. We don't learn to give and take, we live selflessly, we are not sensitive neither considerate. We are just self-centered. We want to indulge and

gratify ourselves. We are least bothered about the effect of our acts on others.

**Knowledge without Character:** Building character of students in academics while imparting knowledge is one of the primary tasks of a teacher. As dangerous as a little knowledge is, even more dangerous is much knowledge without a strong, principled character. Inculcating the concept of kindness, fairness, dignity, contribution, honesty and integrity are worth in developing character. Knowledge with strong inbuilt character will create people with conviction and empathy.

**Commerce (Business) without Morality (Ethics):** If we ignore the moral foundation and allow economic systems to operate without moral foundation and without continued education, we will soon create an amoral, if not immoral, society and business. Economic and political systems are ultimately based on a moral foundation. Business and ethics should go hand in hand for both to prosper i.e. business and society.

**Science without Humanity:** If science becomes all technique and technology, it quickly degenerates into man against humanity. Technologies come from the paradigms of science. And if there's very little understanding of the higher human purposes that the technology is striving to serve, we become victims of our own technocracy.

**Religion without Sacrifice:** Practicing religion without sacrifice means like reading the holy books for the sake of it but not putting it in practice. It takes sacrifice to serve the needs of other people - the sacrifice of our own pride and prejudice, among other things. If this happens then it can be called as real worship. Pride and selfishness will destroy the union between man and god, between man and woman, between man and man, between self and self. Humility is the hallmark of inner religion.

**Politics without Principle:** We see politicians spending millions of rupees to create an image, even though it's superficial, lacking substance, in order to get votes and gain office. And when it works, it leads to a political system operating independently of the natural laws that should govern the society and the country. This leads to a society with distorted values. In the best societies, natural laws and principles govern - that's the Constitution - and even the top people must bow to the principle. No one is above it.

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## **2.6 ARTHASHASTRA - LESSONS FOR MANAGEMENT THEORY AND PRACTICE**

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Arthashastra, the treatise on Economic Administration was written by Kautilya in the 4th century before Christ. It consists of 15 chapters, 380 Shlokas and 4968 Sutras. In all probability, this treatise is the first ever book written on Practice of Management. It is essentially on the art of governance and has an instructional tone.

Kautilya wrote this treatise for his swamy (the king) Chandragupta Maurya and stated in its preface that it has been written as a guide for "those who govern".

As in the present day management, the importance of vision, mission and motivation was captured in Arthashastra. Kautilya advise his swamy to rule through Prabhu Shakti (vision), Mantra Shakti (mission) and Utsah Sahkti (motivation). Kautilya's concepts of the objectives of a king seem to be virtually adopted by Peter Drucker in his book, Managing for Results.

Kautilya reminds his swamy that his objectives for his rule are:

1. Acquire power; (Making present business effective)
2. Consolidate what has been acquired; (Making present business effective)
3. Expand what has been acquired; and (Identify potential and realize it)
4. Enjoy what has been acquired. (Making it a different business for a different future)

On the organizational aspects, Kautilya evolves an elaborate hierarchy under the king. The king appoints Amatya, the Prime Minister, who operates the day-to-day machinery of the State through a council of officials consisting of Mantris, the Ministers, Senapati, the warlord or the Defence Minister, Purohit, the Chief Justice and Yuvaraj, the Heir Apparent or identified successor to the throne

Arthashashtra has detailed policies for the society, individual industries, labor and employment, calamities and control of vices. He observes that the State, as an organization, is a social organization with economic aim. Here again, Peter Drucker and Kautilya go hand in hand as Drucker defines an organization as having 'social dimension and economic objective'.

Finally, from the point of view of management of the kingdom, Kautilya's advice to his Swamy is indeed introspective and valid to the corporate world of the 21st century. His advice to his Swamy is as under:

- i. Run a diversified economy actively, efficiently, profitably and prudently.
- ii. Bear in his mind that a king with depleted treasury is a weak king and the easiest target for a takeover.
- iii. Ensure enactment of prudent policies.
- iv. Reign only with the help of others.
- v. Take proper care in appointing advisors.
- vi. An ideal Swamy is the one who has the highest qualities of leadership, intellect, energy and personal attributes.
- vii. Wealth lies in economic activities.
- viii. Profitability should not only mean surplus over costs. It should also mean provision of investment for future growth.
- ix. Diversified economy should consist of productive forests, water reservoirs, mines, productive activities, trade, markets, roads, ports, and storages.
- x. Efficient management means setting up of realistic targets and meeting targets without using overzealous methods.

Arthashastra is the evidence of the intellectual capital India possessed in its glorious past. We have the tradition of the past. We need the attitude for resurrecting and recreating the intellectual capital for the future.

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## ***2.7 SUMMARY***

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Over the years various theories of management have addressed various problems. Theories of Management Skills, Management Functions and Organisation Systems have been developed. Further various Management Schools have evolved such as Scientific Management School, Classical Organization School, Behavioral Management School and Management Science School.

Frederick Winslow Taylor, George Elton John Mayo, Henri Fayol, Peter Ferdinand Drucker and others have contributed in furthering the development of management thoughts and theories. Taylor's scientific management of four principles, Mayo Human Relations Movement, Fayol 14 principles for organisational design and effective administration and Drucker's Management have all enriched the process of management development.

Indian Management concepts and thoughts can be traced back into the 4<sup>th</sup> century before Christ. Kautilya's Arthashastra, the treatise on Economic Administration written for his Swamy

Chandragupta Maurya is relevant even today. Peter Drucker has been influenced by it in shaping his concepts and thoughts. Mahatma Gandhi's Philosophy on Trusteeship the Concept of Seven Sins has influenced the entrepreneurs to accept the concept of corporate social responsibility.

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## 2.8 EXERCISE

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1. Briefly explain the evolution of management thoughts along with the theories of management and the problems they address
2. In a nut shell discuss the four management schools that you have studied.
3. What is contingency approach to management?
4. Write a brief note on contingency approach management
5. Explain Taylor's Principles of management
6. Explain the findings of George Elton John Mayo regarding the connection between cooperation and higher output
7. What are the five functions of Fayol
8. Discuss Fayol's 14 principles of management
9. Explain Taylor's Principles of management
10. Explain the findings of George Elton John Mayo regarding the connection between cooperation and higher output
11. What are the five functions of Fayol
12. Discuss Fayol's 14 principles of management
13. Discuss the contribution of Peter Drucker in the modern thoughts of management.
14. Explain the Gandhi's Theory of Trusteeship.
15. Elaborate on the concepts of Seven Sins as propagated by Gandhi.
16. Briefly explain Kautilya's Arthashastra.



# CHAPTER 3

## THE ENVIRONMENTAL CONTEXT OF MANAGEMENT, SOCIAL RESPONSIBILITY AND BUSINESS ETHICS

### Unit Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Internal and External Business Environment
- 3.3 Organizational and Environmental Relationship
- 3.4 Social Responsibilities of Companies
- 3.5 Concept of Ethics and Business Ethics
- 3.6 Government Social Responsibilities
- 3.7 Summary
- 3.8 Exercise

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### 3.0 OBJECTIVES

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After studying the unit the students will be able to:

- Understand the concept of environment, social responsibility and business ethics.
- Know the role of Environment in the performance of business.
- Discuss the types of environment viz. internal and external environment.
- Discuss social responsibilities towards various strata's of business.
- Explain the concept business ethics its relevance and importance in running business.

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### 3.1 INTRODUCTION

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The formula for business success requires two elements – the individual and the environment. Remove either value and success becomes impossible. The term 'business environment' implies those external forces, factors and institutions that are beyond the control of individual business organisations and their management and affect the business enterprise. It implies all

external forces within which a business enterprise operates. Business environment influence the functioning of the business system.

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## **3.2 INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT**

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### **3.2.1 MEANING:**

Thus, business environment may be defined as all those conditions and forces which are external to the business and are beyond the individual business unit, but it operates within it. These forces are customer, creditors, competitors, government, socio-cultural organisations, political parties national and international organisations etc. some of those forces affect the business directly while some others have indirect effect on the business.

### **3.2.2 FEATURES OF BUSINESS ENVIRONMENT:**

- i) Totality of external forces:** Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.
- ii) Specific and general forces:** Business environment includes both specific and general forces. Specific forces affect individual enterprises directly and immediately in their day-to-day working. General force shaves impact on all business enterprises and thus may affect an individual firm only indirectly.
- iii) Dynamic nature:** Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.
- iv) Uncertainty:** Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.
- v) Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

### **3.2.3 TYPES OF ENVIRONMENT:**

On the basis of the extent of intimacy with the firm, the environmental factors may be classified into different types- internal and external.

#### **1. INTERNAL ENVIRONMENT:**

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factors as its personnel, physical facilities, and organization and functional means, like marketing, to suit the environment.

The important internal factors which have a bearing on the strategy and other decisions of internal organization are discussed below

##### **i) Value system:**

The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practices.

##### **ii) Mission and vision and objectives:**

Vision means the ability to think about the future with imagination and wisdom. It is an important factor in achieving the objectives of the organization. The mission is the medium through which the objectives are achieved.

##### **iii) Management structure and nature:**

The organizational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some other helps in making quick decisions.

##### **iv) Internal power relationships:**

The relationship among the levels of the organization influences business. The mutual co-ordination among them is an important need for a business. The relationship among the people working in various levels of the organization should be cordial.

##### **v) Human resource:**

The human resource is the important factor for any organization as it contributes to the strength and weakness of any



organization. The human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work attitude, etc. The involvement and initiative of the people in an organization at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them.

**vi) Company image and brand equity:**

The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

**vii) Miscellaneous factors:**

The other factors that contribute to the business success or failure are as follows:

- a) Physical assets and facilities:** - facilities like production capacity, technology are among the factors which influences the competitiveness of the firm. The proper working of the assets is indeed for free flow of working of the company.
- b) Research and development:** - Though R&D department is basically done external environment but it has a direct impact on the organization. This aspect mainly determines the company's ability to innovate and compete.
- c) Marketing resources:** - Resources like the organization for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency of the company
- d) Financial factors:**-factors like financial policies, financial positions and capital structure are also important internal environment affecting business performances, strategies and decisions.

**2. EXTERNAL ENVIRONMENT:**

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment.

**a. Micro Environment:**

The micro environment is also known as the task environment and operating environment because the micro environmental forces have a direct bearing on the operations of the firm. The micro environment consists of the factors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public. The micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. When the competing firms in an industry have the same micro elements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

Following are the factors micro environment:

**i) Suppliers:**

An important force in the micro environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious.

**ii) Customer:**

The major task of a business is to create and sustain customers. A business exists only because of its customers. The choice of customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition.

**iii) Competition:**

Competition not only include the other firms that produce same product but also those firms which compete for the income of the consumers the competition here among these products may be said as desire competition as the primary task here is to fulfill the desire of the customers..The competition that satisfies a particular category desire then it is called generic competition..

**iv) Marketing Intermediaries:**

The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

**v) Financiers:**

The financiers are also important factors of internal environment. Along with financing capabilities of the company

their policies and strategies, attitudes towards risk, ability to provide non-financial assistance etc. are very important.

#### **vi) Public:**

Public can be said as any group that has an actual or potential interest in or on an organization's ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

#### **b. Macro Environment:**

Macro environment is also known as General environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of company depends upon its adaptability to the environment. Some of the macro environment factors are discussed below:

##### **i) Economic Environment:**

Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business; anticipating prospective market situations and makes suitable to get the maximum with minimize cost.

##### **ii) Social Environment:**

The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, mobility of labour etc. have far-reaching impact on the business. These factors determine the work culture and mobility of labour, work groups etc.

##### **iii) Demographic Environment:**

Demography is the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistics. Changes in the demographic environment can result in significant opportunities and threats presenting themselves to the organization.

##### **iv) Political Environment:**

The political environment of a country is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups etc. The political

environment of the country influences the business to a great extent.

**v) Legal Environment:**

Legal environment includes flexibility and adaptability of law and other legal rules governing the business. It may include the exact rulings and decision of the courts. These affect the business and its managers to a great extent.

**vi) Technical Environment:**

The business in a country is greatly influenced by the technological development.

The technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets.

**vii) Ecosystem Environment:**

The ecosystem refers to natural systems and its resources that are needed as inputs by marketers or that are affected by marketing activities. To avoid shortages in raw materials, organizations can use renewable resources (such as forests) and alternatives (such as solar and wind energy) for nonrenewable resources (such as oil and coal). Organizations can limit their energy usage by increasing efficiency.

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### **3.3 ORGANIZATION AND ENVIRONMENTAL RELATIONSHIP**

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Organizations are open systems and must relate to their environments. They must acquire the resources and information needed to function; they must deliver products or services that are valued by customers. Organizations can devise a number of responses for managing environmental interfaces, from internal administrative responses, such as creating special units to scan the environment, to external collective responses, such as forming strategic alliances with other organizations. Environment affects the organization followed by the generation of a response from the organization, thus completing the cycle. It implies that the effect of environment on the organization cannot be fully understood without evaluating the organizational response.

The change in the business environment brings both opportunities and threats for the organization. To overcome this business dynamism, companies require certain predictability

mechanisms which can guard them against the unanticipated threats or overlooked business opportunities. The solution lies in environmental scanning which refers to the process of monitoring and evaluating the business environment. It helps in adjusting the business tactics in case of a change in the business environment. The macro forces have a wide scope and tend to influence the micro environment of the business; therefore, it seems advisable to focus the research on the role of macro environmental forces to reduce the accumulation of irrelevant data.

Organizational environments are everything beyond the boundaries of organizations that can directly or indirectly affect performance and outcomes. That includes external agents that directly affect the organization, such as suppliers, customers, regulators, and competitors, as well as indirect influences in the wider cultural, political, and economic context. The general environment consists of all external forces that can influence an organization. Each of these forces can affect the organization in both direct and indirect ways. For example, economic recessions can directly impact demand for a company's product. The general environment also can affect organizations indirectly by virtue of the linkages between external agents. For example, an organization may have trouble obtaining raw materials from a supplier because the supplier is embroiled in a labor dispute with a national union, a lawsuit with a government regulator, or a boycott by a consumer group. Thus, components of the general environment can affect the organization without having any direct connection to it. The task environment consists of the specific individuals and organizations that interact directly with the organization and can affect goal achievement: customers, suppliers, competitors, producers of substitute products or services, labor unions, financial institutions, and so on. These direct relationships are the medium through which organizations and environments mutually influence one another. Customers, for example, can demand changes in the organization's products, and the organization can try to influence customers' tastes and desires through advertising.

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### **3.4 SOCIAL RESPONSIBILITIES OF COMPANIES**

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It is the duty of the businessmen to ensure good working conditions and a good standard of living for workers, to supply customers with goods of acceptable quality at reasonable prices and to fulfill the obligations to the State by the prompt payment of taxes, observance of rules, and cooperation in larger purpose of the society. **[J.M.Parsons]**.

In short the term social responsibilities can be defined as the obligation of management towards the society and others concerned.

### **3.4.1 Towards whom are the responsibilities that an enterprise should look into:**

#### **1. Responsibility towards owners:**

The primary responsibilities of management is to assure a fair and reasonable rate of return on capital and fair return on investment can be determined on the basis of difference in the risks of business in different fields of activity. With the growth of business the shareholders can also expect appreciation in the value of their capital.

#### **2. Responsibility towards employees:**

Management responsibility towards employees relate to the fair wages and salaries, satisfactory work environment, labour management relations and employee welfare. Fair wages should be fixed in the light of labor productivity, the prevailing wage rates in the same or neighboring areas and relative importance of jobs. Employees are expected to build up and maintain harmonious relationships between superior and subordinates. Another aspect of responsibility towards employees is the provision of welfare amenities like safety and security of working conditions, medical facilities, and housing, canteen, leave and retirement benefits.

#### **3. Responsibility towards consumers:**

In a competitive market, serving consumers is supposed to be a prime concern of management. In the event of shortage of supply there is no automatic correction. Besides consumers are often victims of unfair trade practices and unethical conduct of business. Consumer interests are thus protected to some extent with laws and pressure of organized consumer groups. Management should anticipate these developments, satisfy consumer needs and protect consumer interests. Goods must be of appropriate standard and quality and be available in adequate quantities at reasonable prices. Management should avoid resorting to hoarding or creating artificial scarcity as well as false and misleading advertisements.

#### **4. Responsibility towards the Governments:**

As a part of their social responsibility, management must conduct business affair in lawful manner, honestly pay all the taxes and dues, and should not corrupt public officials for selfish ends. Business activities must also confirm to the economic and social policies of the government.

## **5. Responsibility towards the community and society:**

The socially responsible role of management in relation to the community are expected to be revealed by its policies with respect to the employment of handicapped persons, and weaker sections of the community, environmental protection, pollution control, setting up industries in backward areas, and providing relief to the victims of natural calamities etc.

### **3.4.2 Reason for Social Responsibilities:**

Business enterprises are creatures of society and should respond to the demands of society. If the management does not react to changes in social demands, the society will either force them to do so through laws or will not permit the enterprise to survive. Therefore the long term interests of business are best served when management assume social responsibilities. For long term success it matters a great deal if the firm has a favorable image in the public mind. Every business enterprise is an organ of society and its activities have impact on the social scene. Therefore, it is important for management to consider whether their policies and actions are likely to promote the public good, advances the basic values of society, and constitute to its stability, strength and harmony.

Besides taking care of the financial interest of owners, managers of business firms must also take into account the interest of various other groups such as employees, consumers, the government and the community as a whole.

### **3.4.3 Arguments in favor of social responsibilities:**

- i) Businesses are unavoidably involved in social issues. Businesses are either part of the solution or part of the problem.
- ii) Businesses have the resources to tackle today's complex societal problems. Private business sectors can play a decisive role in solving society's more troubling problems.
- iii) A better society means a better environment for doing business. Business can enhance its long-run profitability by making an investment in society today.

- iv) Corporate Social action will prevent government intervention: Government will force business to do what it fails to do voluntarily.

#### **3.4.4 Arguments against social responsibilities:**

- i) Profit maximization ensures the efficient use of society's resources.
- ii) Businesses generally lack the ability to pursue social goals. Inefficiencies can be expected if managers divert their attention from the pursuit of economic goals.
- iii) Businesses already have enough power. There is no need to hand them over more power.
- iv) Businesses should stick to pursuing profit by producing marketable goods and services.

#### **3.4.5 Some facts of social responsibilities to be taken care in India are:**

- i) Contribution towards economic development of backward regions and weaker sections of the society and to recognize and respect social values, business ethics and cultural heritage.
- ii) Cooperate with Government in solving problems like communalism, illiteracy, over population, concentration of income, wealth etc.
- iii) )Make the country economically self-reliant through export promotion and import substitution.
- iv) Make the best of use of national resources
- v) Protect national environment.

So responsibility towards society is no longer a matter of choice for businessmen, but it is requisite and it is the foremost responsibility of the Manager to ensure that social responsibilities are met.

### **CHECK YOUR PROGRESS**

1. Explain the following factors of Micro Environment:
  - a. Suppliers
  - b. Customers
  - c. Public
2. Explain the following factors of Macro Environment:
  - a. Economic Environment
  - b. Political Environment



- c. Ecosystem Environment
  - d. Legal Environment
3. Explain the following terms in four to five sentences:
    - a. Business Environment
    - b. Micro Environment
    - c. Macro Environment
    - d. Social Responsibility
  4. "Business enterprises are creatures of society and should respond to the demands of society". Discuss.

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### **3.5 CONCEPT OF ETHICS AND BUSINESS ETHICS**

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The words "ethics" which in Latin is called "ethic us" and in Greek is called "ethikos" has come from the word ethos meaning characters or manners. Ethics- Consists of moral principles governing the right and wrongs of human conduct:

- Is about the principles of right and wrong accepted by individuals or social groups
- A code of behavior considered morally correct
- Code of moral principles that guide the action of people and groups
- Ethical behavior is doing what is morally right.

#### **3.5.1 BUSINESS ETHICS:**

Business ethics are the principles and standards that:

Define acceptable conduct in business:

- should underpin decision making
 

An alternative definition is: "the moral values which govern business behavior and restrains companies from pursuing the interest of the shareholder at the expense of all other considerations"
- Some activities might be profitable and legal but nevertheless are considered to be unethical
- An ethical decision is one that is both legal and meets the shared ethical standards of the community

#### **3.5.2 CONCEPT:**

In this era of globalization and multinational competition, Ethical practices in business are assuming importance as relationships with various suppliers and customers are shaped by

ethical practices and mutual trust, so ethical decision taking assumes importance in today's corporate world. There are various issues relating to ethics and corporate ethics in the corporate world. We shall first discuss those in brief the two models, which are termed as models of ethical decision making. They are as follows:

### 1) Joseph son institute Ethical decision making model:

This model is widely used in taking ethical decisions. It consists of 3 Steps:

- All decisions must take into account and reflect a concern for the interest and wellbeing of all stakeholders.
- Ethical values and principles always take precedence over non ethical ones.
- It's proper to violate an ethical principle only when it's clearly necessary to advance another true ethical principle, which according to the decision maker's conscience will produce the greatest balance of good in the long run.

### 2) The Plus Decision –Making Model:

To make it easy to understand and apply these ethics filters, let us adapt to mnemonic word "PLUS"

- **P = Policies** (It is consistent with my organizations Policies, Procedures and Guidelines?)
- **L = Legal** (Is it Acceptable under the applicable laws and Regulations?)
- **U = Universal** (Does it conform to the universal principles values my organizations has adopted?)
- **S = Self** (Does it satisfy my personal definition of Right, Good and Fair?)

### 3.5.3 CORPORATE ETHICS:

"Ethics is thus said to be the science of morals, a treatise on this moral principles recognized rules of conduct. As applied to business firms, ethics is the study of good and evil, Right and wrong and just and unjust actions of businessmen. If protecting others from any harm is considered to be ethical, then a company which recalls defective or harmful products from the market is an ethical company. To be considered ethical, business must draw their ideas about "What is desirable Behavior "from the same source as any body else would draw. People who are in business are bound by the same ethical principles that apply to others. In common parlance the term "corporate ethics" refers to the systems of principles rules of conduct applied to business. In

practice, the term has been used to describe the do's and don'ts for the business the various things that business should or should not do viz not violating any law, avoiding unethical practices, making donations to charitable causes, taking up development projects in backwards areas, paternalism towards employees, good public relations etc.

