



**BAOU**  
Education  
for All

**DR. BABASAHEB AMBEDKAR  
OPEN UNIVERSITY**

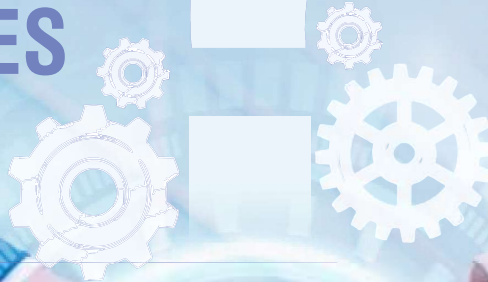
(established by government of gujarat)

GROUP OF PEOPLE  
**GOAL**  
HUMAN EFFORTS

UTILIZATION  
OF  
RESOURCES

**MBA01C101  
Semester 1**

MULTIDISCIPLINARY  
**TRAINING**  
**UNITY**  
**HARMONY**



**PRINCIPLE OF MANAGEMENT**

## Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.



On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

***“We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one’s own feet”.***

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto ‘स्वाध्यायः परमम् तपः’ does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who

are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.



Prof. Ami Upadhyay

Vice Chancellor,

Dr. Babasaheb Ambedkar Open University,  
Ahmedabad.

**MBA**  
**SEMESTER-1**  
**PRINCIPLE OF MANAGEMENT**  
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Education  
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**Dr. Babasaheb Ambedkar Open University**  
(Established by Government of Gujarat)

**PRINCIPLE OF MANAGEMENT**  
**SEMESTER-1**

**Block**

**1**

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**1.1 INTRODUCTION & CONCEPT OF MANAGEMENT**

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The world became highly competitive post industrial revolution; the scale of business has changed tremendously. This change led the business world the need to introduce large capital, mass production techniques with off shore trading. This development increased the difficulties, and with increasing level of difficulties managing the business has become a difficult one. Such changes in business world brought the increased necessity of *Management*. Management is not only needed to business houses but also equally needed to manage Hotels, Hospitals, Charitable Trust, and Schools etc. The listed all types of organisations achieve its objectives with the combined efforts of various people and with the use of various resources. Therefore, management is the process of getting the work done from the human resources by the use the non-human resources.

The exact definition of management is not very easy as the term is used in different ways. It is relatively new concept so it has brought out concepts from various other disciplines like statistics, sociology, economics, psychology, etc. Different treatment to the term management has been given by different group. According to L.M. Prasad, the term management is used infollowing three alternative ways.

- 1. Management as a discipline**
- 2. Management as a group of people**
- 3. Management as a process**

Management is a discipline as it includes variety of concepts, knowledge and principles which facilitates managing the organisation. On the other way, organisation is a cooperative efforts of different people. Every personnel perform managerial functions in the firm. Hence, business is running with the people, by the people and through the people. In this way, management can be referred as a group of people working towards the similar goal. And lastly, management is a systematic method of handling different activities carried out in the organisation.

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## **1.2 DEFINITION AND FEATURES**

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### **1.2.1 Definition**

Almost all definitions of the term management insist on one thing: it is a process of reaching to an established goal through the combined efforts of various people performing different functions.

1. Management is the art of getting things done through and with the people in formally organised groups. (Harold Koontz)
2. Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organisation through systematic, coordinated co-operative human efforts. (Mc Farland)
3. Management is a process of planning, organising, actuating and controlling to determine and accomplish the objectives by the use of people and resources. (George R Terry)
4. Management is an art of knowing what you want to do and then seeing that it is done in the best and cheapest way. (F.W. Taylor)
5. The art of getting things done through the other people. (The American Management Association)
6. Management is the accomplishment of the results through the efforts of other people. (Lawrence Appley)

### **1.2.2 Features of management**

#### **1. Existence of Objectives**

An objective or a set of objectives are clearly laid down in the organisation. Every organisation is purposive and therefore none of the human organisation can exist without a predetermined set of objectives. These objectives should be agreed by different groups of personnel. Every managerial activity defines the direction where these groups of people will lead to result in the accomplishment of the well-established objectives.