Business today far from being a profit making institution is largely looked upon as a social institution pursuing a social mission and having a far reaching influence on the way people live and work together. Modern corporate do not operate in isolation. The resource they make use of are not limited to those of the proprietors and the impact of their operation is felt also by many a people who are in no way connected with the business. The shareholders, the suppliers of resources, the consumers, the employees, the local community and the society at large are affected by the way an enterprise functions.

The successful functioning of a firm requires social sanction. No business can exist without the acceptance and sanction of the society in which it carries out its activities. The organization is so dependent on its social environment that its very existence, survival and growth depends on its acceptance and approval by the society. Given the mutual relationship between the business and the society, Business cannot and should not be allowed to conduct itself in a manner that may be detrimental to the interest of the society. How the business should conduct its multidimensional activities in order to pursue its social obligations in a transparent manner forms the subject matter of corporate ethics.

Ethics matters because it makes good business sense to 'do the right thing'. Additionally good corporate Ethics result in:

- Attracting better talent
- Retaining Employees.
- Retaining customers
- Attracting new Customers
- A positive effect on Return on Investment.
- A positive effect on corporate reputation.

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### **3.6 GOVERNMENT SOCIAL RESPONSIBILITY**

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Government social responsibility is crucial for our society. The people of a country expect their government to lead in a way that will ultimately create the best environment for them to live in. The government has a responsibility to do what is right for its people, regardless if it benefits them or not. Government should

be selfless. Government should act ethically towards issues such as the environment, economics, and culture. This way government would be able to have a positive effect on society. Social responsibility is not necessary, but it is an intelligent thing to do. It shows the people that the government actually does care by taking the steps to benefit the people in some way, as opposed to only trying to benefit itself.

Government social responsibility is important because the State is a country of the people. A few men in government run things most of the time, but when citizens unite under a common cause the country is run by the people. Ultimately, the people have the final say. They elect the representatives. This puts a great deal of power into the peoples' hands for changing. This is why it is important for the government to look out for the peoples' best interests. In order to keep themselves happy, the government must keep the people happy. There are many ways to do that, but none more important than changing the environment that the people live in for the better. This is because it helps preserve the Earth, it saves the people and the government money, and it makes the world a healthier place to live. Social responsibility is a necessary thing for keeping the balance. It maintains a friendly and amiable relationship between a government and the people that support it.

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### **3.7 SUMMARY**

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Business operates within an environment. Business environment consist of all those factors that have a bearing on the business. It is dynamic, uncertain and relevant. Successful enterprises are those which can use the environment for their advantage.

Environment is divided into internal and external environment. Internal environment is within the organization and therefore it is controllable. External environment is out of the reach of the organization. Organizations need to adapt to external environment. Further external environment is divided into micro and macro environment. To a certain extend organizations can easily adapt to micro environment, that cannot be said of macro environment.

Business does not operate in vacuum. It has to interact with the community, the shareholder, the customers, the employees and the government. Towards all of them business has responsibilities. So responsibility towards various sections of the society is no longer a matter of choice for businessmen, but it is requisite and it is the foremost responsibility of the Manager to ensure that social responsibilities are met.

Ethics consists of moral principles governing the right and wrongs of human conduct. Business ethics are the moral values which govern business behavior and restrains companies from pursuing the interest of the shareholder at the expense of all other considerations. Ethics matters because it makes good business sense to 'do the right thing'. It also results in: attracting and retaining better talent, retaining customer and developing corporate reputation.

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### **3.8 EXERCISE**

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- i) Explain business environment and highlight its features.
- ii) Briefly discuss the various forces that constitute internal environment.
- iii) Clarify the concepts of external environment with reference to micro environment and macro environment.
- iv) Discuss the importance of environment in operation of business.
- v) Explain the concept of Social Responsibilities and identify the responsibilities of a business enterprise towards various entities
- vi) Elaborate on the social responsibilities towards owners, employees, consumers, government, community and society
- vii) Present your argument in favor and against social responsibilities and what care should be taken to discharge social responsibilities
- viii) Write a note on Social Responsibilities in India.
- ix) Explain the concepts of ethics and business ethics.
- x) Write short note on: Corporate Ethics and Government Social Responsibility.



## Chapter 4

# PLANNING

### Unit Structure

- 4.0 Objective
- 4.1 Introduction
- 4.2 Definition and Nature of Planning
- 4.3 Planning Process
- 4.4 Planning premises
- 4.5 Types of plan
- 4.6 Limitations of planning
- 4.7 Summary
- 4.8 Exercise

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### 4.0 OBJECTIVES

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After studying the unit the students will be able to:

- Discuss the concept of planning
- Explain the planning process and its limitations.
- Understand the characteristics of planning.
- Know the types of plan.
- Discuss the limitations of Planning.

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### 4.1 INTRODUCTION

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Planning is a primary function of management. Management process starts with planning of activities. Planning provides directions for activities. Planning is a continuous activity. It involves answering various

questions like why the action is taken, when it would be taken, how it would be taken, who would take it and so on.

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## **4.2 DEFINITION AND NATURE OF PLANNING**

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### **4.2.1 DEFINITIONS**

1. Koontz and O'Donnell defines planning as, "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it."
2. In the words of George R. Terry, "Planning is a method or a technique of looking ahead a constructive reviewing of future needs so that present actions can be adjusted in view of the established goals."

### **4.2.2 CHARACTERSTICS OF PLANNING:**

Following are the important characteristics of planning:

#### **1. Planning is primary function:**

Management process starts with planning. So planning is a primary function of management. Other functions of management i.e. organizing, directing, and controlling are dependent on planning.

#### **2. Planning is result oriented:**

Every plan is framed to achieve certain well defined objectives. Planning is done to achieve goals. First targets are set and then planning is done.

### **3. Planning is future oriented:**

Planning is always done for the future. The future can be short term, medium term or long term. It is a programme for future by which management tries to look ahead.

### **4. Planning is a continuous activity:**

Planning is a continuous function of management. Managers are required to formulate, modify and withdraw the plans according to business environmental changes. Planning is necessary as long as the business remains in existence.

### **5. Planning is pervasive:**

Planning is pervasive in nature. It is required for all the business activities and by all the managers at all the levels. Planning is required not only in business organizations but also in non-business organizations.

### **5. Inter-dependent activity:**

Planning is inter-dependent activity. One departmental plans are dependent on other departmental plans. Every plan is linked with other plans.

### **7. Intellectual process:**



Planning requires imagination, intelligence, talent, vision etc. on part of managers. Planning is based on practical considerations. Proper thinking is required before finalizing a plan. The quality of plan depends upon mental qualities of managers.

#### **8. Planning requires past, present and future analysis:**

Planning requires proper analysis of past, present and future. Managers need to check past performance, present targets and future possibilities while planning.

#### **9. Basis of control:**

Planning provides base for control. The actual performance is compared against planned targets. Plans provide basis for comparison of actual and standard performance.

#### **10. Flexible in nature:**

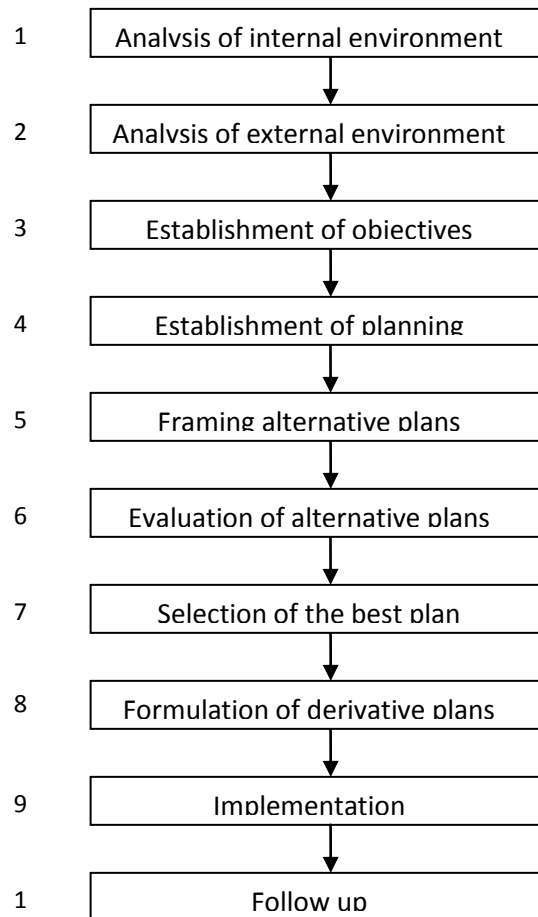
Planning is always flexible. It keeps on changing as per situation changes. As business environment is dynamic in nature, planning needs to be flexible in nature. Plans should match with environmental changes.

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### **4.3 PLANNING PROCESS**

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Following steps are involved in the planning process:



The stages of planning process are explained as follows:

### **1. Analysis of internal environment:**

Planning process starts with analysis of internal environment. Internal environment includes all the variables from the organization like manpower, plans and policies of top management, machines, materials etc. Planner needs to study these variables properly to find out strengths and weaknesses of the organization.

### **2. Analysis of external environment:**

After the analysis of internal environment, planner needs to study factors from external environment. External environment includes all those factors which are outside the organization like government policies, competition, international factors, technological changes, consumer behavior etc. This analysis is required to find out possible threats and opportunities for the organization.

**3. Establishment of objectives:**

After the analysis of environment is over, planner should establish the objectives to be achieved. Objectives should be well defined to provide guidelines for planning. Objectives should be SMART ie specific, measurable, achievable, realistic and time bound.

**4. Establishment of planning premises:**

Planning premises are the assumptions which provide a framework within which plans operate. Appropriate assumptions have to be made regarding internal and external environment.

**5. Framing alternative plans:**

Planner should always frame alternative plans instead of only one final plan. For eg.: To improve product quality, planner can make alternative plans such as,

- i) Purchase of better quality raw material
- ii) Installation of advanced technology
- iii) Training to workers etc.

**5. Evaluation of alternative plans:**

All the alternative plans should be evaluated by the planner. Evaluation should be in terms of cost and returns possible from that particular plan.

**7. Selection of the best plan:**

Once the plans are evaluated, planner should select the best plan out of all the alternatives. The plan which gives maximum returns at minimum cost should be selected as the best plan.

**8. Formulation of derivative plans:**

Derivative plans are sub-plans which are required for operational purpose. For implementation of the final plan derivative plans are

required. Programmes, policies, schedules, budgets etc. are examples of derivative plans.

### **9. Implementation:**

With the help of derivative plans prepared, final plan should be implemented. Plan should be communicated to all those people in the organization who are required to implement them.

### **10. Follow up:**

Periodic follow up is required to find out whether the actual performance is matching with planned targets. If necessary certain changes can be done in that plan.

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## **4.4 PLANNING PREMISES**

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A premise is an idea that one accepts as true and use it as a base for developing other idea. Planning premises thus are certain ideas or assumptions which one makes while preparing a plan. For example, if marketing planning has to be done for next year then certain assumptions have to be made like finished goods supply will be normal, the demand is likely to be more or less, the cost of selling and distribution would increase marginally and so on.

While deciding the planning premises, one has to be very careful that these premises are realistic in nature. It should be more practical so that the plans can be made more effective.

Planning premises may be classified in various ways:

1. Planning premises exist both within and outside the company i.e. internal and external premises.
2. Planning premises may be divided into tangible and intangible ones.
3. Planning premises may be fully controllable, partly controllable or absolutely uncontrollable.
4. Planning premises may be constant or variable in nature.

### **CHECK YOUR PROGRESS:**

1. Define the following terms:
  - a. Internal environment
  - b. External environment
  - c. Planning premises
2. Write a note on planning premises.
3. Draw the chart showing stages of planning process.
4. "Planning involves answering various questions like why the action is taken, when it would be taken, how it would be taken, who would take it etc." Discuss.

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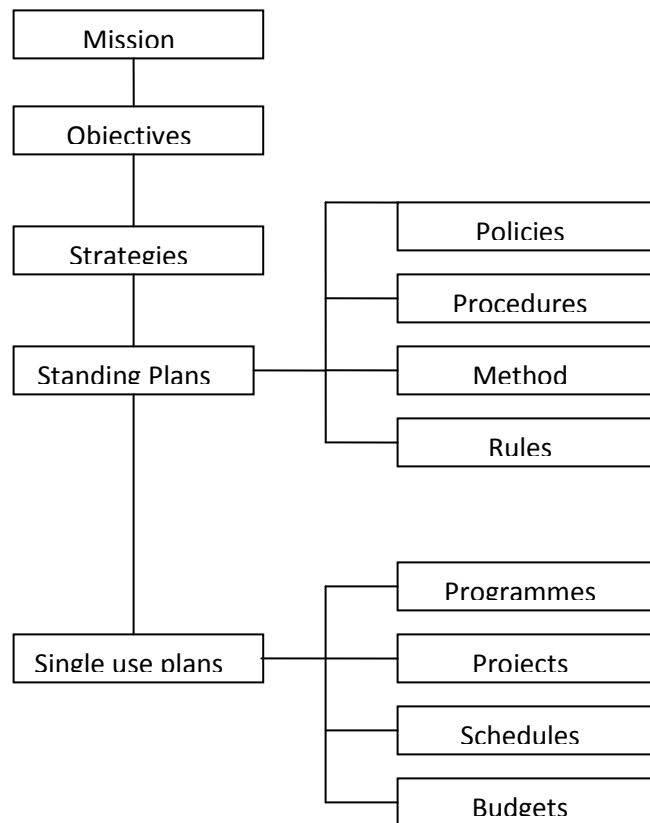
## **4.5 TYPES OF PLAN**

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Several plans are prepared while making a plan. These all plans are classified as follows:

- I) **Standing plans:** These plans are prepared for repeat use. They are used again and again. Therefore they are referred as repeat use plans.
- II) **Single use plans:** These plans are prepared to achieve specific objectives. These are used only once. Once the purpose is served, plan becomes obsolete.

Various components of plan can be explained with the help of following chart:



### 1. Mission:

Every organization should have mission. Mission is the statement which reflects purpose, philosophy and vision of the organization. Mission guides the overall working of the enterprise.

### 2. Objectives:

Objectives are the goals or targets what management wants to achieve. Objectives are drawn from mission. These are ends towards which all the actions are directed.

### 3. Strategies:

Strategy is a broad long term plan. It provides guideline for achieving the objectives of the organization.

### 4. Policies:

Policy is considered as guideline for action. Policies provide a framework within which the organization has to operate. It defines boundaries for decision making.

**5. Procedures:**

Procedure is a series of activities required to be performed for attaining objectives. It is the sequence of works to be done.

**6. Methods:**

Method describes the way of performing particular work. By following a proper method, procedure is completed.

**7. Rules:**

Rules lay down specific actions to be done. It describes what is to be done and what should not be done.

**8. Programme:**

Programme is a plan which is designed to implement the policies and accomplish objectives. It is a combination of goals, policies, procedures, rules to carry out activities.

**9. Projects:**

Projects are the plans which are required to complete complex and special work. It requires expert knowledge from various departments.

**10. Schedules:**

A schedule is a time table for activities. It defines start time and completion time of each and every activity. It ensures completion of work on time.

**11. Budgets:**

Budgets express the anticipated results in numerical terms. It is mainly used for controlling the actual performance of activities.

## CHECK YOUR PROGRESS:

1. Define the following terms:
  - a. Standing plan
  - b. Single use plan
  - c. Mission
  - d. Strategy
2. Draw the chart showing components of plan.

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## 4.6 LIMITATIONS OF PLANNING

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The limitations of planning can be explained as follows:

### 1. Time consuming:

Planning needs collection of data of past, present and future of the organization. It requires consultation and discussion with other people in the organization. It requires approval for higher authority. Therefore planning is a time consuming process.

### 2. Paper work:

Lot of paper work is involved in planning function. Paper work is more due to reports making, taking approvals, alternative plans etc.

### 3. Costly affair:

A good amount of money is required to be spent for collecting and analyzing the data. So the companies who cannot offered such expenses avoid planning.

### 4. Possibility of under-targeting:

Sometimes managers may under-target while planning. This is because, they may think that they can achieve targets easily can get appreciation. This happens mostly in public sector organizations.



**5. Possibility of over-targeting:**

Sometimes managers may target at higher level. This may be due to wrong collection and interpretation of data.

**6. Generates frustration:**

If the managers are not able to achieve the planned targets in spite of best efforts, it may lead to frustration.

**7. Possibility of human error:**

Plans require judgment and intelligence on the part of the managers. But if managers have done wrong judgment about future, then it may lead to wrong targeting.

**8. Problem of changing situations:**

Business environment is not constant. Changes are always taking place and plans need to adjust with these changes. But every time it may not be possible to adjust with every change.

**9. Inter-departmental conflicts:**

Planning requires co-ordination between all the departmental managers. But it is possible that, these managers may have conflicts due to which plan may not give expected results.

**10. Generates rigidity:**

While carrying on actual performance, managers always focus only on planned targets. It may be possible that, sometimes higher performance may be possible. But managers tend to achieve only what has been planned.

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**4.7 SUMMARY**

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From the above discussion the concept of planning is very much clear. According to the requirement and situations in the organization various types of plans can be made and implemented. We understood that planning is a primary function of the management and therefore it has to be carried on carefully. Before starting with planning function planning premises have to be analyzed and fixed. Well planned activities of the organizations bring definite success but at the same time one has to remember that planning also has got certain limitations.

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## **4.8 EXCERICSE**

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1. Define planning. Explain the nature and characteristics of planning.
2. Explain the steps involved in planning process.
3. Enumerate the types of plans.
4. State and explain the limitations of planning.
5. Write a note on planning premises.
6. State and explain the various steps involved in process of planning.



## Chapter 5

# FORECASTING AND DECISION MAKING

### Unit Structure

- 5.0 Objectives
- 5.1 Meaning and definition of Forecasting
- 5.2 Process of Forecasting
- 5.3 Importance of Forecasting
- 5.4 Methods of Forecasting
- 5.5 Meaning and definition of decision making
- 5.6 Process of decision making
- 5.7 Types of decision
- 5.8 Problems in decision making
- 5.9 Summary
- 5.10 Exercise

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## 5.0 OBJECTIVES

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After studying the unit the students will be able to:

- Understand the concept of forecasting
- Discuss the importance and methods of forecasting
- Discuss the concept of decision making
- Explain the types of decision.
- Understand the process of decision making
- Know the problems in decision making

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## 5.1 INTRODUCTION

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Forecasting can be broadly considered as a method or a technique for estimating many future aspects of a business or other operation. There are numerous techniques that can be used to accomplish the goal of forecasting. For example, a retailing firm that has

been in business for 25 years can forecast its volume of sales in the coming year based on its experience over the 25-year period—such a forecasting technique bases the future forecast on the past data.

While the term "forecasting" may appear to be rather technical, planning for the future is a critical aspect of managing any organization—business, nonprofit, or other. In fact, the long-term success of any organization is closely tied to how well the management of the organization is able to foresee its future and to develop appropriate strategies to deal with likely future scenarios. Intuition, good judgment, and an awareness of how well the economy is doing may give the manager of a business firm a rough idea of what is likely to happen in the future. Nevertheless, it is not easy to convert a feeling about the future into a precise and useful number. Forecasting methods can help estimate many such future aspects of a business operation.

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## **5.2 PROCESS OF FORECASTING**

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Following steps are involved in process of forecasting.

### **1. Establishing the Business Need:**

The managers need to clearly understand how their forecast will influence business planning and decisions within their organization. Without this important understanding, the resulting effort will very likely produce adverse results. To establish the business need, these key questions should be answered.

### **2. Acquiring Data:**

For each business driver and influencing factor, the typical forecasting effort should use at least two years, and ideally up to five years, of historical data. When forecasting efforts have short time horizons in small time periods, fewer data can be used. To collect the most accurate and robust data sets, all available data sources should be used. By sourcing from multiple areas, differences in organizational behavior can be balanced out to yield the best data set.

All data should be drawn incrementally in their pure form from available data sources to build up the needed accuracy and completeness. To ensure the richest representation of historical events,

the data should not be altered and quality issues should be addressed sooner in the process rather than later.

### **3. Building the Model:**

Once the business needs, drivers, and influencing factors have been established with the associated historical data, a decision needs to be made on the type of forecasting model to use. The forecasting model is the technique or algorithm that determines the projections based on identified business drivers, influencing factors, and business constraints. There are three major categories of forecasting models: cause-and-effect, time series, and judgment.

Many more forecasting models are also available, and there is no overall best choice. In fact, forecasting models are often combined to produce the most accurate results for a given business need, and it may be necessary to consult with business and technical experts for advice when selecting the best model for a given situation.

### **4. Evaluating the Results:**

Once the model has been built and executed, the resulting forecast accuracy should be evaluated using the most recent time period. Overall model accuracy should be measured using statistical functions.

### **5. Applying the Forecast:**

Once all the work has been done to create a high-quality forecast, it should be deployed to the stakeholders and end users in a manner tailored to their use. The forecast should ideally be made accessible to all appropriate business areas in reports and analyses packaged to unique end-user perspectives.

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## **5.3 IMPORTANCE OF FORECASTING**

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Forecasting has following advantages:

1. Forecasting plays a key role in managerial planning and supplies vital facts and crucial information.

2. Forecasting improves the quality of managerial personnel by compelling them to think through the future, to look ahead and to make provision for it.
3. Forecasting ensures a better utilization of resources by extending the frontiers of control in several directions and by revealing the areas where control is lacking.
4. Employees are trained for accepting changes without any serious resistance as well as for facing unexpected occurrences courageously.
5. Forecasting steers the enterprise safely for reaching its fixed destination, as outlined by the objectives of the organization.
6. By focusing attention on the future, forecasting helps the manager in adopting a definite course and a set purpose in matters of planning.

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## **5.4 METHODS OF FORECASTING**

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### **1. Genius forecasting:**

This method is based on a combination of intuition, insight, and luck. Psychics and crystal ball readers are the most extreme case of genius forecasting. Their forecasts are based exclusively on intuition.

### **2. Trend extrapolation:**

These methods examine trends and cycles in historical data, and then use mathematical techniques to extrapolate to the future. The assumption of all these techniques is that the forces responsible for creating the past will continue to operate in the future. This is often a valid assumption when forecasting short term horizons, but it falls short when creating medium and long term forecasts. The further out we attempt to forecast, the less certain we become of the forecast. The stability of the environment is the key factor in determining whether trend extrapolation is an appropriate forecasting model. There are many mathematical models for forecasting trends and cycles. Choosing an appropriate model for a particular forecasting application depends on the historical data.

### **3. Consensus methods:**

Forecasting complex systems often involves seeking expert opinions from more than one person. Each is an expert in his own

discipline, and it is through the synthesis of these opinions that a final forecast is obtained.

#### **4. Delphi technique:**

This method seeks to rectify the problems of face-to-face confrontation in the group, so the responses and respondents remain anonymous. The classical technique proceeds in well-defined sequence. In the first round, the participants are asked to write their predictions. Their responses are collated and a copy is given to each of the participants. The participants are asked to comment on extreme views and to defend or modify their original opinion based on what the other participants have written. Again, the answers are collated and fed back to the participants. In the final round, participants are asked to reassess their original opinion in view of those presented by other participants.

#### **5.Scenario:**

The scenario is a narrative forecast that describes a potential course of events. Like the cross-impact matrix method, it recognizes the interrelationships of system components. The scenario describes the impact on the other components and the system as a whole. It is a "script" for defining the particulars of an uncertain future.

#### **6. Decision trees:**

Decision trees originally evolved as graphical devices to help illustrate the structural relationships between alternative choices. These trees were originally presented as a series of yes/no (dichotomous) choices. As our understanding of feedback loops improved, decision trees became more complex. Their structure became the foundation of computer flow charts.

### **CHECK YOUR PROGRESS:**

1. Explain the following terms:
  - a. Forecasting
  - b. Genius forecasting
  - c. Trend extrapolation
  - d. Consensus methods
  - e. Delphi technique
  - f. Scenario
  - g. Decision trees
2. Enlist the steps involved in process of forecasting.

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## **5.5 MEANING AND DEFINITION OF DECISION MAKING**

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Decision making is a process of identifying a set of feasible alternatives and from these selecting the best course of action. It is a technique used to find a solution to solve problem.

### **5.5.1 DEFINITION:**

1. James stoner defines decision making as, "The process of identifying and selecting a course of action to solve a specific problem."
2. According to Haynes and Massie, "A decision is a course of action which is consciously chosen for achieving a desired result."

### **5.5.2 IMPORTANCE AND ADVANTAGES OF DECISION MAKING:**

Decision making is an essential element of management process. Manager needs to take sound decisions for conducting correct actions so that objectives can be achieved. The importance of decision making can be explained as follows:

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

Good decisions always facilitate attainment of all objectives in time. Decisions direct the exact flow of activities and resources which results into achievement of objectives.

#### **2. Optimum use of resources:**

Due to sound decisions available resources are allocated properly for productive activities. This facilitates optimum use of resources and minimizes wastages.



**3.Higher efficiency:**

Decision making enables to attain higher results at same cost or at a lower cost. This leads to higher efficiency in the organization.

**4. Facilitates innovation:**

Decision making process generates new ideas, new products, new methods etc. This results in innovation.

**5. Motivation:**

Sound decisions motivate employees to perform better. Sound decisions require best efforts from employees which improves results.

**6. Growth and expansion:**

Sound decisions lead to better performance in the organization. Objectives are achieved in time. This leads to growth and expansion of the organization.

**7. Helps to face new challenges:**

Decision making facilitates decisions which are required to solve problems created by constant environmental changes. Thus organization can face the new challenges created by environment.

**8. Encourages initiative:**

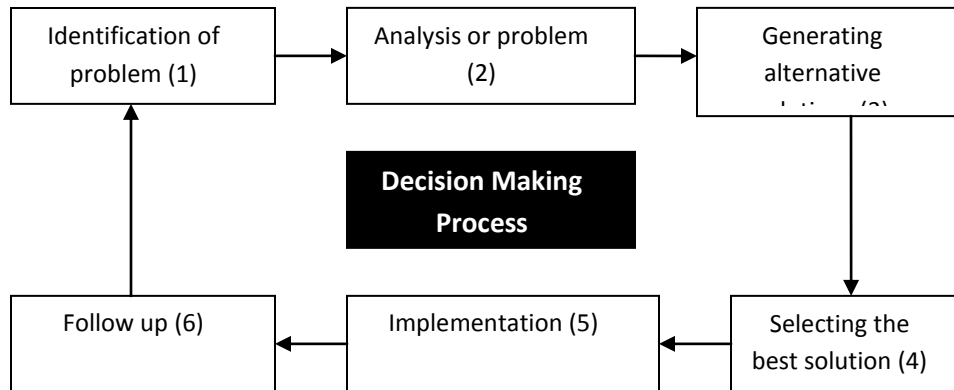
Modern managers involve all the people from the organization in decision making process. All employees involved in decision making contribute new ideas and suggestions. This leads to encouragement of initiative.

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**5.6 PROCESS OF DECISION MAKING**

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Following are the steps in process of decision making:



### 1. Identification of problem:

Decision making process starts with identification of problem. The problem has to be identified properly so that correct solution can be found out. Company may be facing the problem of fall in sales.

### 2. Analysis of problem:

Once the problem is identified, the next step is to collect relevant facts about it. Manager should know possible causes and effects of that problem. For eg.: Fall in sales may be due to poor advertising strategy, poor quality of product, increase in prices, poor distribution strategy etc.

### 3. Generating alternative solutions:

Once the possible causes for problem are listed out, manager has to generate various alternative solutions to solve that problem. For eg.: Various alternative solutions can be revision of prices, effective distribution strategy, improving product quality etc.

### 4. Selecting the best solution:

After all the alternatives are evaluated properly, manager should select the best alternative out of it. The best alternative is always that solution which will generate maximum returns at minimum cost. For eg.: In our example the best alternative can be improvement of product quality.

### 5. Implementation:

The selected best alternative will be practically implemented by managers to solve the problem. Implementation should be done by having proper allocation of resources. For eg.: for actual improvement in product quality, raw material can be changed, advanced technology can be installed, labour can be trained more etc.

### **7. Follow up:**

Once the solution is implemented practically, managers should take a follow up of actual performance of that solution. Managers should see that implemented solution should solve the problem. If not, then again the managers should find out possible alternatives to solve that problem.

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## **5.7 TYPES OF DECISION**

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Following are the various techniques of decision making:

### **1. Brain Storming:**

Brain storming is just a process for identifying solutions to problems and options to pursue. In Brainstorming session, all the members discuss various ideas. These ideas are noted down and evaluated. During evaluation process each idea is considered. The best idea is selected after evaluating all the ideas. Brain storming is a time for getting ideas out of people's head and therefore personal biases should be avoided while considering the ideas.

### **2. Decision Trees:**

Under this technique, one identifies options, branching out of an initial bipolar choice to make, by projecting likely outcomes. The limitation of this technique lies mainly in that it forces you to address the problem from only two possible avenues of solution right from the start.

### **3. The Delphi Technique:**

It is used as a multipurpose planning tool. The Delphi technique is a group process that anonymously generates ideas or judgments from physically dispersed experts. Unlike the NGT, experts' ideas are obtained from questionnaires or via the internet as opposed to face- to-

face group discussions. A manager begins the Delphi process by identifying the issue(s) he or she wants to investigate. The Delphi technique is useful when face- to- face discussions are impractical.

#### **4. Nominal Group Technique (NGT):**

NGT is a decision making method for use among groups of many sizes, who want to make their decision quickly, as by a vote, but want everyone's opinions taken into account. Some Facilitators will encourage the sharing and discussion of reasons for the choices made by each group member, thereby identifying common ground, and a plurality of ideas and approaches.

#### **5.Pros and cons:**

Another simple process for decision-making is the pros and cons list. Pro means 'for', and con means 'against'. In other words advantages and disadvantages. This method also applies to all sorts of problem-solving where issues and implications need to be understood and a decision has to be made.

#### **6. PERT:**

PERT stands for programme evaluation review technique. PERT is a method to analyze the involved tasks in completing a given project, especially the time needed to complete each task, and identifying the minimum time needed to complete the total project. PERT was developed primarily to simplify the planning and scheduling of large and complex projects. It was developed for the U.S. Navy Special Projects Office.

#### **CHECK YOUR PROGRESS:**

1. Explain the following terms in four to five sentences:
  - a. PERT
  - b. Pros and cons
  - c. NGT
  - d. Brainstorming
  - e. Decision making
2. Draw the chart showing the steps in process of decision making.
3. "Decision making is an essential element of management process". Explain.

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## **5.8 PROBLEMS IN DECISION MAKING**

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Following are the problems associated with decision making:

### **1. False decentralization:**

False Decentralization could take place when an authoritative manager delegates accountability to a new manager for every new decision-making problem, but not delegating any authority.

### **2. Failure to define the problem:**

This certainly lends to a wrong solution. Not knowing the problem, any solution is wrong. If you know the problem then, your solution might be good.

### **3. Failure to understand the problem:**

This is caused, among others, by subjectivity, irrational analysis, lateness or procrastination, lack of sensitivity, and lack of focus.

### **4. Complexity of problem:**

If the problem is of complex nature, then first it has to be simplified by the decision makers. Then only it is possible to arrive at a proper solution. But if the complex problem is solved without simplifying then it may lead to wrong solution.

### **5. False information:**

Information gathered is not valid. Decisions are often made first and information sought to support the solution, or much of the information gathered is irrelevant to the decision-making.

### **7. Obligations of decision maker:**

Sometimes decision makers act against integrity to meet some critical personal obligations. In such cases, there are major chances of failure of decisions taken.

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## 5.9 SUMMARY

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From the above discussion the concept of forecasting is quite clear. From the discussions, it is clear that forecasting forms a basis for planning. Good and accurate forecasting will lead to effective planning. Forecasting can be done by following various techniques, some of which are discussed in the topic. Even if planning and forecasting are used alternatively still one has to understand the difference between these two.

At the same time, topic also discusses the concept of decision making in detail. Decision making is a core function of the managers.

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## 5.10 EXERCISE

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7. Define forecasting. Explain the process of forecasting.
8. State and explain the various methods of forecasting.
9. "Forecasting provides base for planning." Discuss.
10. Differentiate between planning and forecasting.
11. Define decision making. Explain the process of decision making.
12. Discuss the various types of decisions.
13. State and explain the problems associated with decision making.



## Chapter 6

# OBJECTIVES AND MANAGEMENT BY OBJECTIVES

### Unit Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2. Meaning and Definition of Objective
- 6.3 The features of a good objective
- 6.4. MBO - Management by Objectives
- 6.5 Summary
- 6.6 Exercise

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## 6.0 OBJECTIVES

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After studying the unit the students will be able to:

- Define the concept Objectives.
- Discuss the main features of good objectives.
- Understand the concept MBO
- Explain the Features, Process, Benefits and Problems of MBO.

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## 6.1 INTRODUCTION

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Objective is an end that can be reasonably achieved within an expected timeframe and with [available resources](#). In [general](#), an objective is broader in [scope](#) than a goal, and may consist of several individual [goals](#). Objectives are a basic [tools](#) that underlying all [planning](#) and [strategic activities](#). They serve as the basis for [policy](#) and [performance appraisals](#).

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## 6.2 MEANING AND DEFINITION OF OBJECTIVE

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Objective means the desired or needed result to be achieved by a specific time. An objective is broader than a goal, and one objective can be broken down into a number of specific goals.

A [business](#) objective is the map you will use to reach the goals you have for your organization. If you are creating a business or planning for your company's future, you will not garner

much success without clearly defined business objectives. A business objective will create a union between the mission and the strategies of your organization (i.e. marketing, productivity, projected profits, and results). If you and your employees do not know where the organization is headed---then everyone will just [travel](#) in different "failing" directions.

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## 6.3 THE FEATURES OF A GOOD OBJECTIVE

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### 6.3.1 FEATURES OF OBJECTIVES

#### 1. Objectives have to be very specific.

A good objective should be tested to ensure they are "SMART", i.e.

**Specific**

**Measureable**

**Agreed**

**Realistic**

**Time bound**

**Specific** – this means it must be clear what the firm is trying to achieve. For example, managers may want to increase sales, increase profit or increase customer satisfaction.

**Measurable** – this means that all objectives should include a quantifiable element. For example, the firm might aim to increase profit by 30 %. This means that the managers can easily check whether the target has been achieved.

**Agreed** – targets need to be agreed by the different people who are involved in the process so that it is voluntarily made achievable. There is no point imposing a target on someone.

**Realistic** – a target should always be achievable. If you set an objective which cannot be achieved people will not be motivated by it. It may even discourage them, because they know the target can never be reached anyway. To work well employees must believe that their efforts can be successful.

**Time specific** – all objectives should state quite clearly when they should be achieved. Managers need to know exactly how long they have so that they can plan accordingly.

#### 2. Hierarchy Of Objectives:



In many organizations objectives are structured in a hierarchy of importance. There are objectives within objectives. They all require painstaking definitions and close analysis if they are to be useful separately and profitable and profitable as a whole. The hierarchy of objectives is a graded series in which an organization's goals are supported by each succeeding managerial level down to the level of the individual. The objectives of each unit contribute to the objectives of the next higher unit. Each operation has simple objective which must fit in and add to the final objective. Hence no work should be undertaken unless it contributes to the overall goal.

### **3. Objectives Form a Network:**

Objectives interlock in a network fashion. They are interrelated and inter-dependent. The concept of network of objectives implies that once objectives are established for every department and every individual in an organization, these subsidiary objectives should contribute to meet the basic objectives of the total organization. If the various objectives in an organization do not support one another, people may pursue goals that may be good for their own function but may be detrimental to the company as a whole. Managers have to trade off among the conflicting objectives and see that the components of the network fit one another.

### **4. Multiplicity of objectives:**

Organizations pursue multifarious objectives. At every level in the hierarchy goals are likely to be multiple. For example the marketing division may have the objective of sale and distribution of products. This objective can be broken down into a group of objectives for the product advertising, research, promotion managers. The advertising manager's goals may include: designing product messages carefully, create a favorable image of the product in the market etc. Similar goals can be set for other marketing managers. To describe a single, specific goal of an organization is to say very little about it. It turns out that there are several goals involved. This may be due to the fact that the enterprise has to meet internal as well as external challenges effectively. Internal problem may hover around profitability, survival, growth and so on. External problems may be posed by governments, society, stockholders, customers etc. In order to meet the conflicting demands from various internal and external groups, organizations generally pursue multiple objectives. Moreover no single objective would place the organizations on a path of prosperity and progress in the long run.

## **5. Long and short range objectives:**

Organizational objectives are usually related to time. Long range objectives extending over five or more years are the ultimate or dream objectives for the organization they are abstractions of the entire hierarchy of objectives of the organization. For example planning in India has got objectives like eradication of poverty , checking population growth through birth control etc. which reflect certain ideals the government wishes to accomplish in the long run. Short range objectives (one year goals) and medium range objectives (two to four year period goals) reflect immediate attainable goals. The short range and medium range objectives are the means for achieving long term goals and the long term goals supply a framework within which the lower level goals are designed. Thus, all these goals reinforce each other in such a way that the total result is greater than the sum of the efforts taken individually. That is why goal setting is called a synergistic process. In order to remain viable, every organization needs to set goals in all three time periods.

## **6. Verifiable and Non Verifiable Objectives:**

Objectives should be measurable so you know whether or not you have achieved the objective and whether you are making progress in a positive trend towards meeting the objective.

This is referred to as a verifiable objective. Objectives that are not verifiable are counterproductive and a company may spend valuable time and resources on the wrong initiatives.

Just stating "Increase Sales" without a strategy and set objectives may not accomplish the goal. However if you identify that you need to represent three additional territories that is verifiable when accomplished, If you identify you need 6 more sales reps that is verifiable. If you state that with 3 territories and 6 reps you should be able to achieve X amount of sales that is verifiable.

## **7. Qualitative and Quantitative Objectives:**

Qualitative Objectives are those objectives which cannot be expressed in quantifiable terms; for example, a salesperson might set as an objective in a specific period the acquisition of certain product knowledge, or the forming of a close business relationship with the buyer from a major account.

Quantitative Objectives are those objectives which can be expressed in specific numerical terms; for example, a salesperson might set as an objective for his or her territory "to increase sales revenue of Product X by 10% in 2011".

### **CHECK YOUR PROGRESS:**

1. "A good objective should be tested to ensure they are SMART". Explain.
2. Define the following terms:
  - a. Hierarchy Of Objectives
  - b. Multiplicity of objectives
    - a. Objective
  - c. Management by Objectives
  - d. Quantitative objectives
  - e. Qualitative objectives
  - f. Variable objectives

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## **6.4 MBO - MANAGEMENT BY OBJECTIVES**

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The concept of '**Management by Objectives**' (MBO) was first given by *Peter Drucker* in 1954. It can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be taken as the criteria for measurement of their performance and contribution and deciding the course of action to be followed.

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

It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identify their objectives, time lines for completion, etc. MBO includes ongoing tracking and feedback in the process to reach objectives.

### **6.4.1 Managerial Focus:**

MBO managers focus on the result, not the activity. They delegate tasks by "negotiating a contract of goals" with their subordinates without dictating a detailed roadmap for

implementation. Management by Objectives (MBO) is about setting objectives and then breaking these down into more specific goals or key results.

#### **6.4.2 Main Principle:**

The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims. The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans, which automatically achieve those of the organization.

#### **6.4.3 MBO System:**

An MBO system is based on mutually agreed objectives. A manager will discuss with subordinates what needs to be achieved in their particular section of the firm. They will agree specific targets for each subordinate. For the MBO system to work effectively it is important that the objectives are agreed by the subordinates and not simply imposed on them. It is good practice, therefore, to allow staff to set objectives for themselves subject to the superior's approval. They are likely to be much more committed to them because they will feel they own these targets themselves.

#### **• ADVANTAGES OF MBO:**

- 1. Clarity of goals:** With MBO, came the concept of SMART goals i.e. goals that are: Specific, Measurable Achievable Realistic, and Time bound. The goals thus set are clear, motivating and there is a linkage between organizational goals and performance targets of the employees.
- 2. Future oriented:** The focus is on future rather than on past. Goals and standards are set for the performance for the future with periodic reviews and feedback.
- 3. Motivation:** Involving employees in the whole process of goal setting and increasing employee empowerment increases employee job satisfaction and commitment.
- 4. Better communication and Coordination:** Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the enterprise and also

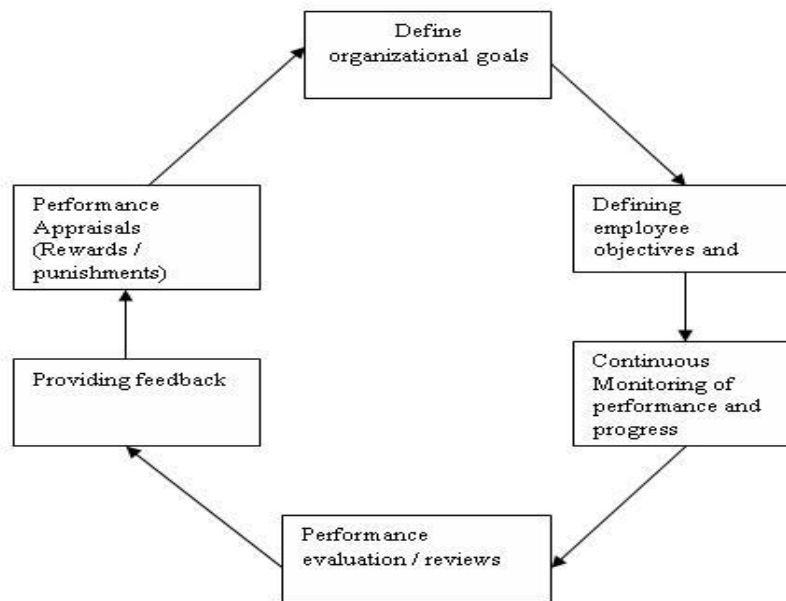
solve many problems faced during the period. Each manager knows exactly what he has to do

5. **Sense of Responsibility:** Peter Drucker believed that the most effective way to give people a sense of responsibility for their working lives was to make them decide for themselves how to achieve their objectives.
6. **Target oriented:** The targets act as a control mechanism for the organisation. Everyone's performance can be judged against the targets.
7. **Delegation of Authority:** MBO ensures that employees in every department are all working towards common goals. MBO allows delegation to be achieved in a coordinated way.

- **PROBLEMS OF MBO:**

1. MBO system sounds appealing in theory, in practice it can become bureaucratic and time consuming. Managers and subordinates can spend hours in meetings trying to agree targets which may be unrealistic anyway.
2. Setting targets does not guarantee that they are achieved. In some cases, companies introduce MBO but individual managers are unwilling to delegate fully to their subordinates. This results in frustration as the executive feels they will be held responsible for something they do not fully control.
3. Objectives can become out of date and inappropriate very quickly. (Environment changes rapidly). With new competitors, new product offerings, new technology and new legislation the world in which a firm operates can be very dynamic. Targets may soon become irrelevant. Consequently some managers think it is more important to set out the general direction the firm wants to move in. Not try to be too specific about the exact route. Much better, some say, to let the managers react for themselves to the situation in which they operate.

- **THE MBO PROCESS:**



**Figure 1**

**These steps are explained below:**

**1. Setting Objectives:**

Goal-setting or objective setting is a multistage process. It starts with the examining of the current state of affairs, level of efficiency, threats, and opportunities. Then the key result areas are identified, such as product markets, improved services, lowered costs, work simplification, employee motivation, profitability innovation and social responsibility. Peter Drucker says, "Objectives are important in every area where performance and results directly affect the survival and prosperity of business".