#### **2. Organised Activity**

All the organisations have a set of objectives. They desire to progress towards the achievement of their objectives. These objectives may be monetary and non- monetary and can be achieved only by the combined efforts of different groups of people. Management directs these people to carry out various organised activities in a coordinated and systematic

way. Therefore, management is said to be a process of conducting organised activities in order to achieve common goals collectively.

### **3. Management is a Continuous Process**

The process of management includes different activities such as planning, organising, directing, controlling the human and non-human resources. All these functions are carried out on a continuous basis. One activity of management will stop, other will start, but it never happens that everything will stop at one time. So, it is said that different activities of management go on continuously.

### **4. Working with and through people**

Management is defined as getting work done from and through the people. To optimise the use of human resource, management creates cooperation among the employees. Management assigns activities to personnel to get the result of achieving organisational objectives. Through such assignment of activities, the real work is done by employees at lower level in the organisation. In this way, management involves working with people and working through people.

### **5. Decision making**

Decision making is defined as selecting best, beneficial and the most appropriate alternative out of many. Management process includes decision making at different stages. The quality of selection of alternative by managers determines organisation's performance. The future of organisation rely on the decisions made by the managers.

### **6. Management is a science and as an art**

Management is a science because it possesses the characteristics of systematised body of knowledge and principles which have the universal applicability. On the other hand, art is the application of knowledge and skills. Management is an art as it involves the use of skills into practical business situation. Therefore, management is both an art and a science.

### **7. Universal application**

The basic principles of management are applicable not only to business organisations but also to all types of organisations like educational, hospital, hotel, and other service rendering organisations. However, the application of principles depends upon the situation.

### **8. Dynamic**

As the business world is changing with every social change and so management too. Management is not static. It is dynamic in nature. With the development of the world, new techniques are developed. Management adopts this new techniques to keep pace with the continuously changing business world.

### **9. Relationship among resources**

The importance of management lies in the integration of various resources available within the organisation to achieve the well-established objectives. These resources may be human and non-human such as man, machine, money and materials. Management is a process of proper utilisation of these available resources in a best way to benefit the overall organisational performance. Managers apply knowledge and

principles in integrating all the resources particularly human resources to achieve the desired result.

### **10. Management is a multidisciplinary**

The management concept has been evolved by contribution of various other disciplines such as psychology, sociology, anthropology, statistics and economics, etc. The inputs from these variety of disciplines help the managers to understand human minds which in turn help business organisation to work efficiently and effectively. Therefore, management is multidisciplinary.

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## **1.3 IMPORTANCE OF MANAGEMENT**

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Management is important since its existence. Without management, an organisation is just a collection of factors of production. Conversion of factors of production into production is only possible through management. Management plans the activities to achieve the goals and optimum use of resources. According to Peter Drucker, management is the dynamic life-giving element in every organisation.

The importance of management can be understood from the following explanation.

### **1. Effective utilisation of resources**

An organisation has factors of production popularly known as resources i.e. man, machine, material and money. These available resources are scarce in nature. Management secures the optimum utilisation of resources by avoiding wastages. Management does not only choose the particular resource for a particular selected alternative, but also utilises in the best way for the general interests of the society. The absence of management makes the resources idle.

### **2. Integration amongst various interest groups**

An organisation includes various interest groups like shareholders, employees, suppliers, consumers, government etc. Every group has their own interest in the organisation. Despite having various interests, they are directed towards achieving the common goals. This direction is given by management. It is the management which integrates different interest groups for achieving desired performance level of the organisation in the society. Management tries to keep balance between varieties of interests of different group of people.

### **3. Stability in the society**

Business operates in a continuously changing environment. Fluctuations in the business occur for many reasons like changes in the government policy, competition, technology. Management brings stability in the society by modifying the resources according to changing environment. Managers help the business organisations by forecasting the future change and take appropriate steps. Successful managers anticipate and adjust to environmental changes.