Thereafter interacting or joint goal setting takes place. Subordinates are actively involved in formulating goals at every level in the organization such goals are finished with reference to the overall objectives of the organization. Care is taken to establish goals that are measurable and contribute to the element also. Such goals may be long range, medium range, or short range. Further, resources availability also becomes an important consideration in goal setting. There is always need to decide priorities among the different objectives keeping in view the environment within which business operates as well as possible further changes in it.

## **2. Developing Action Plans:**

Set objectives must be translated into action plans. It requires assignment of specific responsibilities to different departments, division, and individuals. It also requires allocation of necessary resources needed to perform the assigned responsibilities. Time dimensions are also to be decided in order that targets are reached without any unwarranted delays.

## **3. Periodic Review or Monitoring the Progress:**

After setting objectives and developing action plans, it is necessary to establish a proper monitoring system with a view to regularly keeping the activities. The progress is monitored without day path leading to the ultimate objective. It is ensured that the deviations found, if any, are thoroughly discussed and immediate corrective actions are taken to set them right on the course. Such a regular monitoring and periodic review not only provide feedback which is essential for completion of work in time. But also motivates the managers accountable for performance. Periodic review and monitoring are done at departmental level generally.

## **4. Evaluate and Reward Performance:**

This is the last phase of MBO program that evaluates performance annually. As goals have been defined in a specific, measurable and time-based way, the evaluation aspect of MBO is relatively straightforward. Employees are evaluated on their performance with respect to goal achievement. All that is left to do is to tie goal achievement to reward, and perhaps compensation, and provide the appropriate feedback.

When you reward goal achievers you send a clear message to everyone that goal attainment is valued and that the MBO process is not just an exercise but an essential aspect of performance appraisal. The importance of fair and accurate assessment of performance highlights why setting measurable goals and clear performance indicators are essential to the MBO system.

### **• BENEFITS OF MANAGEMENT BY OBJECTIVES:**

#### **1. Better managing:**

MBO forces managers to think about planning for results, rather than merely planning activities or work. Managers are required to ensure that the targets are realistic and needed resources are made available to subordinates to achieve the

targets. Clearly set serve as evaluation standards as well as motivators.

## **2. Better organising:**

Managers are required to clarify organisational roles and structures to the subordinates. This results in focus on key result areas, hence better organising.

## **3. Greater employee involvement & commitment:**

The employees in a MBO program have clearly defined goals which have been formalised through their own participation. Employees are now not just doing work, following instructions and waiting for guidance and decisions from above, they are themselves the guiding force.

## **4. Orderly growth of organisation:**

MBO provides for the maintenance and orderly growth of organisation by means of predetermined set of objectives for everyone involved. It provides for measurement of achievements as per predetermined targets.

## **5. Development of effective controls:**

Along with sharpening of planning MBO also develops effective controls. It provides for periodic reviews and annual performance appraisals creating a bridge for feedback and thus helping to further streamline the objective or targets.

## **6. Generating of an ideal atmosphere:**

MBO provides a scientific basis for evaluation of a subordinate performance, because goals are jointly set by the superior and the subordinates. Each individual has the potential for development, the capacity to assume responsibility and the readiness to direct behavior towards organization goals.

### **• USE OF MBO:**

The MBO style is appropriate for knowledge-based enterprises when your staff is competent. It is appropriate in situations where you wish to build employees' management and self leadership skills and tap their creativity, tacit knowledge and initiative. Management by Objectives (MBO) is also used by chief executives of multinational corporations (MNCs) for their country managers abroad.



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## 6. 5 SUMMARY

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Objective means the desired or needed result to be achieved by a specific time. An objective is broader than a goal, and one objective can be broken down into a number of specific goals. Objectives have to be very specific. A good objective should be **S**pecific, **M**easureable, **A**greed, **R**ealistic, and **T**ime bound.

### **Features: Hierarchy of Objectives:**

Objectives are structured in a hierarchy of importance. **Objectives form a Network:** Objectives interlock in a network fashion. They are interrelated and inter-dependent.

**Multiplicity of objectives:** Organizations pursue multifarious objectives. At every level in the hierarchy goals are likely to be multiple. **Long and short range objectives:** Organizational objectives are usually related to time. Long range objectives extending over five or more years, Short range objectives (one year goals) and medium range objectives (two to four year period goals) reflect immediate attainable goals. **Verifiable and Non Verifiable Objectives:** Objectives should be measureable. This is referred to as a verifiable objective. Objectives that are not verifiable are non verifiable objectives. **Qualitative and Quantitative Objectives:** Qualitative Objectives are those objectives which cannot be expressed in quantifiable terms; whereas Quantitative Objectives are those objectives which can be expressed in specific numerical terms.

The concept of '**Management by Objectives**' (MBO) was first given by *Peter Drucker* in 1954. It can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be taken as the criteria for measurement of their performance and contribution and deciding the course of action to be followed.

### **Advantages of MBO:**

Clarity of goals, Future oriented, Motivation, Better communication and Coordination, Sense of Responsibility, Target oriented, Delegation of Authority:

### **Problems of MBO:**

MBO system sounds appealing in theory, in practice it can become bureaucratic and time consuming, Setting targets does not guarantee that they are achieved, Objectives can become out of date and inappropriate very quickly.

**Benefits of Management by Objectives:**

Better managing and organising, Greater employee involvement & commitment, Orderly growth of organisation, Development of effective controls, Generating of an ideal atmosphere.

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## **6.6 EXERCISE**

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1. Define and elaborate on the meaning of Objectives.
2. Discuss the features of objectives.
3. Briefly explain the concepts: Hierarchy of Objectives, Objectives Form a Network, Multiplicity of objectives, Long and short range objectives, Verifiable and Non Verifiable Objectives, Qualitative and Quantitative Objectives.
4. Explain the concept of MBO, its principles and systems.
5. What are the advantages of implementing MBO?
6. Explain the process of MBO.
7. What are the benefits of MBO?



## Chapter 7

# ORGANIZATION

### Unit Structure

- 7.0 Objective
- 7.1 Introduction
- 7.2 Importance of organizing
- 7.3 Principles of organizing
- 7.4 Formal and Informal organization
- 7.5 Process of organizing
- 7.6 Organization charts
- 7.7 Organization manuals
- 7.8 Summary
- 7.9 Exercise

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## 7.0 OBJECTIVES

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After studying the unit students will be able to:

- Understand the Meaning and definition of organizing
- Know the importance of organizing
- Explain the Principles of organization
- Elaborate the concepts Formal organization and informal organization
- Understand the Process of organizing
- Explain the Organization charts
- Discuss the Organization manuals

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## 7.1 INTRODUCTION

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Organizing is an element of management process. Organizing is basically concerned with allocation of duties and responsibilities among the people so that work will be carried on systematically. Organizing simply means arrangement of required resources and ways for conducting business activities. It is a creation of administrative set up.

**Definition:**

1. Louis Allen defines Organization as “The process of identifying and grouping of the work to be performed, defining and delegating responsibility and authority, and establishing a pattern of relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.”
2. According to Henri Fayol “To organize a business is to provide it with everything useful to its functioning – raw materials, tools, capital and personnel.”

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**7.2 IMPORTANCE OF ORGANIZING**

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Effective organizing lead to following advantages:

**1. Specialization:**

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

**2. Well defined jobs:**

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

**3. Clarifies authority:**

Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers does not take place. Well defined

jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.

#### **4. Co-ordination:**

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

#### **5. Effective administration:**

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

#### **6. Growth and diversification:**

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

#### **8. Sense of security:**

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

#### **8. Scope for new changes:**

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

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## **7.3 PRINCIPLES OF ORGANIZING**

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The most commonly mentioned and well accepted principles of organizing are as follows:

### **1. Objectives:**

Every organization should have well defined objectives. Every department in the organization should have their objectives. Every individual in the organization should know what to achieve. Finally there should be unity among all the objectives.

### **2. Specialization:**

Every department should be given a specific work to be performed. Division of work leads to specialization. Every individual in the organization should be given the work as per his skills.

### **3. Co-ordination:**

All the activities of all the individuals and departments should be interlinked with each other. Co-ordination will lead to proper direction for work which will result into better results.

### **4. Delegation of authority:**

The superior should pass on the authority to their subordinates. There should be fixation of responsibility after the authority is delegated.

### **5. Short chain of command:**

As far as possible there should be short chain of command in the organization. This will lead to speedy work as well as chances of distortion will be avoided.

**6. Balance:**

There should be proper balance in different aspects of the organization. There should be balance between authority and responsibility, centralization and decentralization, human and material resources etc.

**8. Continuity:**

Organizing is a continuous process. It will be over only after closure of the organization. Therefore organizing should provide a framework which is long lasting in nature.

**8. Simplicity:**

The structure of the organization should be as simple as possible. All the people in the organization should be able to understand the structure.

**9. Span of control:**

Span of control is number of subordinates who can be effectively managed and supervised by manager. There should be limit of span of control.

**10. Flexibility:**

The organization structure should not be rigid in nature. It should adjust with the changing situations.

**11. Authority and responsibility:**

Authority is a power to take decision. Responsibility is an obligation to perform work. There should be a proper balance between authority and responsibility.

**12. Unity of command:**

This principle suggests that subordinate should get orders only from one boss at a time. There should not be duplication of orders which leads to confusion.

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## **7.4 FORMAL AND INFORMAL ORGANIZATION**

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In an organization there exist two types of internal structures or relationships i.e.

- i. Formal organization
- ii. Informal organization

### **Formal Organization:**

Formal organization refers to structure of well defined jobs, having definite authority and responsibility. This structure is specifically designed to achieve common organizational goals. This is the structure to which everyone in the organization has to adjust.

According to Chester Barnard, "an organization is 'formal' when two or more persons are consciously coordinated toward a common objective."

### **Features of Formal organization:**

- i. It is a structure of well defined authority and responsibility.
- ii. It is established to achieve well defined objectives.
- iii. There is a balance between authority and responsibility.
- iv. There is superior-subordinate relationship among all the people.
- v. Rules and regulations are followed by all the people.
- vi. It is stable in nature. It comes to an end only after closure of the organization.
- vii. Communication between people is a formal communication.
- viii. There is system of co-ordination.

### **Informal Organization:**



The informal organization exists within the formal organization. It is a network of personal and social relations existing in a formal organization. People in the organization do not always follow formal lines. Employees in one department know those in other departments. They may like to know what is happening in each other department. In such cases informal organizations get developed. It does not have any definite structure. So it cannot be shown by any chart.

Informal organization refers to the relationships between the people in the organization based on personal attitudes, emotions, likes, dislikes etc. This structure comes into existence as per desire of the people.

According to Keith Davis, "informal organization is a network of personal and social relations not established or required by the formal organization but arising spontaneously as people associate with another."

#### **Features of Formal organization:**

- i. It is a network of personal and social relations existing in a formal organization.
- ii. It is established to develop personal and social relations.
- iii. There is no question of granting authority and deciding responsibility as relations are social in nature.
- iv. There are no well defined objectives to be achieved.
- v. The relations are informal. Therefore there are no superior-subordinate relationships.
- vi. There is no need for co-ordination.
- vii. There are no rules and regulations to be followed.
- viii. It is not stable in nature. Relationship can come to an end at any time.
- ix. Communication among the people is informal communication known as Grapevine Communication.

#### **Importance of informal organization:**

1. It assists a formal organization to become humanistic and prevents its dehumanization.
2. It provides social satisfaction to group members. These are created to satisfy the needs of friendship, companionship, sense of belonging, security etc.
3. It provides the best means of human communication.
4. It acts as an effective agency for social control of human behavior.

5. It helps the formal organization to get the work done.
6. It increases co-operation among all the people in the organization.
7. It fills gaps in managerial abilities.
8. It provides a safety valve for employee emotions.

### **CHECK YOUR PROGRESS:**

1. List the advantages of Organizing.
2. Explain the following terms in four to five sentences:
  - a. Organising
  - b. Formal organization
  - c. Informal organization
3. Explain the following principles of organizing:
  - a. Objectives
  - b. Specialization
  - c. Delegation of authority
  - d. Short chain of command
  - e. Continuity
  - f. Span of control
  - g. Flexibility:
  - h. Unity of command
4. Distinguish between Formal organization and Informal organization.

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## **7.5 PROCESS OF ORGANIZING**

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The organizing process includes following stages:

### **1. Division of work:**

The first process of organizing includes identification and division of work which shall be done in accordance with the plans that are determined previously.

### **2. Departmentation:**

Once the work of identifying and dividing the work has been done those are similar are to be grouped.

### **3. Linking departments:**

When the process of departmentation was completed, linking of departments has to be done so that those departments operate in a co-ordinate manner which gives a shape to overall organization structure.

### **4. Assigning Duties:**

On completion of departmentation process assigning duties i.e. defining authority and responsibility to the employees on the basis of their skills and capabilities has to be done, which in consequence magnifies efficiency with regard to their work.

### **5. Defining hierarchal structure:**

Each employee should also know from whom he has to take orders and to whom he is accountable/responsible.

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## **7.6 ORGANIZATION CHARTS**

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An organizational chart is a diagram that shows the structure of an organization as well as the relationships and relative ranks of its positions. The term "chart" refers to a map that helps managers navigate through patterns in their employees. Charts help organize the workplace while outlining the direction of management control of subordinates. Increasingly a necessary management tool, organizational charts are particularly useful when companies reorganize, embark on a merger or acquisition, or need an easy way to visualize a large number of employees.

An organizational chart of a company usually shows the managers and sub-workers who make up an organization. It also shows the relationships between directors: managing director chief executive officer: various departments. In many large companies the organization chart can be large and incredibly complicated and is therefore sometimes dissected into smaller charts for each individual department within the organization.

There are three different types of organization charts:

1. Hierarchical
2. Matrix
3. Flat or Horizontal.

• **BENEFITS OF ORGANIZATIONAL CHARTS:**

1. Organization charts are an effective way to communicate organizational, employee and enterprise information. An org chart makes it easier for people to comprehend and digest large amounts of information as a visual picture rather than as a table of names and numbers.
2. Organizational charts provide the greatest value when used as a framework for managing change and communicating current organizational structure. When fully utilized, org charts allow managers to make decisions about resources, provide a framework for managing change and communicate operational information across the organization.
3. Organizational charts provide managers with specific departmental information that can then be used as a baseline for planning, budgeting and workforce modeling.
4. Publishing and distributing org charts to an entire organization communicates necessary and valuable organizational information to all employees. Org charts are ideal for sharing the organization's strategic vision, as well as defining responsibilities, dependencies and relationships. Good charts also allow you to organize their teams with clear responsibilities, titles and lines of authority.

• **LIMITATIONS:**

1. If updated manually, organizational charts can very quickly become out-of-date, especially in large organizations that changes their staff regularly.
2. They only show 'formal relationships' and tell nothing of the pattern of human (social) relationships which develop. They also often do not show horizontal relationships.
3. They provide little information about the managerial style adopted
4. The best structure for one type of business may not be the best for another. The best structure for a new business may not be suitable as the business expands.

**CHECK YOUR PROGRESS:**

1. Define organizational chart?
2. Explain how organizational chart is beneficial to the organization.
3. List out the stages included in the process of organizing.
4. Which are the types of organization chart?

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## **7.7 ORGANIZATION MANUALS**

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Organization manual is a repository for organization data commonly used by company managers. It has many values as an administrative tool to help the manager to do his job more effectively. It enables him to visualize the company organization as a whole and to see his own responsibilities as part of the total picture. It also defines the relationships which will guide him in developing teamwork and in working with other managers.

The organization manual should be made up as a permanent, hardcover, loose-leaf volume. Individual position guides and organization charts may be prepared by accountable managers using a format prescribed by company procedures. The manual itself should be maintained by the organization planning function.

**Contents of organization manual:**

Manual should contain the following data:

1. Statement of company objectives and policies
2. Responsibilities and authorities at various levels
3. Delegation of authority existing in the organization
4. Nature of supervision
5. Span of control at various levels

**Benefits of organization manual:**

1. It gives information about the company's planning and organizing outlines.
2. It serves as position guide to the managers by showing their duties, powers and relationships.
3. It becomes a helpful device for managerial training.

4. It facilitates co-ordination and control in the enterprise.
5. It encourages quick decision making by elaborating objectives and policies as well as by indicating the limits of authority.

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## **7.8 SUMMARY**

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From the above discussion the concept of organizing is clear. For smooth functioning of organization well established principles of organizing need to be followed. Within the every formal organization one informal organization exists. Therefore management has to tactfully handle both of them. An organization uses organization charts and manuals for the efficient functioning.

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## **7.9 EXERCISE**

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14. Define organizing. Explain the importance of organizing.
15. State and explain the principles of organization.
16. Distinguish between formal and informal organization.
17. Discuss the process of organizing.
18. Write a note on organization charts.
19. Write a note on organization manuals.
20. State the contents of Organizational manual.



## Chapter 8

### ORGANIZATION STRUCTURE

#### Unit Structure

- 8.0 Objective
- 8.1 Introduction
- 8.2 Line Organization
- 8.3 Functional Organization
- 8.4 Line and Staff Organization
- 8.5 Committee Organization
- 8.6 Project Organization
- 8.7 Matrix Organization
- 8.8 Summary
- 8.9 Exercise

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### 8.0 OBJECTIVES

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After studying the unit the students will be able to:

- Understand the Meaning of organization structure
- Explain Line organization
- Discuss Functional organization
- Explain Line and staff organization
- Elaborate Committee organization
- Explain Project organization
- Understand Matrix organization

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### 8.1 INTRODUCTION

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An organization structure is a framework through which management works to accomplish its objectives. It is primarily concerned with the allocation of duties and responsibilities, and delegation of authority. It is a tool of management to achieve

organizational goals. The following are the various forms of formal organizations found in many enterprises.

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## **8.2 LINE ORGANIZATION**

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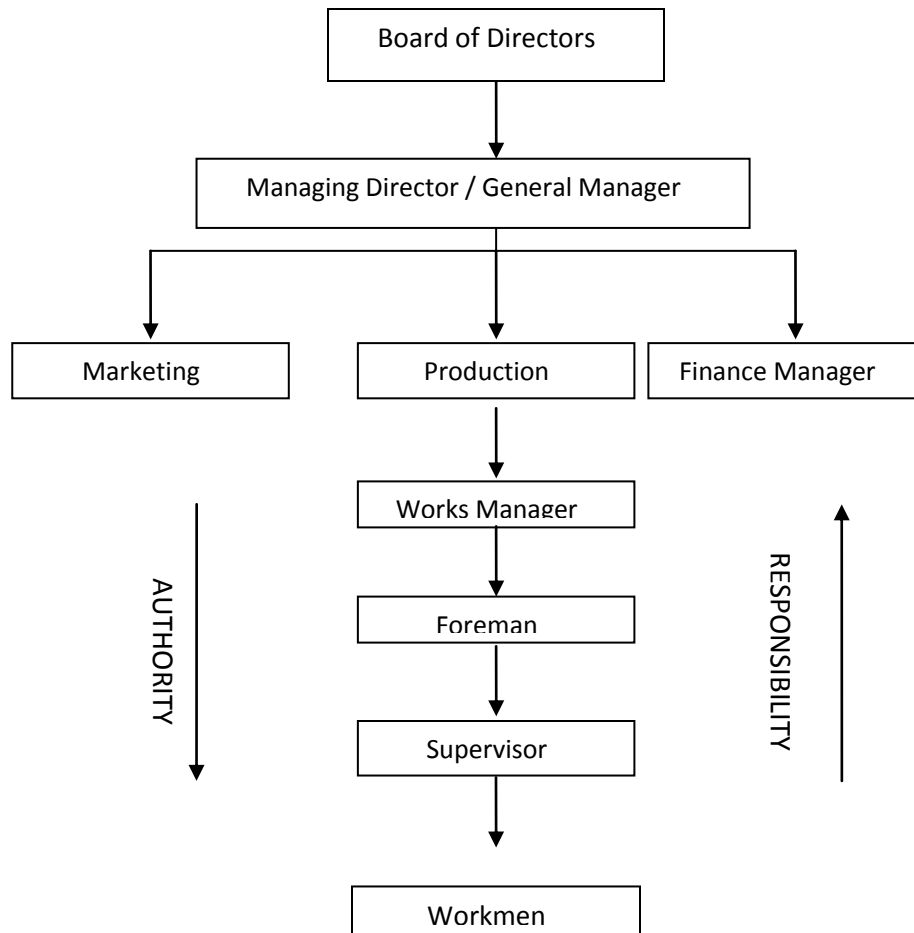
### **8.2.1 MEANING AND DEFINITION:**

Line organization is the oldest and simplest form of formal organization. In this organization the line of authority flows downward from top to bottom level. The line of authority is straight and vertical. On the other hand responsibility moves upward from bottom to top level.

According to James Stoner, "Line authority is represented by the standard chain of command, starting with the Board of Directors and extending down through the various levels in the hierarchy to the point where the basic activities of the organization are carried out."

### **8.2.2 CHART SHOWING THE STRUCTURE OF LINE ORGANIZATION:**





### 8.2.3 CHARACTERISTICS:

1. It is the oldest and simplest formal organization structure.
2. The flow of authority is downward i.e. from top to bottom level.
3. The flow of responsibility is upward from bottom to top level.
4. There is no presence of staff organization.
5. There are direct vertical relationships among superior and subordinates.
6. Principle of scalar chain and unity of command is strictly followed.
7. All departmental managers have equal status.
8. It is mainly suitable to small organizations.