#### **4. To incorporate innovation**

Social structure and consumer's life style, their tastes and preferences and technology is changing rapidly in today's world. New ideas are developed and innovations are incorporated by the management to keep the organisation alive and to ensure the survival of the firm in a changing environment. Management utilises new ideas for the benefits of the society as a whole.

#### **5. Achievement of goals**

Management is goal oriented. Management plays an important role in achieving the objectives. This achievement is only possible with the combined efforts of human and non-human resources. Managers plan and organise the resources appropriately, hire competent people and provides necessary direction in order to achieve the well-established objectives by the organisation.

#### **6. Effective leadership and motivation**

Management makes the organisation work in a systematic way. Management works for group efforts to make the organisation grow. Management creates team work and motivates employees to work better. It also provides necessary guidance and effective leadership. Employees get motivated when they feel constant support and direction from the management. In the absence of management, working of an enterprise becomes random.

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### **1.4 NATURE OF MANAGEMENT**

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Application of managerial techniques in managing the business situations has changed over a period of time. Though management is an older concept since the existence with human groups, Let's discuss the nature of management.



**Figure 1.1 Nature of Management**

#### **1.4.1 Multi-Disciplinary**

Management is basically multidisciplinary. The concept of management has been evolved by the contribution of various other disciplines such as history, operation research, psychology, sociology, anthropology, statistics and economics, etc. Management borrows knowledge and concepts from these disciplines. The inputs from these variety of disciplines help the managers to understand human minds which in turn help business organisation to work efficiently and effectively. Management integrates concepts of different disciplines and frames new concept which can be used in managing the organisational affairs.

Therefore, it can be said that management is an integrated discipline.

#### **1.4.2 Science & Art**

The controversy regarding the debate, whether management is a science or an art is yet to be resolved. Many writers favour the view that it is a science but there are many others who favour the view that it is an art.. Let us examine the discussion keeping in mind both the viewpoints.

*Arguments in favour of the view that management is a science:*

Science possesses systematised body of knowledge which are based on some principles. The scientific body of knowledge is formulated by observation, experimentation and testing. In the same way, management too possesses the systematised body of knowledge. Management is also based on some distinct principles which can be used by solving the business problems. Management deals with human behaviour. Unlike science, human behaviour cannot be studied in controlled experimental situation. The principles of management are developing in nature. They cannot be accepted as absolute truth like science. Secondly, management is not exact science like physics or chemistry but rather it offers flexible guidelines to deal with the problems. In that way, management is inexact science. Scientific principles are universally acceptable same way, principles of management also having universality in its nature. Management is managing the human resources and therefore it is not possible to use experimentation. Taylor has used the word, 'Scientific Management', where scientific is used as a systematised body of knowledge.

*Arguments in favour of the view that management is an Art:*

An art is the application of knowledge and personal skills into a practical situation to achieve desired result. Art is based on the principles drawn by science. As a doctor uses the knowledge of science to treat a patient likewise manager implies knowledge of management to manage the people. Manager applies the theory of management at the time of performing different functions of management in the practical affairs of business. Like an art, management is also personalised activity. Every manager is different person and has his/her own unique way to manage people. Lastly, as management is developing in nature, managers develop their skills through constant practices same as an art.

From the above discussion, one can draw a conclusion that management is both a science as well an art. To be successful manager, one should have both the knowledge of management principles and art of managing the organisation by applying the required skills.

#### **1.4.3 Profession**

Management is a profession, though it does not possess all the features of profession like science. Let us discuss this topic in detail. Any profession must have well defined body of knowledge. Management

has been developed as a different body of knowledge during past few decades. This well- defined body of knowledge is generally valid and accepted by a variety of organisations. It is an occupation where specialised skills, knowledge, training and professional education is required. A person can enter into a profession only after receiving formal degree from educational institutions or universities. Due to growing size of business, the ever changing business world, changing technology and increasing competition, business houses have also started demanding professionally qualified and trained managers. Education in management has become possible now after setting up number of management institutions in recent years. Also a strict ethical code of conduct does exist in any profession. Though there is no universal code of conduct, different management associations have formulated certain code of conduct for behavioural aspect of professional managers. It is advisable that every professional should keep the service motive in mind while expecting financial rewards. Similarly, management integrates various human and non-human resources in the best productive way for the benefit of the society as a whole. Management serves the society and such contribution cannot be measured in money only.

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### **1.5 DIFFERENCE BETWEEN MANAGEMENT AND ADMINISTRATION**

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<b>Criteria</b>	<b>Administration</b>	<b>Management</b>
Nature	The overall determination of policies, the setting of major objectives and laying out of broad programmes.	Implements the policy and achieves the objectives with the help of human and non-human resources.
Scope	Administration determines the specific goals and areas within which those goals are to be achieved. Hence, Administration is a policy making function.	Management on the other hand is related with carrying out the policies made by administration. Hence, management has executing function.
Involvement	Administration does not directly involve in the execution of plan and achievements of objectives.	Management directly involves in the execution of plan and achieving objectives.
Level	Administration includes top level executives such as Owners or Board of Directors. In a way, administration is a top level activity.	Management includes middle or lower level executives such as Manager, Supervisor and workers. In a way, management is a lower level function.
Skills Required	Administrator requires conceptual and administrative ability more than technical ability.	Manager requires managerial and Technical ability more than administrative ability.
Representative	Owners who invest huge capital and receive profit represents the administration.	Paid individuals working for Remuneration represent the management.

Usage	The knowledge of administration discipline is usable mostly in government, military, educational, social and cultural organisations.	The knowledge of management discipline is usable mostly in profit making business organisations .
Position	Administration acts as a Principal.	Management acts as an Agency.

There is always a terminological dispute between administration and management. In the evolution phase of management, the terms administration and management did not have difference. Later on, with gradual development of management discipline, the terminological difference was raised. Over the years, this dispute has been emphasised and proceeded further. Some authors suggest that the two can be used interchangeably while some others have the opposite views and assert differences between the two. The later has emphasised that the differences exist on the basis of their usage. Some experts are of the opinion that the two are totally different including varying activities. Let's examine the different views of various authors.

Some writers like Harold Koontz Dalton Mc Farland emphasised about no distinction between the two terms. Whatever the skills required to manage the business organisation, also applied to administer any private and public enterprises. While the other authors like Oliver Sheldon, William Spriegel raise the difference that administration is broader than management. From the theoretical point of view let's learn about various points of differentiation between administration and management raised by variety of authors over the years in a summarised form.

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## 1.5 UNIVERSALITY OF MANAGEMENT

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Are the managerial principles universally applicable? Yet another controversy has continued since years about the universality of management. Let us discuss the arguments in favour and against the universality of management.

*Arguments for universality*

### 1. Functions of management

Management is a process which includes variety of functions performed by managers. These functions are planning, organising, staffing, directing and controlling – said to be universal for managers. It is argued that process of management remains same irrespective of country, size of the business, culture, etc. Even managers perform same functions irrespective of their level in the organisation or industry they belong to. The only difference is with the intensity of each function depending on the variables.

### 2. Distinction between fundamentals and techniques

It is always required to have a clear distinction between fundamentals of management and management techniques to reach the conclusion about universality of management. The reason lies in the fact that management

fundamentals are universal but the techniques of management differ. Fundamentals are the basic principles of management which remain same irrespective of country or culture. But the techniques may differ with the requirements of the situation.

### **3. Distinction between fundamentals and practices**

Universality of management also clarifies that management fundamentals remain same but the practices differ. As we discussed earlier in this chapter that management is both a science and an art. Being an art, management is personalised discipline, where every manager applies management fundamentals in to practice to manage the human and non-human resources. Thus practices may differ with the nature and type of industry, manager's level in the organisation, size of the business, etc.