### CHECK YOUR PROGRESS:

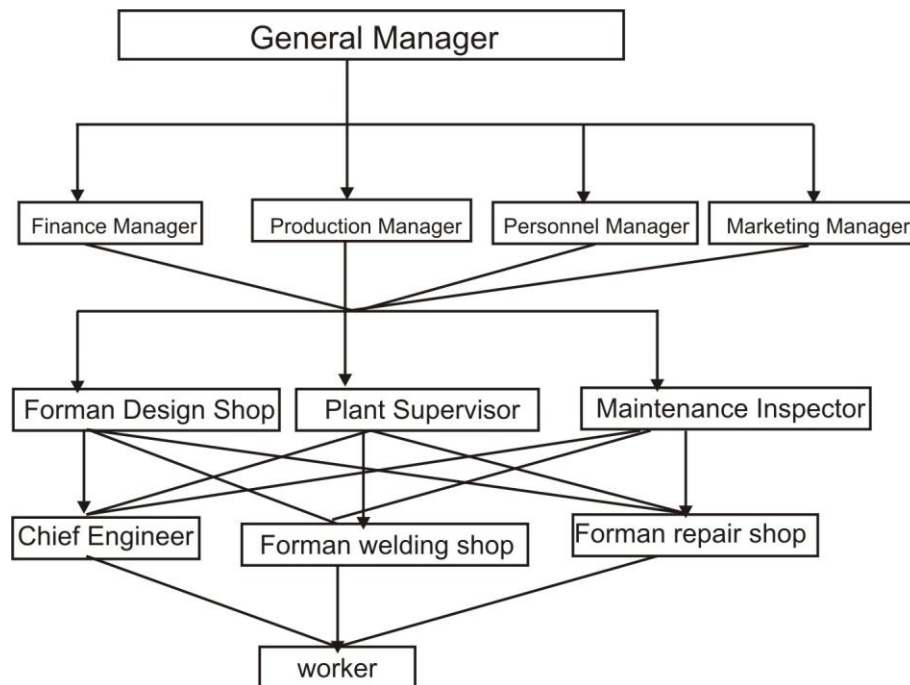
1. Draw the chart showing the structure of Line organization.
2. What do you mean by line organization structure?
3. State the features of line organization structure.

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## 8.3 FUNCTIONAL ORGANIZATION

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This form was introduced by F.W. Taylor to bring about specialization of management. It is not an independent form of organization. It is a mid-way position between line and staff authority. Functional organization is a way of putting specialists to work.



### CHARACTERISTICS:

1. All the organizational activities are divided according to specified functions.
2. Each function is performed by specialist.
3. A superior specialist has a right to give orders relating to these specific functions.
4. Functional authority is a limited form of authority as it covers only specific task areas.
5. Unity of command principle is not followed.

6. It is mainly suitable for large organizations.
7. Functional authority should be established by prior agreement among the line departments affected, preferably in written procedures that are approved by middle management and finally by top management.

### **CHECK YOUR PROGRESS:**

1. What do you mean by functional organization structure?
2. State the features of functional organization structure.

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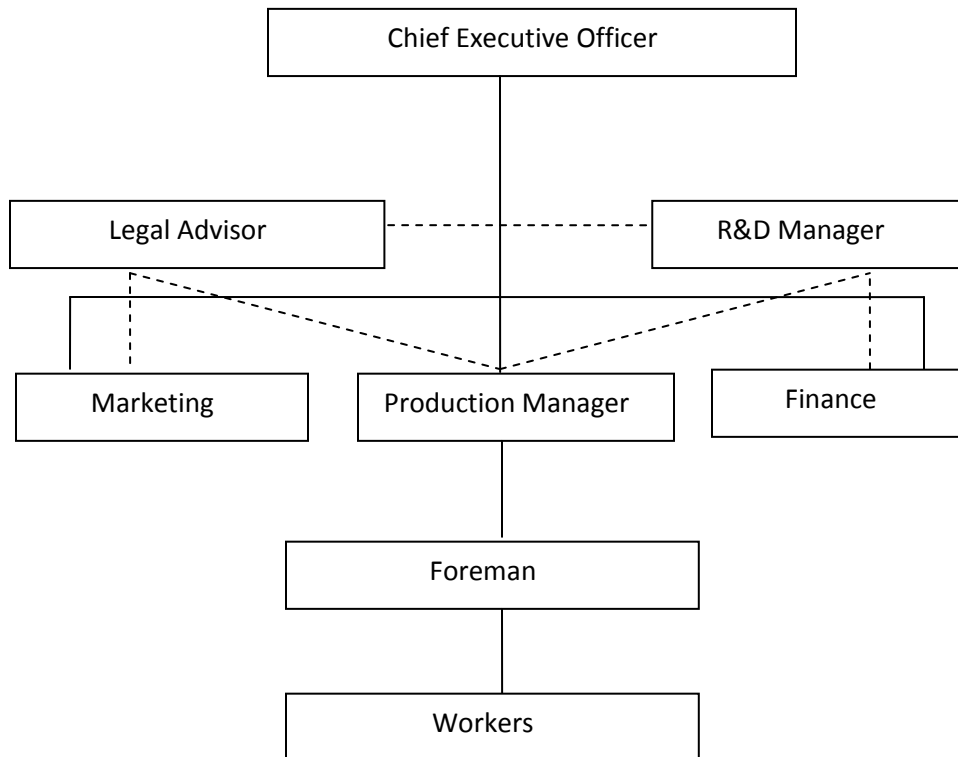
## **8.4 LINE AND STAFF ORGANIZATION**

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### **8.4.1 MEANING AND DEFINITION:**

This type of organization tries to combine the activities of line and staff executives. Line executives are “**Doers**” whereas the specialists are “**Thinkers**”. Staff concentrates on planning of activities whereas staff is involved in implementation of plans.

According to Louis Allen, “Line refers to those positions and elements of the organization, which have the responsibility and authority and are accountable for accomplishment of primary objectives. Staff elements are those which have responsibility and authority of providing advice and service to the line in attainment of objectives.”



#### 8.4.2 CHARACTERISTICS:

1. There are two aspects of administration in this organization i.e. planning and execution.
2. The staff concentrates their attention upon the research and planning aspects of business activities while the line executives concentrate their attention upon implementation of policy matters.
3. The staff provides guidance and advice to line executives. Such guidance is offered whenever it is demanded by line.
4. This form of organization tries to retain the merits and to do away with demerits of both the line and functional organization.
5. It is mainly suitable for large organizations.

#### CHECK YOUR PROGRESS:

1. What do you mean by line and staff organization structure?
2. State the features of line and staff organization structure.

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## **8.5 COMMITTEE ORGANIZATION**

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### **8.5.1 MEANING AND DEFINITION:**

Committee does not represent a separate type of organization like line, line and staff or functional. It is a device which is used as supplementary to existing organization structure. A committee may be defined as a group of people performing some aspect of managerial function. A committee is a body of persons appointed to meet on an organized basis for the consideration of matters brought before it.

### **8.5.2 CHARACTERISTICS:**

1. A committee is a formally organized group of individuals who meet repeatedly to consider some problems.
2. Some committees perform managerial functions and make decisions. Some committees are constituted to make recommendations to the managers. Some committees are constituted just to receive information and pass it on to the management.
3. Committees have defined structure. They have their own organization with defined authority and responsibility delegated to them.
4. Committees are generally required to follow definite rules and procedures, which are often written.
5. Committee organization is not only used in business organizations but also in social, religious, political and other organizations. For e.g. Educational institutions mostly run their operations through committees.

There are three elements to ensure effective committee operations:

1. A written statement describing purpose for which the committee is established is essential.
2. The authority of committee must be clearly specified.
3. The chairman of the committee must have ability to conduct efficiently meetings of the committee.

### **CHECK YOUR PROGRESS:**

1. What do you mean by committee organization structure?
2. State the features of committee organization structure.

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## 8.6 PROJECT ORGANIZATION

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A project organization is a temporary thing. It will only exist from the projects start until its end. All the project team members are coming from different organizations of part of the organization. They will all have a temporary assignment to the project. So, they have not only a project boss but also their 'normal' boss, who orders him around when the employee is not in the project.

The project organization should be a result from the project strategy, it should be constructed in such a way that the strategy can be implemented within the environment of the project. The project team that does the work should be as small as possible. Small is beautiful and effective.

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## 8.7 MATRIX ORGANIZATION

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This type of organization was first developed in the United States in the early 1960's. It was developed to solve management problems in aerospace industry.

Matrix organization is a combination of two or more structures. It can be combination of project organization and functional organization. Both the organizational managers work in close co-operation with each other. The authority of departmental managers flows downwards whereas authority of project managers flows across.

Departments Projects	Dept. A Manag er	Dept. B Manag er	Dept. C Manag er	Dept. D Manag er	Dept. E Manag er
Project A Manager					
Project B Manager					

Project Manager C					
Project Manager D					
Project Manager E					

**CHARACTERISTICS:**

1. It is a hybrid structure. It is a combination of project organization and functional organization.
2. This type of structure is mostly suitable for multi projects organization.
3. It is highly complex and most difficult form of organization to implement.
4. This type of organization offers more specialization as project managers and functional managers specialize in their areas.
5. The responsibility of project managers is of administrative type. They decide activities of project.
6. The responsibility of functional managers is of functional type. They decide how the work is to be done.
7. Subordinates receive orders from two bosses so unity of command principle is not followed.

**CHECK YOUR PROGRESS:**

1. What do you mean by matrix organization structure?
2. State the features of matrix organization structure.

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**8.8 SUMMARY**


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In this chapter we discussed various organization structures used in business organization. Every structure has got its own characteristics. According to the requirements of the organization management has to implement

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**8.9 EXERCISE**


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21. Explain the line organizational structure.
22. Explain the line and staff organizational structure.
23. Explain the functional organizational structure.
24. Explain the matrix organizational structure.
25. Write a note on committee organization
26. Write a note on project organization.
27. Define the following terms in four or five sentences:
  - a. Matrix organization
  - b. Project organization
  - c. Committee Organization
  - d. Line and staff organization
  - e. Functional organization
  - f. Line organization
  - g. Organization Structure





## Chapter 9

# DELEGATION OF AUTHORITY

### Unit Structure

- 9.0 Objectives
- 9.1 Introduction Meaning and definition of Forecasting
- 9.2 Concept of Authority
- 9.3 Responsibility**
- 9.4 Delegation of Authority
- 9.5 Centralization and Decentralization
- 9.6 Summary
- 9.7 Exercise

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### 9.0 OBJECTIVES

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After studying the unit students will be able to:

- Understand the Concept of Authority
- Know the concept of Responsibility
- Explain the Objective of Delegation
- Discuss the Process of Delegation
- Understand the Benefits of Delegation
- Know the Problems in Delegation
- Understand the concept Centralization
- Know the concept Decentralization

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### 9.1 INTRODUCTION

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A manager alone cannot perform the entire task assigned to him. In order to meet the targets he should delegate the authority. Delegation of authority means division of authority and powers downwards to the subordinates. Delegation is about entrusting someone else to do part of your job. How managers use their power, influence, and authority can determine their effectiveness in meeting the goals of the organization.

Authority is the right or power assigned to an executive or a manager in order to achieve certain organizational objectives. A manager will not be able to function efficiently without proper authority. Authority is one of the founding stones of formal and informal organizations. An Organization cannot survive without authority. It indicates the right and power of making decisions, giving orders and instructions to subordinates. Authority is delegated from above but must be accepted from below i.e. by the subordinates. In other words, authority flows downwards.

Responsibility indicates the duty assigned to a position. The person holding the position has to perform the duty assigned. It is his responsibility. The term responsibility is often referred to as an obligation to perform a particular task assigned to a subordinate. In an organization, responsibility is the duty as per the guidelines issued. Responsibility is the anchor of any satisfying job. Being held accountable for work performed gives the employee a sense of trust and reward. Without responsibility, a job is merely a list of duties with no bearing on the real business.

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## **9.2 CONCEPT OF AUTHORITY**

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Authority is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired goals. A manager's authority is defined in his or her job description.

Organizational authority has three important underlying principles:

- Authority is based on the organizational position, and anyone in the same position has the same authority.
- Authority is accepted by subordinates. Subordinates comply because they believe that managers have a legitimate right to issue orders.
- Authority flows down the vertical hierarchy. Positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom.

In addition, authority comes in three types:

- **Line authority** gives a manager the right to direct the work of his or her employees and make many decisions without consulting others. Line managers are always in charge of essential activities such as sales, and they are authorized to issue orders to subordinates down the chain of command.

- **Staff authority** supports line authority by advising, servicing, and assisting, but this type of authority is typically limited. The department head may also give the assistant the authority to act, such as the right to sign off on expense reports or memos. In such cases, the directives are given under the line authority of the boss.
- **Functional authority** is authority delegated to an individual or department over specific activities undertaken by personnel in other departments. Staff managers may have functional authority, meaning that they can issue orders down the chain of command within the very narrow limits of their authority.

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## 9.3 RESPONSIBILITY

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### 9.3.1 MEANING AND DEFINITION

Responsibility can be defined as a duty or obligation to carry forward an assigned task to a successful conclusion, or to satisfactorily perform or complete a task that one must fulfill, and which has a consequent penalty for failure. With responsibility goes authority to direct and take the necessary action to ensure success.

### 9.3.2 RELATIONSHIP BETWEEN AUTHORITY AND RESPONSIBILITY:

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

### 9.3.3 Difference between Authority and Responsibility:

<b>Authority</b>	<b>Responsibility</b>
------------------	-----------------------

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

### CHECK YOUR PROGRESS:

1. Distinguish between Authority and Responsibility.
2. Define the following terms:
  - a. Authority
  - b. Line authority
  - c. Staff Authority
  - d. Functional authority
  - e. Responsibility

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## 9.4 DELEGATION OF AUTHORITY

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### 9.4.1 MEANING AND DEFINITION

**Definition:** According to F. C. Moore, “Delegation means assigning works to the other and giving them authority to do so.” Delegation does not relinquish the responsibility of the delegator

A concept related to authority is **delegation**. Delegation is the downward transfer of authority from a manager to a subordinate. Most organizations today encourage managers to delegate authority in order to provide maximum flexibility in meeting customer needs. In addition, delegation leads to empowerment, in that people have the freedom to contribute ideas and do their jobs in the best possible ways. This involvement can increase job satisfaction for the individual and frequently results in better job performance. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success. Managers need to take four steps if they want to successfully delegate responsibilities to their teams.

### 9.4.2 OBJECTIVES OF DELEGATION:

The objective of delegation is to get the job done by someone else. Not just the simple tasks of reading instructions

and turning a lever, but also the decision making and changes which depend upon new information. With delegation, your staffs have the authority to react to situations without referring back to you.

To enable someone else to do the job for you, you must ensure that:

- they know what you want
- they have the authority to achieve it
- they know how to do it.

These all depend upon communicating clearly the nature of the task, the extent of their discretion, and the sources of relevant information and knowledge.

### **9.4.3 PROCESS OF DELEGATION:**

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

- 1. Assignment of Duties** – The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
- 2. Granting of authority** – Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
- 3. Creating Responsibility and Accountability** – Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is absolute and cannot be shifted. Accountability, on the other hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed.

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

### **9.4.4 IMPORTANCE OF DELEGATION:**

The importance of delegation can be justified by –

1. Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands. An organization functions as the authority flows from top level to bottom. This in fact shows that through delegation, the superior-subordinate relationship become meaningful.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. Through delegating powers, the subordinates get a feeling of importance. Delegation motivates and also helps to break monotony.
5. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern's working. This helps in both virtual as well as horizontal growth which is very important for a concern's stability.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiples himself and is able to bring stability, ability and soundness to a concern.

There are a few guidelines in form of principles which can be a help to the manager to process delegation.

#### **9.4.5 PRINCIPLES OF DELEGATION**

The principles of delegation are as follows: -

1. **Principle of result expected-** suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly.
2. **Principle of Parity of Authority and Responsibility-** According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand.. The authority should be given in such a way which matches the task given to him. Therefore, there should be no degree of disparity between the two.

3. **Principle of absolute responsibility-** This says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates which means responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers.
4. **Principle of Authority level-** This principle suggests that a manager should exercise his authority within the jurisdiction / framework given. This principle emphasizes on the degree of authority and the level upto which it has to be maintained.

#### 9.4.6 THE BENEFITS OF DELEGATION:

It is often impossible to do everything that needs to be done. Therefore, it is often useful to delegate certain tasks to other people. As a result, it is useful to know the four benefits of delegation before delegating any task.

1. **First, delegation focuses attention and increases productivity.** By assigning lower priority tasks that are typically easier to do than higher priority tasks, allows delegators to better focus on more important and more difficult assignments. Keep in mind that training and supervision may be necessary when delegating new tasks, which leads to the second benefit of delegation.
2. **Second, learn new skills:** people with assigned tasks will learn new and valuable skills when working on delegated tasks that that they have never worked on before. Eventually, these newly delegated tasks will not require any training or supervision, thus increasing the productivity of the delegator and the entire team.
3. **Third, delegation helps manage time effectively.** For instance, when less skilled employees work on less skilled tasks, this allows skilled people to concentrate working on more skilled tasks. As a result, delegation helps manage the limited time of more skilled employees.
4. **Eventually, delegation helps to accept challenges:** has the added benefit to give employees more time to work on new assignments and challenges, since it is always a good idea to prevent a job from becoming repetitive and boring.

In conclusion, it may be difficult to start delegating work assignments that you are familiar with and know will be done correctly by you, but these advantages of delegating repetitive tasks is a great motivator.

#### 9.4.7 PROBLEMS OF DELEGATION:

- Complexity of Delegation of Authority and business processes
- Misalignment of Delegation of Authority and business processes
- Delegation of Authority not aligned with organizational structure / decision making
- Ineffective decision making structures
- Lack of staff awareness and inappropriate training
- Failure to enforce (e.g. code of conduct breach)
- Poorly managed when staff in temporary roles.

It has been observed by many authors that effective delegation of authority is not observed by the Indian managers, even though most managers know how and why to delegate. Many have concluded that managers are ineffective delegators because they are reluctant to share power, don't trust their subordinates' low level skill, knowledge and efforts etc., their love for authority, desire to influence the subordinates, personality factors of the senior managers, fear of incompetence, or they are just plain afraid to delegate.

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## **9.5 CENTRALIZATION AND DECENTRALIZATION**

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### **9.5.1 MEANING OF CENTRALISATION:**

**Centralization** is the process where the activity of an organization, particularly those regarding planning and decision making gets concentration in few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, "Centralization" is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be:-

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

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. A **centralized organization** systematically works to concentrate authority at the upper levels.

### **9.5.2 MEANING OF DECENTRALIZATION:**



Decentralization is a systematic delegation of authority at all [levels of management](#) and in all of the organization. In a decentralization concern, authority is retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

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

#### 9.5.3 IMPLICATIONS OF DECENTRALIZATION:

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

#### 9.5.4 CENTRALIZATION VERSUS DECENTRALIZATION:

The general pattern of authority throughout an organization determines the extent to which that organization is centralized or decentralized.

A variety of factors can influence the extent to which a firm is centralized or decentralized. The following is a list of possible determinants:

- **The external environment in which the firm operates.** The more complex and unpredictable this environment, the more likely it is that top management will let low-level managers make important decisions.
- **The nature of the decision itself.** The riskier or the more important the decision, the greater the tendency to centralize decision making.
- **The abilities of low-level managers.** If these managers do not have strong decision-making skills, top managers will be reluctant to decentralize. Strong low-level decision-making skills encourage decentralization.
- **The organization's tradition of management.** An organization that has traditionally practiced centralization or decentralization is likely to maintain that posture in the future.

In principle, neither philosophy is right or wrong. What works for one organization may or may not work for another.

#### **9.5.5 DISTINCTION BETWEEN DELEGATION AND DECENTRALIZATION:**

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider in scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. Decentralization is wider in scope and the subordinate's responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

#### **Distinction between Delegation and Decentralization**

<b>Basis</b>	<b>Delegation</b>	<b>Decentralization</b>
<b>Meaning</b>	Managers delegate some of their function and authority to their subordinates.	Right to take decisions is shared by top management and other level of management.
<b>Scope</b>	Scope of delegation is limited as superior	Scope is wide as the decision making is

	delegates the powers to the subordinates on individual bases.	shared by the subordinates also.
<b>Responsibility</b>	Responsibility remains of the managers and cannot be delegated	Authority with responsibility is delegated to subordinates.
<b>Freedom of Work</b>	Freedom is not given to the subordinates as they have to work as per the instructions of their superiors.	Freedom to work can be maintained by subordinates as they are free to take decision and to implement it.
<b>Nature</b>	It is a routine function	It is an important decision of an enterprise
<b>Need</b>	Delegation is important in all concerns whether big or small. No enterprises can work without delegation.	Decentralization becomes more important in large concerns and it depends upon the decision made by the enterprise, it is not compulsory.
<b>Grant of Authority</b>	The authority is granted by one individual to another.	Authority with responsibility is delegated to subordinates.
<b>Degree</b>	Degree of delegation varies from concern to concern and department to department.	Decentralization is total by nature. It spreads throughout the organization i.e. at all levels and all functions
<b>Process</b>	Delegation is a process which explains superior subordinates relationship	It is an outcome which explains relationship between top management and all other departments.
<b>Essentiality</b>	Delegation is essential of all kinds of concerns	Decentralization is a decisions function by nature.
<b>Significance</b>	Delegation is essential for creating the organization	Decentralization is an optional policy at the discretion of top management.
<b>Withdrawal</b>	Delegated authority can be taken back.	It is considered as a general policy of top management and is applicable to all departments
<b>Freedom of Action</b>	Very little freedom to the subordinates	Considerable freedom

Decentralization can be called as extension of delegation. When delegation of authority is done to the fullest possible extent, it gives use to decentralization.

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## **9.6 SUMMARY**

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Authority is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired goals. It is based on three important underlying principles: Authority is based on the organizational position, It is accepted by subordinates. It flows down the vertical hierarchy. There are three types of authorities i.e. line, staff and functional. Authority can be delegated. This means assigning works to others and giving them authority to do so.

There is the necessity to clearly lay down the objectives of delegation of authority in a set process. It benefits the organization as it divides work, reduces load on superiors and helps developing skills for the subordinates. It may also bring in certain disadvantages like complexity, misalignment, ineffective decision making structures and Failure to enforce breach of conduct. If properly handled it benefits both the organization and the personals.