#### *Arguments against universality*

#### **1. Cultural differences**

Management is a people oriented process. People's behaviour is shaped by cultural characteristics. Therefore, management is affected by cultural variations prevailing in the country. Applicability of management principles is determined by culture of the country. A manager has to perform under highly different cultural, traditional and religious environment. It is pointless to say about implementation of a common set of principles in such diversified cultures.

#### **2. Organisational philosophies differ**

Organisational philosophy can be understood as the attitude towards doing business. Organisational philosophies differ from organisation to organisation even within the same country. With difference in the philosophies, organisation demands different types of managerial approaches and techniques. No manager is good enough in both communist and democratic countries as the philosophies are drastically different.

#### **3. Organisational objectives**

The skills, practices and experience which are applied in one organisation cannot be applied in another organisation in the same manner. The reason is different set of objectives are framed by different organisations. Every organisation exists on its well established objectives which are desired to be achieved by using managerial principles. Different managerial practices and techniques are demanding with the varying degree of objectives. The objectives depend on the type of organisation. For example, profit earning objective is the main objective of business organisation which may not be the same in case of non- business organisation. Same managerial practices cannot achieve same effectiveness in different types of organisation.

❖ **LONG QUESTIONS**

1. What do you mean by the term management? Bring out the essential features of management.
2. Explain the concept of management and bring out its importance in present-day context.
3. What is the concept of universality of management? Discuss the arguments in favour and against universality of management.
4. Explain the nature of management in detail.

❖ **SHORT QUESTIONS**

1. Define management.
2. What do you mean by 'management is a profession'?
3. Give any two difference between administration and management.
4. Management is multidisciplinary – explain the statement.
5. Explain why management is an activity of organised efforts.

❖ **SHORT NOTES**

1. Define management and outline its essential characteristics.
2. Distinguish between administration and management.
3. Management is regarded as an art by some and a science by others. Management principles are universal in nature.

❖ **MCQ**

1. Management is the accomplishment of results through the efforts of other people.
  - a. **Lawrence A. Appley** c. George Terry
  - b. Koontz Harold d. Peter Drucker
2. Management is \_\_\_\_\_.
  - a. Pure science c. art
3. Management is a process of planning, organizing, actuating and controlling to determine and accomplish the objectives by the people and resources.
  - a. **George Terry** c. Peter Drucker
  - b. Koontz Harold d. Lawrence A. Appley
4. Management tries to make effective utilization of various \_\_\_\_\_.
  - a. **Resources** c. Men
  - b. Materials d. Method
5. Management is said to be the combination of \_\_\_\_\_.
  - a. arts, commerce and science
  - b. arts, science and engineering
  - c. arts, commerce and engineering
  - d. **arts, science and profession**
6. \_\_\_\_\_ concerns itself with the overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives.

- a) Management
- b) administration**
- c) Both of these
- d) None

7. Management integrates \_\_\_\_\_
- a. Various objectives
  - b. Different principles
  - c. Different interest groups**
  - d. Different people

- 2.1 Introduction**
- 2.2 Early Contributions**
- 2.3 Taylor's Scientific Management**
- 2.4 Fayol's Administrative Management**
- 2.5 Hawthorne Experiments and Human Relations Approach:**
- 2.6 Social Systems Approach**
- 2.7 Decision Theory Approach**
- 2.8 Human Behavior Approach**
- 2.9 System Approach**
- 2.10 Contingency/Situational Approach**
- 2.11 Management Functions**
- 2.12 Management Roles**

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## **2.1 INTRODUCTION**

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The practice of management originated with human civilization. However, the study on management is a twentieth century phenomenon. Till then the requirement of systematic study of Management was not felt. The reasons of management not getting attention of researchers in earlier years are: low level of field of business in which management principles were applied, less importance given to management and business organizations by other social scientists, treating Management as an Art and not Science, and the commonly perceived opinion that managers are born and not made.

Scenario changed with the beginning of 20<sup>th</sup> century. Particularly after World War I, thinking started in the direction of putting limited resources to the best and the most optimum use. World War II made the problem of limited resources worse. With increase in the complexities and challenges of managing huge business organizations, the need for developing systematic management principles and concepts was felt. The time period of last few years is characterized by growing competition and increasing complexities in managing business organizations. The factors responsible for growing competition are: technological developments, widespread use of technological innovations in businesses, technological obsolescence, deregulation in national and international markets, huge capital



investment, increase in the buyers' power in the markets, etc. Increasing complexities in managing businesses can be attributed to factors like growing size, increasing government controls to ensure social orientation of business units, increasing specialization, conflicting interests of stakeholders and rising union activities. These two factors demanded management process to be more efficient. It was clearly concluded that efficiency can come by the application of systematic management concepts and principles, not merely by trial and error approach.

These developments attracted the attention of economists, sociologists, psychologists, management practitioners and many more towards studying business organizations in order to make them more efficient. Business organizations and their processes were viewed differently by these groups and recommendations were done accordingly. This is how several approaches to management emerged over time which are presented here under:

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## **2.2 EARLY CONTRIBUTIONS**

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Contributions in the field of management came from a wide variety of sources in early time – time period before the systematic study of management was taken up. For example, there was an existence of the concept of organization and administration in Egypt in 1300 B.C. Suggestions for having better public administration and cautions to be exercised while choosing honest and capable public officers were included in Confucius's parables. Principles of sound State administration have been offered by Kautilya in 320 B.C. These early attempts provided some direction for making the most effective use of resources but they were not in the field of business and other economic activities.

We can make a mention of few contributions in the field of business organizations were made by Robert Owen, Charles Babbage, James Watt and Henry Town. But they were scattered efforts and could not stimulate the systematic study of management as a distinct discipline. With these early contributions creating awareness about managerial problems, the stage was built for taking up systematic study of Management and it was began by Taylor in the early part of 20<sup>th</sup> century.

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## **2.3 TAYLOR'S SCIENTIFIC MANAGEMENT**

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The idea of scientific management emerged after Industrial revolution as it resulted into mechanization and large scale operations in business units necessitating the development of management principles and concepts. The main contributors of the idea of scientific management were Frederick Winslow Taylor, Henry L. Gantt, Frank Gilbreth, Lillian Gilbreth, Edward Felen, George Berth and Harrington Emerson. F.W.Taylor, being the pioneer, is known as father of scientific management.

▪ **Meaning of Scientific Management:**

According to Taylor, “Scientific Management is substitution of exact scientific investigations and knowledge for the old individual judgment or opinion in all matters relating to the work done in the shop.”

It means that there should be application of scientific knowledge in managing business units. He advocated the use of scientific techniques in place of traditional methods.

▪ **Principles of Scientific Management:**

The scientific management is based on following principles:

**1. Replacement of Rule of Thumb with Science:**

According to rule of thumb, decisions are based on opinions, judgements and intuitions of a person taking a decision. Scientific management calls for the application of scientific method and approach to the managerial problem while arriving at any decision. There is no place for intuitions and prejudices in scientific management.

**2. Scientific Selection and Training of Workers:**

Selection of right candidate for every job is given utmost importance in scientific management as wrong selection proves to be very costly to an organization. Efficiency in an organization gets influenced by appropriate training of workers and it does away with the possibility of workers using wrong methods of work. Thus, the emphasis in scientific management is on scientific design of selection process as well as imparting scientific education and training to workers. This is more pertinent as scientific management requires use of scientific methods of working in place of traditional methods of working.

**3. Cooperation:**

F. W. Taylor developed the idea of “mental revolution” which means changing mental attitude of management and labour towards each other from considering each other enemies to considering each other partners in progress. This mental revolution brings in peace and cooperation between management and labour. As a result of it, they work together to increase profit of the organization.

**4. Maximum Output:**

Scientific management advocates maximum output in place of restricted output. Maximum output benefits both management and workers. Moreover, it is in the interest of society that business units try producing maximum output instead of restricting it.