Decentralization is a systematic delegation of authority at all levels of management and in all organizations. Decentralization can be called as extension of delegation. When delegation of authority is done to the fullest possible extent, it gives use to decentralization.

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## **9.7 EXERCISE**

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1. Explain the concept of authority and give the types of authorities.
2. What is responsibility and explain its relationship with authority
3. Discuss delegation of authority also discuss its benefits and problems.
4. Explain the concept centralization and decentralization.
5. What are the benefits of decentralization?
6. Distinguish between centralization and decentralization.
7. What is Decentralization and what are its benefits?
8. Explain in detail the concept of Delegation of Authority?
9. Distinguish between Decentralization and Delegation?
10. Write a note on Relationship between Authority and Responsibility.
11. Define the terms in four to five sentences:

- a. Delegation of Authority
- b. Centralization
- c. Decentralization
- d. Principle of result expected.
- e. Principle of Parity of Authority and Responsibility
- f. Principle of absolute responsibility
- g. Principle of Authority level



## Chapter 10

# DEPARTMENTATION

### Unit Structure

- 10.0 Objective
- 10.1 Introduction
- 10.2 Meaning of departmentation
- 10.3 Factors influencing departmentation: book
- 10.4 Bases of departmentation
- 10.5 Advantages / Importance of Departmentation
- 10.6 Summary
- 10.7 Exercise

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## 10.0 OBJECTIVE

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After study of the unit the students will be able to:

- Know the Meaning of departmentation
- Discuss the Factors influencing departmentation
- Explain the Bases of departmentation
- Understand the Importance of departmentation

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## 10.1 INTRODUCTION

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To achieve the goals, an organization has to divide labour among its members and then coordinate what has been divided. Departmentation by enterprise function means grouping of activities according to the functions of an enterprise, such as production, selling and financing. Departmentation is a means of dividing a large organization into smaller, flexible units. One reason organizations exist is to do things that would be hard for one person to do by themselves. For example, it's hard to conceive of one person building an office building. Instead, we have organizations of thousands of people with diverse skills that work together to build buildings. However, coordinating, controlling and just keeping track of a lot of individuals introduces its own problems. One way to solve these problems is to create a hierarchical system of supervision, so that small groups of workers (up to say, 50 people) are supervised by coordinators (managers). Depending on how many people there are in the organization, the coordinators themselves need to be organized into groups supervised by higher level managers, and so on. Part and parcel of this hierarchical supervisory system is the cutting up of the organization into groups (departments).

Departmentation is a process resulting out of choice to group tasks according to some criterion. The resultant process of departmentation includes decisions regarding segregating organizational work, allocation of work to persons, telling all involved who is in charge and provide for the support needed by those. Given the nature of these choices and decisions, departmentation and the criteria or bases used for creating departments can have serious impact on the organization's effectiveness. Nine bases of departmentation are common among managerial choices:

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## 10.2 MEANING OF DEPARTMENTATION

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Departmentation is a process of grouping all the organizational activities into logical units. These logical units are known as departments. It is grouping of activities and employees into departments for effective management.

**Definitions:**

1. According to Pearce and Robinson, “ Departmentation is the grouping of jobs, processes and resources into logical units to perform some organizational task.”
2. According to James and Stoner, “ Departmentation is the grouping of work functions so that similar and logically related activities occur together.”

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### **10.3 FACTORS INFLUENCING DEPARTMENTATION: BOOK**

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While doing departmentation management should consider the following factors:

#### **1. Facility of control:**

For facilitating control in the organization managers are confronted with four aspects of the control problem in assigning activities.

- I. First, activities which serve as an independent check on others are to be separated and assigned to different units.
- II. Secondly, to make definite persons accountable for performance results there should a clear-cut division of activities between two departments.
- III. Thirdly, for setting performance standards and comparing results, the establishment of two or more deadly parallel operating units is of great help.
- IV. Finally, for effective policy control, managers who participate in policy formulation should decide policy matters with a view to make consistent and satisfactory application of policies.

#### **2. Ease of co-ordination:**

Co-ordination raises three important issues that are to be weighed by managers in assigning activities.

- i. First, even dissimilar activities are required to be put under the care of single executive when such activities need close and frequent co-ordination for their effective performance.

- ii. Secondly, activities having a specified common objective are to be assigned to the same unit for co-ordinate action.
- iii. Thirdly, service activities of miscellaneous character are to be put to that department which makes most use of them.

### **3. Reduction in operating expenses:**

In assigning activities, the economy in operating expenses can be affected in two different ways.

- i. First, the creation of any new unit involves direct expenses by way of executives pay and office facilities and indirect expenses by way of interference to the work of other units.
- ii. Secondly, the assignment of activities should be made in such a way that all the jobs of a unit do not require highly skilled persons with a higher pay.

### **4. Benefits of specialization:**

In assigning activities, benefits of specialization should be secured by way of functional specialization and occupational specialization. The skill that is acquired through experience in a particular job becomes a specialty on the part of employees and such specialty ensures successful company operations.

### **5. Human considerations:**

As organization has a social aspect in addition to its technical aspect, human considerations affect the assignment of activities to some extent. The availability of competent personnel, the existence of informal groups and the prevailing employee behavior and attitude may have a significant influence on departmentation.

### **CHECK YOUR PROGRESS:**

- 3. What do you mean by departmentation?
- 4. State and explain the factors affecting departmentation process.

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## **10.4 BASES OF DEPARTMENTATION**

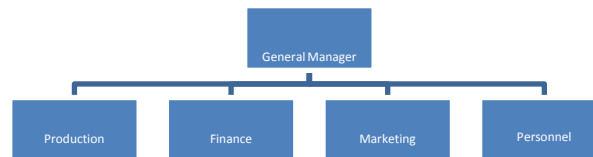
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Organization can follow various bases for departmentation from the following:

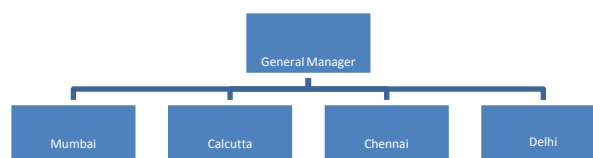
### 1. Departmentation by functions :

In this type similar activities are grouped under specific department. This departmentation facilitates specialization and effective control.



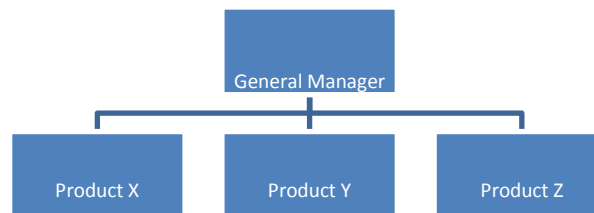
### 2. Departmentation by area :

In this type departmentation is done according to market areas where product is sold. This departmentation facilitates low cost of operations, better services to customers etc.



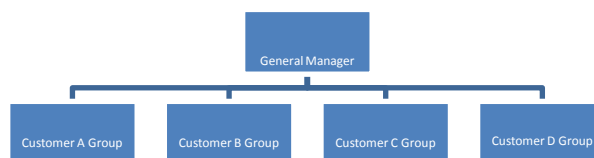
### 3. Departmentation by Product :

This method is followed by those companies dealing in multi products. Separate manager is in charge of separate brand. This facilitates better marketing strategies of each product.



#### 4. Departmentation by Customer :

This technique is followed when organization wants to offer maximum customer satisfaction. Income, purchasing power, habits etc. are the main factors considered in this departmentation.



#### 5. Departmentation by Time :

In this method activities are divided on the basis of time. For example there are morning shifts, night shifts etc.

### **6. Departmentation by numbers :**

In this method each unit consists a particular number of persons. For example in school or college students are divided in all the classes by fixing the strength.

#### **CHECK YOUR PROGRESS:**

1. List out the various bases which can be followed for departmentation?

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## **10.5    ADVANTAGES    /    IMPORTANCE    OF DEPARTMENTATION**

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1. Departmentation facilitates specialization as all the activities are allocated as per the skills of the people.
2. Departmentation helps to fix authority and responsibility of each department and thereby of each employee.
3. Departmentation facilitates better services to customers. This is possible especially in departmentation by customers.
4. Proper departmentation results into optimum utilization of resources as resources are allocated for right things.
5. Departmentation facilitates controlling and supervision in the organization.
6. It facilitates management development of the departmental managers as they take all the departmental decisions.
7. It facilitates growth and expansion of the organization.

#### **CHECK YOUR PROGRESS:**

1. Do you feel departmentation is a useful process for the organizations? Why?

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## 10.6 SUMMARY

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In this chapter we discussed the concept of departmentation. From the above discussion we come to know that proper departmentation is required to be followed in the organization for effective and smooth functioning. It ensures systematic flow of work in the organization. We also discussed the various bases which can be followed for the process of departmentation. According to the requirement of the situation the proper base has to be followed.

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## 10.7 EXERCISE

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1. What is departmentation? Explain the importance of departmentation to the organization.
2. State and explain the factors influencing departmentation.
3. Explain the various bases for departmentation.
4. Explain the following terms in four to five sentences:
  - a. Departmentation
  - b. Departmentation by functions
  - c. Departmentation by area
  - d. Departmentation by Customer
  - e. Departmentation by Time



# Chapter 11

## SPAN OF CONTROL

### Unit Structure

- 11.0 Objective
- 11.1 Introduction to span of control
- 11.2 Importance / advantages of span of control
- 11.3 Factors affecting span of control
- 11.4 Graicunas theory on span of control
- 11.5 Summary
- 11.6 Exercise

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### 11.0 OBJECTIVE

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After studying the unit the students will be able to:

- Know the Meaning of span of control
- Explain the Advantages of span control
- Discuss the Factors affecting span of control
- Discuss the Graicunas theory of span of control

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### 11.1 INTRODUCTION TO SPAN OF CONTROL

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Span of control is also called as span of management or span of supervision. This concept was introduced by Sir Ian Hamiton. It was supported by V.A.Graicunas and Urwick. There is a limit on the number of persons that can be managed by manager at a time. Span of control deals with this concept.

Span of control or span of management is a dimension of organizational design measured by the number of subordinates that report directly to a given manager. This concept affects organization

design in a variety of ways, including speed of communication flow, employee motivation, reporting relationships, and administrative overhead.

A small, or narrow, span of control results in each manager supervising a small number of employees, while a wide span of management occurs when more subordinates report directly to a given manager. A small span of management would make it necessary to have more managers and more layers of management to oversee the same number of operative employees than would be necessary for an organization using a wider span of management. The narrower span of management would result in more layers of management and slower communications between lower level employees and top level managers of the firm.

**Meaning:**

Span of control refers to number of subordinates that can be effectively managed and supervised by a manager at a time.

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## **11.2 IMPORTANCE / ADVANTAGES OF SPAN OF CONTROL**

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Span of control is very important principle of organizing. The importance of span of control can be explained as follows:

**1. Superior can concentrate on important work:**

Due to proper span of control supervisor gets enough time to concentrate on important activities. If span of control is unreasonably large then superior may not be able to concentrate on important areas as his time will be spent more for Supervision.

**2. Good relations:**

Proper size of span of control facilitates to maintain good relations between managers and subordinates.

**3. Team work:**

Proper span of control facilitates team work in the organization. As relations are healthy, it develops good team spirit among all.

**4. Quick actions:**

Because of good co-ordination, relations and team spirit quick actions are possible.

**5. Increased efficiency:**

Due to proper supervision efficiency of the organization increases.

**6. Corporate image:**

Due to higher efficiency and good relations, corporate image of the organization develops.

**7. Motivates personnel :**

Proper size of span of control motivates subordinates. As subordinates are close to their superiors, they get proper guidance from time to time.

**8. Reduces labor absenteeism and turnover:**

As all the employees are part of co-coordinated team, it develops morale of the employees. It results into less labor absenteeism and turnover.

**CHECK YOUR PROGRESS:**

5. What do you mean by span of control?

6. "Span of control is very important principle of organizing." Explain.

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## **11.3 FACTORS AFFECTING SPAN OF CONTROL**

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Various factors that affect size of span of control are explained as follows:

### **1. Nature of work:**

If the work to be performed is of routine nature, then span of control can be large. But if work is complex and complicated then there should be few subordinates in span of control as manager will have spend more time on discussion rather on supervision.

### **2. Experience of subordinates:**

If subordinates are enough capable and experienced then span can be large whereas if there are less experienced subordinates then span should be less. This is because less experienced people require more supervision.

### **3. Capacity and experience of superior:**

If manager is experienced and capable enough, span can be large. Whereas new managers with less experience should be given few number of subordinates for supervision.

### **4. Extent of delegation of authority:**

If manager delegates more and clear authority then much of his time will be saved which can be used for supervision. In this case span of control may be large.

### **5. Personal assistance:**



If manager is able to use assistance from personal staff like personal assistant then he can handle more number of subordinates. As personal assistant is available manager can spend more time on supervision.

#### **6. Superior subordinate relations:**

If the relations between superior and subordinates are sound, then size of span of control can be large. Good relations always develop good communication and team work.

#### **7. Use of standing plans:**

Standing plans are those plans which are used frequently. If the organization has developed proper standing plans then subordinates can follow the same. Then superior will not have to give more instructions and size of span of control can be kept large.

#### **8. Control system employed:**

Size of span of control also depends upon control system employed in the organization. Good control system facilitates proper controlling of subordinates performance. This reduces supervision work of manager.

#### **CHECK YOUR PROGRESS:**

1. What are the factors affecting size of span of control?

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### **11.4 GRAICUNAS THEORY ON SPAN OF CONTROL**

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Graicunas distinguished three types of interactions – direct single relationships, cross-relationships, and direct group relationships – each of them contributing to the total amount of interactions within the organization. According to Graicunas, the number of possible interactions can be computed in the following way. Let  $n$  be the number of subordinates reporting to a supervisor. Then, the number of relationships of direct single type the supervisor could possibly engage into is  $n$ .

Three basic kinds of relationships were described.

1. Direct single relationships between superior and individual subordinates.
2. Cross relationships between individual subordinates.
3. Direct group relationships between superior and combinations of subordinates.

The number of interactions between subordinates (cross relationships) he has to monitor is

$$n(n - 1)$$

and the number of direct group relationships is

$$n(2^n / 2 + n - 1)$$

The sum of these three types of interactions is the number of potential relationships of a supervisor. Graicunas showed with these formulas, that each additional subordinate increases the number of potential interactions significantly. It appears natural, that no organization can afford to maintain a control structure of a dimension being required for implementing a scalar chain under the unity of command condition. Therefore, other mechanisms had to be found for dealing with the dilemma of maintaining managerial control, while keeping cost and time at a reasonable level, thus making the span of control a critical figure for the organization.

The Graicunas formula is named after V.A. Graicunas, who gave a mathematical formula to explain the complexity of span of control if more subordinates are added to the executive. Every executive always measures the burden of his responsibility to control the subordinates in terms of single relationship between himself and his subordinates. Graicunas feels that in any group, the relations between executive and his subordinates cannot just be calculated based on single relationship alone. According to him, there also exists cross relationships which increase in mathematical proportion. The direct single relationships always increase in the same proportion as the number of subordinates.

According to these formulae, in any organization if there are three subordinates direct single relationships would be three, cross relationships six and direct group relationships nine. But if one more member is added there would not be any change in the direct single relationships which would be four, but the cross relationships would increase to 12 and direct group relationship, however, rise exponentially to 28. This explains that addition of each member to the group under the control of the executive would increase the number of direct group relationships to such an extent that direct contribution becomes difficult in some cases even impossible.

**CHECK YOUR PROGRESS:**

1. According to Graicunas theory what are the types of relationships existing among the superiors and subordinates?
2. State the formula on number of relationships as per Graicunas theory.

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**11.5 SUMMARY**

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In this chapter we discussed the concept of span of control. We understood the importance of it in the organizations. The size of span of control is affected by various factors and therefore while deciding span of control all these factors need to be considered carefully. Proper span of control ensures effective supervision which results into efficiency in the organization. We also discussed the great theory on span of control propounded by Graicunas.

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**11.6 EXERCISE**

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1. What is span of control? Explain the advantages of span of control.
2. Explain the various factors affecting size of span of control.
3. Discuss the theory on span of control by Graicunas.



## Chapter 12

# CONTROLLING

### Unit Structure

- 12.0 Objective
- 12.1 Introduction
- 12.2 Meaning and definition of controlling
- 12.3 Purpose of controlling
- 12.4 Areas of control
- 12.5 Steps in controlling Process
- 12.6 Budgetary Control
- 12.7 Summary
- 12.8 Exercise

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## 12.0 OBJECTIVE

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After studying the unit the students will be able to:

- Understand the Meaning and definition of controlling
- Explain the Purpose of control
- Discuss the Areas of control
- Know the Steps in controlling process
- Explain the Techniques of control
- Understand the concept Budgetary control

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## 12.1 INTRODUCTION

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Controlling Consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions.

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

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## **12.2 MEANING AND DEFINITION OF CONTROLLING**

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Controlling is the end function of management. It is required at all the levels of management. Controlling is a process of monitoring actual performance and taking corrective measures if required. It is the process of checking to determine whether or not plans are being properly implemented and objectives are achieved.

### **Definition:**

1. According to George Terry, "Controlling is determining what is being accomplished, that is, evaluating the performance, and if necessary, applying corrective measures so that the performance takes place according to the plans."
2. According to Koontz and O'Donnell, "Control is measurement of accomplishment against the standard and the correction of deviations to assume attainment of objectives according to plans."
3. According to Brech, "Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."

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## **12.3 PURPOSE OF CONTROLLING**

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Controlling is used for the various objectives. Some of them are as follows:

1. Controls are used to standardize performance for increasing efficiency and reducing cost by way of time and motion studies, inspections, written procedures or work schedules.

2. Controls used to conserve company assets through allocation of responsibilities, separation of operational, custodial and accounting activities and adoption of proper authorization and record keeping.
3. Controls are used to standardize quality by way of inspection, statistical quality control and product specifications.
4. Controls used for providing free limits to the use of delegated authority without any further top-management approval.
5. Controls are used to measure on-the job performance by way of special reports, internal audits, budgets, standard cost and output per hour or per employee.
6. Controls are used for planning future operations through sales and production forecasts, budgets, cost standards and other standards for measurement.
7. Controls are used to permit top management for keeping various plans and programmes.
8. Controls are designed to motivate personnel through promotions, rewards for suggestions, profit sharing and other methods of recognizing achievements.

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## **12.4 AREAS OF CONTROL**

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The work of the manager in controlling involves four specific areas. These areas are as follows:

### **1. Establishing standard of accountability:**

Manager should see to it that there are valid, understandable and acceptable standards for measurement of work as it goes forward. These standards are based on the plans established to initiate the work.

### **2. Measuring work in progress:**

Record must be kept of work as it progresses so that performance can be compared to the applicable standard. Measurement may be in terms of amount spent, units sold, customers contacted, activities completed and so on. Effective measurement also requires accurate reporting of the work accomplished.

### **3. Interpreting results:**

The results accomplished must be evaluated in terms of the standards by which work is being judged. Interpretation involves not only comparison of actual against standard but also identification of discrepancies and analysis of why these variances have occurred.

#### 4. Taking corrective action:

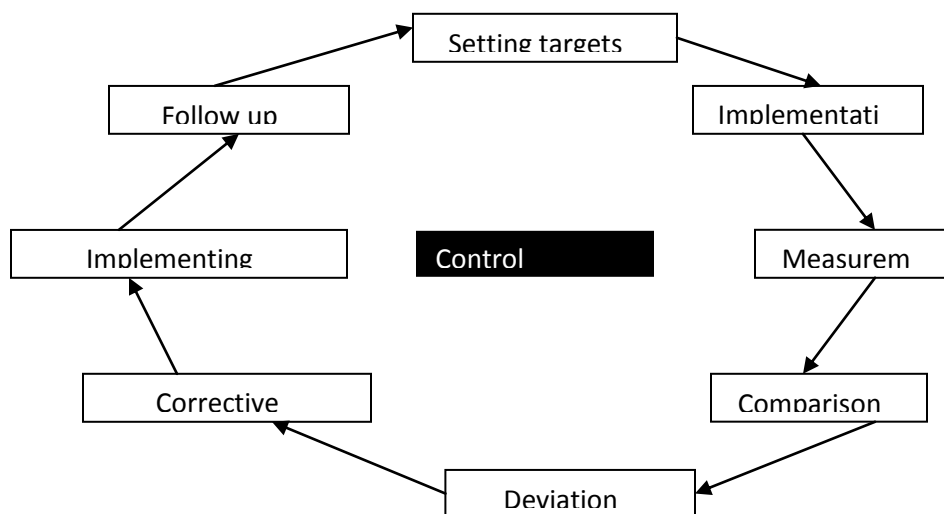
When variations from plan occur, it is necessary to bring the work going on back to the desired course. The manager himself must decide what is required to attain the results he expects. Only he can give the orders which lead to effective corrective action.

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## 12.5 STEPS IN CONTROLLING PROCESS

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The steps in control process are explained as follows:



**1. Setting targets:**

Managers must fix the targets to be achieved. The standards are generally fixed for a definite period may be for one month, one year etc. the standards are required to be set properly because against these only the actual performance compared. For e.g. The marketing manager may fix the standard for his department to sell 10000 units in a particular month.

**2. Implementation of targets:**

Manager must make arrangement for actual implementation of targets. For implantation proper arrangements of resources is required.

**3. Measurement:**

After implementation manager should count the actual performance of his subordinates. For e.g. The subordinates may actually sell 9000 units in the market in that particular month.

**4. Comparison:**

Manager should compare the actual performance with the standard performance. In our example Marketing manager will compare the actual performance i.e 9000 units against standard performance i.e. 10000 units.

**5. Deviation:**

Deviation is difference between standard and actual performance. Manager should then find out deviation if any. In our example deviation is  $10000-9000=1000$  units.