**5. Appropriate Division of Work:**

The division of work and responsibility between management and workers can be called appropriate when it is based on ability and expertise. The responsibility of planning and organizing should be shouldered by management and workers can be held responsible for the implementation of plans as per the direction given by the management.

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## 2.4 FAYOL'S ADMINISTRATIVE MANAGEMENT

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The supporters of this school of management considers Management to be a process of getting things done through and with people in an organized set up. It believes that management is a process that is required in all the organizations irrespective of type and size. Moreover, it is needed at every level in the organization. The type and size of the organization determine the environment of management.

Henry Fayol is known as the father of this management school. The major contribution of Henry Fayol is in form of fourteen management principles. In his opinion, the list of principles given by him is suggestive and not exhaustive. Moreover, principles are flexible and capable of adapting to varying situations.

These principles are described here:

### **1. Division of Work:**

Fayol advocates division of work according to workers' specialization. Working over the same matters and in the same areas over time builds expertise. It results into higher ability and reduction in errors which finally gets converted into increase in output. This principle can be applied at all levels in the organization.

### **2. Authority and Responsibility**

Authority and responsibility are inter connected and as advocated by Fayol, there should be parity of authority and responsibility. The origin of responsibility is the assignment of work by superior. There are two types of authority: official and personal. Official authority originates from position that a manager holds in an organizational structure. Personal authority emanates from several personal qualities like personality, intelligence, moral worth, experience, etc.

### **3. Discipline:**

Discipline is a prerequisite for effective functioning in a formally structured organization to enable it to achieve pre-determined objectives. The term discipline can be defined as obedience and respectful behavior. There are two types of disciplines: self-discipline and command discipline.

### **4. Unity of command:**

Every employee should receive orders and instructions from only one superior. When an employee is expected to report to more than one boss, the results are conflicts and confusion.

### **5. Unity of direction:**

The similar operations having the same objective should be directed by one manager with one plan. For example, a marketing department in an organization should not have two heads each with a different promotion policy.

### **6. Subordination of individual interest to general interest:**

In case of conflict between individual interests and general (organizational) interests, general interest is to be considered over individual interest as common interest is above individual interest.

### **7. Remuneration:**

Compensation that is provided for the work done should be fair and satisfying to both employees and employer.

### **8. Centralization:**

Centralization is decreasing the role of subordinates in decision making and decentralization is increasing the role of subordinates in decision making. Employees should be given sufficient authority to perform the tasks assigned to them but the ultimate responsibility remains with the superior. Determining a proper degree of centralization in each case is a difficult task.

### **9. Scalar chain:**

The line of authority in an organization flows in an order from top management to lower management level.

### **10. Order:**

There is a right place for everything in an organization – be it materials or people. Particularly, people should be placed on right positions for which they possess the required qualifications and qualities.

### **11. Equity:**

The approach of managers towards their subordinates should be both fair and friendly.

### **12. Stability:**

Every employee should be given sufficient time to get accustomed to new work to be able to produce the best performance. High employee turnover is an indication of inefficient functioning of the organization.

### **13. Initiative:**

Employees should be allowed and encouraged to formulate and carry out their plans even though it results into some mistakes.

### **14. Esprit de corps (union is strength):**

Team spirit should be promoted to give a sense of unity to members in an organization. Small things can make difference. For example, use of verbal communication instead of written formal communication is advocated for building good teams.

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## **2.5 HAWTHORNE EXPERIMENTS AND HUMAN RELATIONS APPROACH**

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In classical writings, human relations aspect was completely ignored. The main contributors in the field of human relation approach were Roethlisberger, Dickson, Dewey, Lewin, etc. They emphasized on human element in the industry. They took into consideration the fact that an organization is a social system made up of human beings and that is why human factor should be given the utmost importance. During the experiments and investigations conducted by experts in the field recognized the prevalence of informal groups and informal relationships.