**6. Corrective measures:**

After finding out deviation, manager should list out possible reasons for deviation. In our example reasons can be poor advertising, poor quality of product, poor distribution strategy etc. Manager then list out the corrective measures to overcome these reasons. The corrective



measures can be improvement in product quality, improving advertising strategies, improving distribution network etc.

### **7. Implementing measures:**

Manager then should select the best corrective measure out of all the listed measures. This selection is done after doing cost benefit analysis of each alternative. Manager should then implement the best selected corrective measure.

### **8. Follow up:**

After implementation manager should take a review of performance that whether the selected corrective measure is able to solve deviation or not. If there is no improvement then manager should again find out the other alternative corrective measure.

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## **12.5 TECHNIQUES OF CONTROLLING**

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Following are some of the techniques of managerial control:

### **1. Budgetary control:**

Budgets are statements of anticipated results either in e monetary terms or in non- monetary terms. There are various types of budgets such as cash budget, production budget, capital expenditure budget etc. Because of quantitative nature budgets provide basis for measuring performance and facilitate comparison across departments, between levels in the organization and from one period to another. It follows the principle of control by exception. The subordinates report only exceptional deviations to their superiors.

### **2. Management audit:**

Management audit refers to the systematic evaluation of the functioning and performance of management. It reviews the quality of management. It is designed to make an assessment of management process. It is a periodic evaluation of past and present managerial

practices to identify the adjustments necessary to make the organization more effective. It is conducted by a team of experts. The team collects relevant data from management, employees, customers, dealers and others. The data is collected, analyzed and conclusions are drawn in respect of performance of management.

### **3. PERT and CPM:**

The two important network techniques are PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method). PERT was developed by the Special Projects Office of the U.S.Navy in connection with the Polaris Weapons System. CPM was developed by Du Pont company for facilitating control of large,

complex and industrial projects. The PERT and CPM techniques are based on the same principles. The only difference is that CPM is based on a single estimate of time requires for the completion of activities

The CPM technique is used for projects like construction and maintenance projects. PERT is based on expected completion time, computed from three estimated times- the optimistic time, the pessimistic time and the most likely time. The PERT technique can be used for more complicated projects like engineering and tooling projects.

### **4. MBO:**

The concept of MBO (Management By Objectives) was first popularized by Peter Drucker in 1950s. In MBO superiors and subordinates jointly decide the goals, plan out the activities. The subordinate managers implement the plan and finally there is a joint review of performance.

### **5. Direct supervision:**

It is the oldest technique of controlling. In every organization supervisors directly supervise and observe the subordinates performance. If they found any deviation they can suggest immediate corrective actions.

**6. Self control:**

Self control means controlling the performance on own. This is specially applicable at higher levels. Here the managers set their own targets, observe the performance, find out the deviations and take necessary actions to improve the performance.

**7. Break Even Analysis:**

This technique analyses the cost-profit-volume relationship. It indicates at what cost and volume a firm would make a profit. It helps to decide break even point. The break even point is that point where cost is exactly same as revenue ie no profit no loss point. With the help of this analysis a firm monitor the activities so as to reach at least the break even point.

**8. MIS:**

MIS (Management Information System) is a tool rather than a technique of controlling. In MIS information is collected from internal and external environment, analysis is done and then data is stored for future reference. Managers can use this information whenever required.

**CHECK YOUR PROGRESS:**

7. Draw the chart showing Control process.
8. What do you mean by PERT and CPM?
9. What is MIS?
10. What is break even analysis?
11. Explain the concept of MBO.

---

**12.6 BUDGETARY CONTROL**


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**12.6.1 MEANING OF BUDGET:**

A formal statement of the financial resources set aside for carrying out specific activities in a given period of time. A budget is a plan expressed in quantitative, usually monetary term, covering a

specific period of time, usually one year. In other words a budget is a systematic plan for the utilization of manpower and material resources. In a business organization, a budget represents an estimate of future costs and revenues. Budgets may be divided into two basic classes: Capital Budgets and Operating Budgets.

Different types of budgets are prepared for different purposes e.g. Sales Budget, Production Budget, Administrative Expense Budget, Raw-material Budget etc. All these sectional budgets are afterwards integrated into a master budget, which represents an overall plan of the organization.

### **12.6.2 MEANING OF BUDGETARY CONTROL:**

A control technique whereby actual results are compared with budgets. Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

### **12.6.3 CHARACTERISTICS OF A BUDGET:**

A good budget is characterized by the following:

1. Participation: involve as many people as possible in drawing up a budget
2. Comprehensiveness: embrace the whole organization.
3. Standards: base it on established standards of performance.
4. Flexibility: allow for changing circumstances.
5. Feedback: constantly monitor performance.
6. Analysis of costs and revenues: this can be done on the basis of product lines, departments or cost centers.
7. It is prepared in advance and is derived from the long-term strategy of the organization.
8. It relates to future period for which objectives or goals have already been laid down.
9. It is expressed in quantitative form, physical or monetary units, or both.

### **12.6.4 THE PROCESS OF BUDGETARY CONTROL**

1. Preparation of various budgets.
2. Continuous comparison of actual performance with budgetary performance.

3. Revision of budgets in the light of changed circumstances.

A system of budgetary control should not become rigid. There should be enough scope of flexibility to provide for individual initiative and drive. Budgetary control is an important device for making the organization more efficient on all fronts. It is an important tool for controlling costs and achieving the overall objectives. No system of planning can be successful without having an effective and efficient system of control. Budgeting is closely connected with control. The exercise of control in the organization with the help of budgets is known as budgetary control.

#### **12.6.5 STEPS IN BUDGETARY CONTROL:**

1. Organization for budgeting
2. Budget manual + Theory

"A document which sets out, inter alia, the responsibilities of the persons engaged in, the routine of and forms and records required for budgetary control."

The budget manual is a written document or booklet that specifies the objectives of budgeting organization and procedures. Following are some of the important matters covered in a budget manual:

1. A statement regarding the objectives of the organization and how they can be achieved through budgetary control.
2. A statement regarding the functions and responsibilities of each Executive by designation both regarding preparation and execution of budgets.
3. Procedures to be followed for obtaining the necessary approval of budgets.
4. The authority of granting approval should be stated in explicit terms.
5. Whether one, two or more signatures are to be required on each document
6. Should also be clearly stated.
7. Timetable for all stages of budgeting.
8. Reports, statements, forms and other records to be maintained.
9. The accounts classification to be employed. It is necessary that the framework within which the costs, revenues and other financial

amount are classified must be identical both in accounts and the budget departments.

#### **12.6.6 ADVANTAGES OF BUDGETING AND BUDGETARY CONTROL:**

There are a number of advantages to budgeting and budgetary control:

1. Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.
2. Promotes coordination and communication.
3. Clearly defines areas of responsibility. Requires managers of budget centers to be made responsible for the achievement of budget targets for the operations under their personal control.
4. Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.
5. Enables remedial action to be taken as variances emerge.
6. Motivates employees by participating in the setting of budgets.
7. Improves the allocation of scarce resources.
8. Economizes management time by using the management by exception principle.
9. It brings about efficiency and improvement in the working of the organization.
10. It is a way of communicating the plans to various units of the organization. By establishing the divisional, departmental, sectional budgets, exact responsibilities are assigned. It thus minimizes the possibilities of buck passing if the budget figures are not met.
11. It is a way or motivating managers to achieve the goals set for the units.
12. It serves as a benchmark for controlling on-going operations.
13. It helps in developing a team spirit where participation in budgeting is encouraged.

14. It helps in reducing wastage and losses by revealing them in time for corrective action.
15. It serves as a basis for evaluating the performance of managers.
16. It serves as a means of educating the managers.

### **12.6.7 PROBLEMS IN BUDGETING:**

While budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms.

1. Budgets can be seen as pressure devices imposed by management, thus resulting in:
  - a) Bad labour relations
  - b) Inaccurate record-keeping.
2. Departmental conflict arises due to:
  - a) Disputes over resource allocation
  - b) Departments blaming each other if targets are not attained.
  - c) It is difficult to reconcile personal/individual and corporate goals.
3. Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department.
4. Managers may overestimate costs so that they will not be blamed in the future should they overspend.

### **CHECK YOUR PROGRESS:**

1. What do you mean by budget?
2. Explain the meaning of budgetary control.
3. State the characteristics of budgeting
4. State the advantages of budgeting
5. State the limitations of budgeting.

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## **12.7 SUMMARY**

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From the discussion it is clear that controlling is an important tool of management. It gives the clear picture about achievements of the organization against its set standards. Organization can follow various techniques of controlling as per the requirement of the situation. One of

the popular techniques of controlling is budgetary control, where various types of budgets are prepared and actual are compared against these budgets.

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## 12.8 EXERCISE

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4. Define controlling. Explain the stages involved in process of controlling.
5. Discuss the areas of control.
6. Discuss the purpose behind controlling function.
7. State and explain the various techniques of controlling.
8. Discuss the process of preparing budget.
9. Write a note on types of budget.
10. Explain the following terms in four to five sentences:
  - a. Controlling
  - b. budgetary control
  - c. Management audit
  - d. PERT
  - e. CPM
  - f. Break-even point
  - g. MIS





# Chapter 13

## CO-ORDINATION

### Unit Structure

- 13.0 Objective
- 13.1 Introduction
- 13.2 Meaning of co-ordination
- 13.3 Need and importance of co-ordination
- 13.4 Principles of co-ordination
- 13.5 Problems of co-ordination
- 13.6 Summary
- 13.7 Exercise

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### 13.0 OBJECTIVE

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After studying the unit the students will be able to:

- Understand the Meaning of co-ordination
- Explain the Need and importance of co-ordination
- Discuss the Principles of co-ordination
- Know the Problems of co-ordination
- Coordination is the unification, integration, synchronization of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is undertaken at every level of management. It deals with the task of blending efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing and controlling. It is a part of all phases of administration and that is not a separate and distinct activity. It is a hidden force which binds all the other functions of management. Management seeks to achieve co-ordination through its basic functions of planning, organizing, staffing, directing and controlling. That is why, co-ordination is not a separate function of management because achieving of harmony between individuals efforts towards achievement of group goals is a key to success of management. Co-ordination is the essence of management and is implicit and inherent in all functions of management.

---

## 13.1 INTRODUCTION

---

Coordination is the unification, integration, synchronization of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is undertaken at every level of management. It deals with the task of blending efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing and controlling. It is a part of all phases of administration and that is not a separate and distinct activity. It is a hidden force which binds all the other functions of management. Management seeks to achieve co-ordination through its basic functions of planning, organizing, staffing, directing and controlling. That is why, co-ordination is not a separate function of management because achieving of harmony between individuals efforts towards achievement of group goals is a key to success of management. Co-ordination is the essence of management and is implicit and inherent in all functions of management.

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## 13.2 MEANING OF CO-ORDINATION

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Co-ordination refers to interlinking of various activities of management in the organization. There is a need of co-ordination at all the levels.

- Top level co-ordinates the activities of middle level.
- Middle level co-ordinates the activities of lower level.
- Lower level co-ordinates the activities of workers.

**According to Mooney and Reelay**, “Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals”.

**According to Charles Worth**, “Co-ordination is the integration of several parts into an orderly whole to achieve the purpose of understanding”.

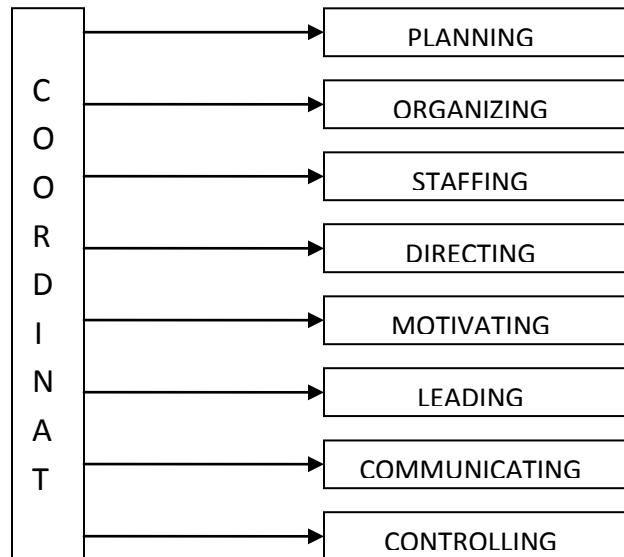
**According to Tead**, “co-ordination is the effort to assure a smooth interplay of the functions and forces of the different component parts of an organization to the end that its purpose will be realized with a minimum of friction and a maximum of collaborative effectiveness.”

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## 13.3 NEED AND IMPORTANCE OF CO-ORDINATION

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Co-ordination is an essence of management. This is because there is a need of co-ordination while carrying on every function of management. This can be explained with the help of following chart.



From the above chart it is clear that co-ordination is required at every function of the management.

### 1. Planning and co-ordination:

Planning is deciding in advance what to do, how to do, when to do and who will do it. While finalizing the plan all departmental activities need to be co-coordinated with each other. A good plan requires interdepartmental co-operation.

### 2. Organizing and co-ordination:

Organizing is arrangement and procurement of all human and physical resources requires for implantation of plan. It also includes deciding superior subordinate relationships. While organizing co-ordination is required so that resources will be utilized only as per requirement and there will be no wastage of resources.

**3. Staffing and co-ordination:**

Staffing is filling and keeping filled positions of organization structure. It also includes training, transfer, promotion, selection etc of employees. While carrying on staffing function co-ordination is required so that right person will be selected the right post.

**4. Directing and co-ordination:**

Directing is giving orders and instructions to the subordinates so that work will be carried on as per the plan. A good level of co-ordination is required while issuing orders and instructions. There should not be any confusion and duplication of orders.

**5. Motivating and co-ordination:**

Motivation is encouraging the subordinates by giving monetary and non-monetary benefits, to get desired results. Motivation will be successful if co- ordination is maintained.

**6. Leading and co-ordination:**

Leading is driving the entire force positively for achieving goals. A leader should always co-ordinate the activities of his followers, so that expected results can be achieved.

**7. Communicating and co-ordination:**

Communication is the most important factor for co-ordination. Effective communication always facilitates co-ordination in the organization. It generates team work.

**8. Controlling and co-ordination:**

Controlling is monitoring the performance of subordinates and implementing corrective measures for improvement. While controlling superior should try to have co-ordination among all the activities of subordinates so that errors can be detected.

**CHECK YOUR PROGRESS:**

12. "Co-ordination is an essence of management." Discuss.
13. What do you mean by co-ordination?
14. Explain the importance of co-ordination.

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## **13.4 PRINCIPLES OF CO-ORDINATION**

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Mary Parker Follett has laid out four principles for effective co-ordination;

### **1. Direct personal contact:**

According to this principle co-ordination is best achieved through direct personal contact with people concerned. Direct face-to-face communication is the most effective way to convey ideas and information and to remove misunderstanding.

### **2. Early beginning:**

Co-ordination can be achieved more easily in early stages of planning and policy-making. Therefore, plans should be based on mutual consultation or participation. Integration of efforts becomes more difficult once the uncoordinated plans are put into operation. Early co-ordination also improves the quality of plans.

### **3. Reciprocity:**

This principle states that all factors in a given situation are interdependent and interrelated. For instance, in a group every person influences all others and is in turn influenced by others. When people appreciate the reciprocity of relations, they avoid unilateral action and co-ordination becomes easier.

### **4. Continuity:**

Co-ordination is an on-going or never-ending process rather than a once-for-all activity. It cannot be left to chance, but management has to strive constantly. Sound co-ordination is not fire-fighting, i.e., resolving conflicts as they arise.

**For effective co-ordination following techniques can be followed:**

The main techniques of effective co-ordination are as follows.

### **1. Sound planning:**

Unity of purpose is the first essential condition of co-ordination. Therefore, the goals of the organization and the goals of its units must be clearly defined. Planning is the ideal stage for co-ordination. Clear-cut objectives, harmonized policies and unified procedures and rules ensure uniformity of action.

### **2. Simplified organization:**

A simple and sound organization is an important means of co-ordination. The lines of authority and responsibility from top to the bottom of the organization structure should be clearly defined. Clear-cut authority relationships help to reduce conflicts and to hold people responsible. Related activities should be grouped together in one department or unit. Too much specialization should be avoided as it tends to make every unit an end in itself.

### **3. Effective communication:**

Open and regular communication is the key to co-ordination. Effective interchange of opinions and information helps in resolving differences and in creating mutual understanding. Personal and face-to-face contacts are the most effective means of communication and co-ordination. Committees help to promote unity of purpose and uniformity of action among different departments.

### **4. Effective leadership and supervision:**

Effective leadership ensures co-ordination both at the planning and execution stage. A good leader can guide the activities of his subordinates in the right direction and can inspire them to pull together for the accomplishment of common objectives. Sound leadership can persuade subordinates to have identity of interest and to adopt a common outlook. Personal supervision is an important method of resolving differences of opinion.

### **5. Chain of command:**

Authority is the supreme co-coordinating power in an organization. Exercise of authority through the chain of command or

hierarchy is the traditional means of co-ordination. Co-ordination between interdependent units can be secured by putting them under one boss.

#### **6. Indoctrination and incentives:**

Indoctrinating organizational members with the goals and mission of the organization can transform a neutral body into a committed body. Similarly incentives may be used to create mutuality of interest and to reduce conflicts. For instance, profit-sharing is helpful in promoting team-spirit and co-operation between employers and workers.

#### **7. Liaison departments:**

Where frequent contacts between different organizational units are necessary, liaison officers may be employed. For instance, a liaison department may ensure that the production department is meeting the delivery dates and specifications promised by the sales department. Special co-coordinators may be appointed in certain cases. For instance, a project co-coordinator is appointed to co-ordinate the activities of various functionaries in a project which is to be completed within a specified period of time.

#### **8. General staff:**

In large organizations, a centralized pool of staff experts is used for co-ordination. A common staff group serves as the clearing house of information and specialized advice to all department of the enterprise. Such general staff is very helpful in achieving inter-departmental or horizontal co-ordination. Task forces and projects teams are also useful in co-ordination.

#### **9. Voluntary co-ordination:**

When every organizational unit appreciates the workings of related units and modifies its own functioning to suit them, there is self-co-ordination. Self-co-ordination or voluntary co-ordination is possible in a climate of dedication and mutual co-operation. It results from mutual consultation and team-spirit among the members of the organization. However, it cannot be a substitute for the co-coordinative efforts of managers.

**CHECK YOUR PROGRESS:**

1. List out the important principles of co-ordination.

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**13.5 PROBLEMS OF CO-ORDINATION**

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Problems of co-ordination exist both horizontally and vertically in the organization. The impact of horizontal co-ordination is much higher than that of vertical co-ordination.

Under horizontal co-ordination, the dissimilar activities of many hybrid units are to be harmonized and unified with overall objectives and fixed patterns of behavior of the enterprise.

Vertical co-ordination on the other hand demands the symmetrical action of people at various levels for accomplishing enterprise objectives through the linkage of individual contributions to the total performance.

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**13.6 SUMMARY**

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From the discussion it is clear that co-ordination is an essence of management. Without proper co-ordination, not a single function of management can be carried on successfully. For effective co-ordination some principles need to be followed. But at the same time one should not forget the problems associated with co-ordination.

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**13.7 EXERCISE**

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11. What is co-ordination? Explain the principles for effective co-ordination.
12. "Co-ordination is an essence of management." Discuss.
13. Discuss the problem associated with co-ordination.
14. Explain the term coordination in four to five sentences.





## Chapter 14

# TOTAL QUALITY MANAGEMENT AND QUALITY CIRCLES

### Unit Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Meanings of Quality
- 14.3 The Principles of Quality Control
- 14.4 Quality Circles
- 14.5 TQM
- 14.6 Benchmarking
- 14.7 International Organization for standardization (ISO)
- 14.8 Indian Standards Institute (ISI)
- 14.9 Summary
- 14.10 Exercise

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### **14.0 OBJECTIVES**

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After studying the unit the students will be able to:

- Understand the meaning of Quality.
- Know the importance of Quality control.
- Understand the Quality Circle.
- Explain the meaning, importance and features of TQM.
- Understand the concept Benchmarking.
- Explain the process and types of Benchmarking.
- Discuss the importance of ISO and criticise on ISO
- Know the advantages of taking ISI certificate.
- Distinguish between original and duplicate ISI mark.

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## 14.1 INTRODUCTION

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Companies that do not make quality a priority risk long-run survival. Quality is the key to competitive advantage in today's business environment. As more organizations opt for Total Quality Management (TQM), the choices open to those wanting to set up a quality system are becoming increasingly varied. Total quality management is a management system for a customer focused organization that involves all employees in continual improvement of all aspects of the organization. TQM uses strategy, data, and effective communication to integrate the quality principles into the culture and activities of the organization. Total Quality Management (TQM) is an approach that seeks to improve quality and performance which will meet or exceed customer expectations. This can be achieved by integrating all quality-related functions and processes throughout the company. TQM looks at the overall quality measures used by a company including managing quality design and development, quality control and maintenance, quality improvement, and quality assurance. TQM takes into account all quality measures taken at all levels and involving all company employees.

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## 14.2 MEANING OF QUALITY

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### Definition and Meaning:

1. General Measure of excellence or state of being free from defects, deficiencies, and significant variations. ISO standard defines quality as “the totality of features and characteristics of a product or service that bears its ability to satisfy stated or implied needs”
2. Manufacturing: Strict and consistent adherence to measurable and verifiable standards to achieve uniformity of output that satisfies specific customer or user requirements.

General the common element of the business definitions is that the quality of a product or service refers to the perception of the degree to which the product or service meets the customer's expectations. Quality has no specific meaning unless related to a specific function and/or object. Quality is a perceptual, conditional and somewhat subjective attribute.

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## 14.3 THE PRINCIPLES OF QUALITY CONTROL

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Successful businesses inevitably place great emphasis on managing quality control - carefully planned steps taken to ensure

that the products and services offered to their customers are consistent and reliable and truly meet their customers' needs.

It is said that when the Japanese business that later became Sony Corporation was founded, the co-founder Mr. Ibuka established the company philosophy by stating that "If it were possible to establish conditions where persons could become united with a firm spirit of teamwork and exercise to their hearts' desire their technological capacity, then such an organization could bring untold pleasure and untold benefits." For decades, Japanese businesses have pioneered management techniques intended to improve quality continuously. American and European companies have spent years catching up.

**Krister Forsberg summary of quality management principles:**

1. **Customer-Focused Organization.** Organizations depend on their customers and therefore should understand current and future customer needs, meet customer requirements, and strive to exceed customer expectations.
2. **Leadership.** Leaders establish unity of purpose, direction, and the internal environment of an organization. They create that environment in which people can become fully involved in achieving the organization's objectives.
3. **Involvement of People.** People at all levels are the essence of an organization and their full involvement enables their abilities to be used for the organization's benefit.
4. **Process Approach.** A desired result is achieved more efficiently when related resources and activities are managed as a process.
5. **System Approach to Management.** Identifying, understanding, and managing a system of interrelated processes for a given objective contribute to the effectiveness and efficiency of the organization.
6. **Continual Improvement.** Continual improvement is a permanent objective of the organization.
7. **Factual Approach to Decision Making.** Effective decisions and actions are based on the logical and intuitive analysis of data and information.
8. **Mutually Beneficial Supplier Relationships.** Mutually beneficial relationships between the organization and its supplier enhance the ability of both organizations to create value.

All management personnel, starting with the owner, must understand and agree that quality management is essential to the success of the business. Once that agreement has been reached, every employee must be involved in the process. All too often, employees are reluctant to report quality problems, feeling that they would be "rocking the boat" or seen as criticizing co-workers to management. Every effort must be made to convince each employee that jobs and prosperity depend on quality products and services, and that teamwork and cooperation are essential in ensuring quality.

Every process required to satisfy a customer needs to be analyzed with the goal of improving customer satisfaction. Profitability will inevitably follow. Functions such as sales, extending credit, ordering materials, measuring and templating, shop fabrication, delivery, installation, billing and collection can't be seen as separate, unrelated functions. Problems resulting in customer dissatisfaction or financial losses most often occur when information is being passed from one such process to another. Special care must be taken to ensure that every process connects reliably to the adjacent processes.

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## 14.4 QUALITY CIRCLES

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Quality circles were first established in [Japan](#) in 1962; [Kaoru Ishikawa](#) has been credited with their creation. The movement in Japan was coordinated by the Japanese Union of Scientists and Engineers (JUSE). The first circles were established at the Nippon Wireless and Telegraph Company but then spread to more than 35 other companies in the first year. By 1978 it was claimed that there were more than one million Quality Circles involving some 10 million Japanese workers. There are now Quality Circles in most East Asian countries; it was recently claimed that there were more than 20 million Quality Circles in China.

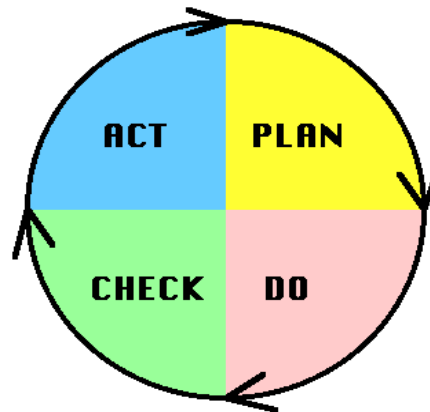
A quality circle is a [volunteer](#) formal group composed of [workers](#) (or even [students](#)), usually under the leadership of their supervisor (but they can elect a team leader), who are trained to identify, analyze and solve work-related problems and present their solutions to [management](#) in order to improve the performance of the organization, and motivate and enrich the work of employees. They meet at least once a week on company time. When quality circle matures, true quality circles become self-managing, having gained the confidence of management.

Quality circles are an alternative to the dehumanizing concept of the division of labor, where workers or individuals are treated like robots. They bring back the concept of craftsmanship,

which when operated on an individual basis is uneconomic, but when used in group form (as is the case with quality circles), it can be devastatingly powerful and enables the enrichment of the lives of the workers or students and creates harmony and high performance in the workplace. Typical topics are improving [occupational safety and health](#), improving [product design](#), and improvement in the workplace and [manufacturing processes](#).

### Principles:

The term quality circles derive from the concept of [PDCA](#) (Plan, Do, Check, Act) circles developed by Dr. [W. Edwards Deming](#). The Plan – Do – Check – Act (PDCA) cycle is the **operating principle** of ISO's management system standards.



**Plan** – establish objectives and make plans (analyze your organization's situation, establish your overall objectives and set your interim targets, and develop plans to achieve them).

**Do** – implement your plans (do what you planned to).

**Check** – measure your results (measure/monitor how far your actual achievements meet your planned objectives).

**Act** – correct and improve your plans and how you put them into practice (correct and learn from your mistakes to improve your plans in order to achieve better results next time).

Quality circles have been implemented even in educational sectors in India, and QCFI (Quality Circle Forum of India) is promoting such activities. However this was not successful in the United States, as it (was not properly understood and) turned out to be a fault-finding exercise although some circles do still exist.

### **14.5.1 MEANING AND DEFINITION:**

Total Quality Management (TQM) is a structured system for meeting and exceeding customer needs and expectations by creating organization-wide participation in the planning and implementation of improvement (continuous and breakthrough) processes.

### **14.5.2 IMPORTANCE OF TQM:**

In a global marketplace a major characteristic that will distinguish those organizations that are successful will be the quality of leadership, management, employees, work processes, product, and service. This means that products must not only meet customer and community needs for value, they must be provided in a continuously improving, timely, cost-effective, innovative, and productive manner.

Total Quality Management is an approach to the art of management that originated in Japanese industry in the 1950's and has become steadily more popular in the West since the early 1980's.

Total Quality is a description of the culture, attitude and organization of a company that aims to provide, and continue to provide, its customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company's operations, with things being done right first time, and defects and waste eradicated from operations

### **14.5.3 FEATURES:**

#### **1. Customer-driven quality:**

TQM has a customer-first orientation. Customer satisfaction is seen as the company's highest priority. The company believes it will only be successful if customers are satisfied. In the TQM context, 'being sensitive to customer requirements' goes beyond defect and error reduction, and merely meeting specifications or reducing customer complaints.

#### **2. TQM leadership from top management:**

Attempts to implement TQM often fail because top management doesn't lead and get committed - instead it delegates and pays lip service. Commitment and personal involvement is required from top management in creating and deploying clear quality values and goals consistent with the objectives of the company, and in creating and deploying well defined systems, methods and performance measures for achieving those goals.

### **3. Continuous improvement:**

Continuous improvement of all operations and activities is at the heart of TQM. Once it is recognized that customer satisfaction can only be obtained by providing a high-quality product, continuous improvement of the quality of the product is seen as the only way to maintain a high level of customer satisfaction.

### **4. Fast response:**

To achieve customer satisfaction, the company has to respond rapidly to customer needs. This implies short product and service introduction cycles. These can be achieved with customer-driven and process-oriented product development because the resulting simplicity and efficiency greatly reduce the time involved.

### **5. Actions based on facts:**

The statistical analysis of engineering and manufacturing facts is an important part of TQM. Facts and analysis provide the basis for planning, review and performance tracking, improvement of operations, and comparison of performance with competitors. The TQM approach is based on the use of objective data, and provides a rational rather than an emotional basis for decision making.

### **6. Employee participation:**

A successful TQM environment requires a committed and well-trained work force that participates fully in quality improvement activities. Such participation is reinforced by reward and recognition systems which emphasize the achievement of quality objectives. Employees are encouraged to take more responsibility, communicate more effectively, act creatively, and innovate.

#### **14.5.4 TQM CULTURE:**

It's not easy to introduce TQM. An open, cooperative culture has to be created by management. Employees have to be made to feel that they are responsible for customer satisfaction. They are unlikely to behave in a responsible way if they see management behaving irresponsibly - saying one thing and doing the opposite.

#### **14.5.5 PRODUCT DEVELOPMENT IN A TQM ENVIRONMENT:**

Product development in a TQM environment is customer-driven and focused on quality. Teams are process-oriented, and interact with their internal customers to deliver the required results. Management's focus is on controlling the overall process, and rewarding teamwork.

#### 14.5.6 ADVANTAGES:

1. Encourages a strategic approach to management at the operational level through involving multiple departments in cross-functional improvements and systemic innovation processes
2. Provides high return on investment through improving efficiency
3. Works equally well for service and manufacturing sectors
4. Allows organizations to take advantage of developments that enable managing operations as cross-functional processes
5. Fits an orientation toward inter-organizational collaboration and strategic alliances through establishing a culture of collaboration among different departments within organization

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### 14.6 BENCHMARKING

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#### 14.6.1 DEFINITION:

Benchmarking is the process of identifying "**best practice**" in relation to both products (including) and the processes by which those products are created and delivered.

The objective of benchmarking is to **understand and evaluate the current position** of a business or organisation in relation to "best practice" and to identify areas and means of performance improvement.

Dimensions typically measured are quality, time and cost. Improvements from learning mean doing things better, faster, and cheaper.

Benchmarking involves management identifying the best firms in their industry, or any other industry where similar processes exist, and comparing the results and processes of those studied (the "targets") to one's own results and processes to learn how well the targets perform and, more importantly, how they do it.

#### 14.6.2 THE BENCHMARKING PROCESS:

Benchmarking involves looking outward (outside a particular business, organisation, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the



processes behind excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organisation or in key areas of the business environment.

Application of benchmarking involves four key steps:

- (1) Understand in detail existing business processes.
- (2) Analyse the business processes of others.
- (3) Compare own business performance with that of others analysed.
- (4) Implement the steps necessary to close the performance gap.

Benchmarking, to be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.

#### **Procedure:**

1. **Identify your problem areas** – Carefully and systematically identify the area where benchmarking is required.
2. **Identify other industries that have similar processes** – Through external sources identify other organizations and industries where similar processes are ongoing.
3. **Identify organizations that are leaders in these areas** - Look for the very best in any industry and in any country. Consult customers, suppliers, financial analysts, trade associations, and magazines to determine which companies are worthy of study.
4. **Survey companies for measures and practices** - Companies target specific business processes using detailed surveys of measures and practices used by leading companies.
5. **Visit the "best practice" companies to identify leading edge practices** - Companies typically agree to mutually exchange information beneficial to all parties in a benchmarking group and share the results within the group.
6. **Implement new and improved business practices** - Take the leading edge practices and develop implementation plans which include identification of specific opportunities, funding the project and selling the ideas to the organization for the purpose of gaining demonstrated value from the process.

#### **14.6.3 TYPES:**

- **Process benchmarking** - the initiating firm focuses its observation and investigation of business processes with a goal of identifying and observing the best practices from one or more benchmark firms.
- **Financial benchmarking** - performing a financial analysis and comparing the results in an effort to assess your overall competitiveness and productivity.
- **Performance benchmarking** - allows the initiator firm to assess their competitive position by comparing products and services with those of target firms.
- **Product benchmarking** - the process of designing new products or upgrades to current ones. This process can sometimes involve reverse engineering which is taking apart competitors products to find strengths and weaknesses.
- **Strategic benchmarking** - involves observing how others compete. This type is usually not industry specific, meaning it is best to look at other industries.
- **Functional benchmarking** - a company will focus its benchmarking on a single function to improve the operation of that particular function.
- **Operational benchmarking** - embraces everything from staffing and productivity to office flow and analysis of procedures performed.
- **Internal Benchmarking:** involves benchmarking businesses or operations from within the same organisation (e.g. business units in different countries).
- **External Benchmarking:** involves analysing outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the "leading edge".
- **International Benchmarking:** involves identification and analyses of best practitioners elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results.

### CHECK YOUR PROGRESS

1. "Successful businesses inevitably place great emphasis on managing quality control." Explain.
2. Draw the Quality circle and explain it.
3. Explain the following terms in four to five sentences.
  - a. Quality
  - b. Quality circle
  - c. Total Quality Management

- d. Benchmarking
- e. Process Benchmarking
- f. Financial Benchmarking
- g. Product Benchmarking
- h. Strategic Benchmarking
- i. International Benchmarking
- j. External Benchmarking

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## 14.7 INTERNATIONAL ORGANISATION FOR STANDARDIZATION (ISO)

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### 14.7.1 MEANING

The **International Organization for Standardization** widely known as **ISO** is an [international-standard](#)-setting body composed of representatives from various national [standards organizations](#). The organization which today is known as ISO began in 1926 as the International Federation of the National Standardizing Associations (ISA). This organization focused heavily on [mechanical engineering](#). It was disbanded in 1942 during the [Second World War](#) but was re-organized under the current name, ISO, in 1946. Founded on February 23, 1947, the organization promulgates worldwide proprietary industrial and commercial [standards](#). It has its headquarters in [Geneva, Switzerland](#). While ISO defines itself as a [non-governmental organization](#), its ability to set standards that often become law, either through [treaties](#) or national standards, makes it more powerful than most non-governmental organizations. In practice, ISO acts as a consortium with strong links to governments.

### 14.7.2 MEMBERS

ISO has [163 national members](#), out of the [203](#) total countries in the world.

ISO has three membership categories:

- *Member bodies* are national bodies that are considered to be the most representative standards body in each country. These are the only members of ISO that have voting rights.
- *Correspondent members* are countries that do not have their own standards organization. These members are informed about ISO's work, but do not participate in standards promulgation.
- *Subscriber members* are countries with small economies. They pay reduced membership fees, but can follow the development of standards.

Participating members are called "P" members as opposed to observing members which are called "O" members.

### **14.7.3 ADVANTAGES:**

It is widely acknowledged that proper quality management improves business, often having a positive effect on investment, market share, sales growth, sales margins, competitive advantage, and avoidance of litigation. Any company competitive implementing ISO often gives the following advantages:

- Create a more efficient, effective operation
- Increase customer satisfaction and retention
- Reduce audits
- Enhance marketing
- Improve employee motivation, awareness, and morale
- Promote international trade
- Increases profit
- Reduce waste and increases productivity.

The **ISO** standards relate to quality management systems and are designed to help organizations ensure they meet the needs of customers and other stakeholders.

### **14.7.4 CRITICISM:**

- A common criticism of ISO certification is the amount of money, time and paperwork required for registration.
- ISO certification is not in any way an indication that products produced using its certified systems are any good. A company can intend to produce a poor quality product and providing it does so consistently and with the proper documentation can put an ISO 9001 stamp on it.
- The added cost to certify and then maintain certification may not be justified if product end users do not require ISO certification. The cost can actually put a company at a competitive disadvantage when competing against a non ISO certified company.
- The standard is seen as especially prone to failure when a company is interested in certification before quality. Certifications are in fact often based on customer contractual requirements rather than a desire to actually improve quality.
- Another problem reported is the competition among the numerous certifying bodies, leading to a softer approach to

the defects noticed in the operation of the Quality System of a firm.

#### 14.7.5 GROWTH:

The growth in ISO certification is shown in the table below. The worldwide total of ISO certificates can be found in the ISO Survey of 9001 in 2003, 2007, 2008 and 2009.

#### Source: ISO Survey 2009

Dec2 000	Dec2 001	Dec2 002	Dec2 003	Dec2 004	Dec2 005	Dec2 006	Dec2 007	Dec2 008	Dec2 009
4578 34	5103 49	5617 67	4979 19	6601 32	7738 67	8969 29	9514 86	9828 32	1064 785

#### Country wise Certification as per ISO Survey 2009

Rank	Country	No. of Certificates
1	China	257076
2	Italy	130066
3	Japan	68484
4	Spain	59576
5	Russian Federation	53152
6	Germany	47156
7	United Kingdom	41193
8	India	37493
9	USA	28935
10	Republic of Korea	23400

In recent years there has been a rapid growth in China which now accounts for approximately a quarter of the global certifications.

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## 14.8 INDIAN STANDARDS INSTITUTE (ISI)

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### 14.8.1 ISI CERTIFICATION:

Indian Standards Institute now known as Bureau of Indian Standard (BIS) is a registered society under Government of India. BIS main functions include the development of technical standards, product quality and management system certifications and consumer affairs. Founded by Professor P.C. Mahalanobis in Kolkata on 17th December, 1931, the institute gained the status of an Institution of National Importance by an act of the Indian Parliament in 1959.

To maintain the service and quality of a product is the main job of Bureau of Indian Standards (BIS). BIS allot the ISI mark to any product as third party guarantee after ensuring its quality, reliability and safety. Another job of BIS is to take action on the consumer complaints after making proper inquiry.

### 14.8.2 BENEFITS OF ISI MARK PRODUCT:

- The quality and standards of products with ISI mark are set up as this mark is issued after proper investigation.
- Products having ISI Certification mark are not required to be inspected by any agency.
- These products do not fall within the purview of the export inspection agencies network.
- The Customs Authorities allow export of such goods even if not accompanied by any pre-shipment inspection certificate.
- If you are not satisfied with the quality of product with ISI mark, then the company will give you new product in return to it.
- An action can be taken against the manufacturer of the product with ISI mark in case of its bad quality.

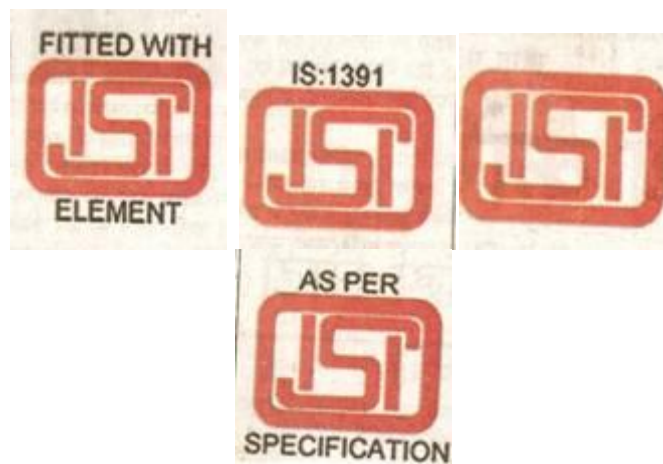
### 14.8.3 HOW TO DISTINGUISH BETWEEN ORIGINAL AND DUPLICATE ISI MARK?

- Products with 'As per ISI standards', 'Confirmed to ISI standards' or 'As per ISI specification' are duplicate.
- The logo on original ISI products is of **rectangular shape**. The ratio between its length and breadth is **4:3**. Number **IS**: is written upon with followed by a number. IS: is written on all products but the number varies. This number specifies the category of the

product. **CM/L** along with a seven digit license number is written below the logo. This number helps in identifying the unit where it was produced.



**Images of duplicate ISI mark**



### **8.8.3 Image of original ISI mark**

#### **14.8.4 SOME IMPORTANT POINTS TO CONSIDER:**

- Always take the bill of item purchased. Also ask the seller to mention the fact on the bill that the product is with ISI mark.
- Complaint in BIS if you are not satisfied with the quality of product with ISI mark. While making the complaint, specify the name of the product, details of the shop, date of purchasing, manufacturing date and the fact that whether you are having the bill or not.
- BIS takes action from time to time against the people misusing the ISI mark.
- The time duration of three months is fixed for the investigation of complaints received against quality of products with ISI mark.
- A punishment of one year or a penalty of up to Rs. 50,000 or both can be levied on the person misusing ISI mark.

- The investigation lab of BIS is situated in many cities all over the country. You can check the quality of any product after paying the fees as specified by BIS.

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## 14.9 SUMMARY

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**Quality** can be defined as the adherence to measurable and verifiable standards to achieve uniformity of output that satisfies specific customer or user requirements. Quality brings about customer orientation in the organization, develops leadership, involves people and instills continual improvement and factual approach to decision making.

**Quality Circles** are volunteer formal group composed of workers (or even students), usually under the leadership of their supervisor (but they can elect a team leader), who are trained to identify, analyze and solve work-related problems and present their solutions to management in order to improve the performance of the organization, and motivate and enrich the work of employees. It operates on the Plan-Do-Check-Act principles.

**Total Quality Management (TQM)** is a structured system for meeting and exceeding customer needs and expectations by creating organization-wide participation in the planning and implementation of improvement (continuous and breakthrough) processes.

It encourages a strategic approach to management at the operational, provides high return on investment through improving efficiency and works equally well for service and manufacturing sectors.

**Benchmarking** is the process of identifying "**best practice**" in relation to both products (including) and the processes by which those products are created and delivered.

It can be put into application through four key steps: Understand in detail existing business processes, analyse the business processes of others, compare own business performance with that of others and Implement the steps necessary to close the performance gap.

There are various types of benchmarking such as process, financial, performance, product, strategic, functional, operational, internal and external benchmarking.



The **International Organization for Standardization** widely known as **ISO** is an international standard-setting body composed of representatives from various national standard organizations. Its advantages are that it creates a more efficient, effective operation, increases customer satisfaction and retention, reduce audits, enhances marketing, improve employee motivation, awareness, and morale, promote international trade and reduce waste and increases profit

**ISI Certification:** Indian Standards Institute now known as Bureau of Indian Standard (BIS) is a registered society under Government of India. BIS main functions include the development of technical standards, product quality and management system certifications and consumer affairs.

To maintain the service and quality of a product is the main job of Bureau of Indian Standards (BIS). BIS allot the ISI mark to any product as third party guarantee after ensuring its quality, reliability and safety. Another job of BIS is to take action on the consumer complaints after making proper inquiry.

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## 14.10 EXERCISE

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1. Define quality and explain its importance.
2. Explain Krister Forsberg quality management principles.
3. Discuss the concept of Quality Circles and its principles.
4. What is TQM?
5. What are the features of TQM and give its advantages.
6. What is benchmarking?
7. Explain the steps of setting-up benchmarking?
8. Give the different types of benchmarking.
9. Explain ISO. Give its advantages and present its criticism.
10. What is ISI? What are the benefits of adhering to ISI?
11. Explain the following terms:
  - a. ISO
  - b. ISI certificate
  - c. Performance Benchmarking
  - d. Functional Benchmarking
  - e. Operating Benchmarking
  - f. Internal Benchmarking