In 1927, a series of experiments were conducted at the Hawthorne Works of Western Electric Company, Chicago for which a group of researchers led by George Elton Mayo and Fritz J. Roethlisberger at the Harvard Business School were invited to join in. These experiments lasted upto 1932. Before this, from 1924 to 1927, the National Research Council conducted a study in collaboration with the Western Electric Company to examine the effects of illumination and other working conditions upon workers and their productivity.

### **1. Illumination Experiment:**

This experiment aimed at examining the relationship between illumination and output. With the increase in the intensity of light, output increased so the interim conclusion was derived that there could be some relationship between illumination and productivity. But output continued increasing even when the intensity of light was brought below the normal level. So finally it was established that there is no stable relationship between illumination in the factory and the output produced by the workers. Thus, it opened the scope for examining other factors affecting the productivity of workers.

### **2. Relay Assembly Test Room Experiment**

For conducting this experiment, a homogenous group of girls was formed. With an objective to identify the factors affecting output of workers and their productivity, changes were introduced in the other elements forming the work environment in the factory. Changes introduced were: improved physical work conditions, shorter working hours, increase in rest intervals, allowing informal interaction within the group, friendly and lenient supervision, etc. these resulted into increase in morale of employees and their productivity. But this increased morale and productivity were maintained even after the withdrawal of all these changes. Thus, the researchers identified some socio-psychological factors due to which productivity increased. They were recognition of social needs of employees, making them feel important, participative approach, cohesive work group and supportive supervision approach.

### **3. Bank Wiring Observation Room Experiment:**

For this experiment, a group of 14 workers was constituted and it was put to work under conditions which were very close to normal conditions. After the experiment got over, the performance of the group was compared with its earlier performance. It was observed that there was no major change in the performance as normal work conditions were maintained. However, researchers observed the existence of informal groups and setting up of informal production standards. Following were some observations that were listed at the end of the experiment:

- a) Each person in the group was trying to restrict the output.
- b) The groups set its own unofficial standards of performance which were different from the official standards
- c) Individual output trend was fairly steady.
- d) There was distortion in the departmental records because of differences in actual and reported output.

### **4. Mass Interview Programme:**

Mass interviews were conducted by the researchers to gather information on workers' opinion on working conditions and supervisory structure. In the initial stage, direct questioning method was used to collect information on useful aspects from the workers. At a later stage, interviewers switched to the indirect technique where they just listened to the workers. At the end, based on the findings, researchers confirmed the importance of social factors in the total work environment.

Overall contributions of the experiments can be described in the following points:

- An organization is a social system and it is made up of several interacting parts. This social system defines the role of each individual and develops norms for all the members to follow and these roles and norms could be different from ones that are developed by the formal organization. Each individual in the group tries to adhere to the social norms developed by the informal group rather than working for the targets set by the management.
- Management is one variable that affects the workers.
- There exists the informal organization within the formal organization and both affect each other.
- In an organization, a worker acts and behaves as a member of the group rather than acting as an individual. A person resisting the change easily gets ready to change his/her behaviour as a member of the group if the group of which he/she is a member accepts the change happily. The group has the major influence on the attitude and behaviour of individual workers.
- Parallel to formal leadership, there emerges informal leadership and group norms are set by informal leaders. Informal leaders extend support to workers to function as a social group. Formal leaders would prove to be ineffective unless they confirm to the norms of the group of which one is supposed to be in charge.
- Two way communication is desirable as downward communication is

for providing necessary information for the appropriate functioning of the organization and upward communication passes on feelings and sentiments of people working in the organization to the higher authority which could become the base for introducing required changes in the organization.

- Money does motivate people to put in their best efforts in the organization but it is not the sole motivator. Human beings are motivated by a variety of socio-psychological factors.
- We can't expect rational behaviour from employees all the time. At times, they act irrationally at the work place and react to different job related factors accordingly.

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## **2.6 SOCIAL SYSTEMS APPROACH**

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The social systems approach is an extension of human relations approach. According to this approach, an organization is a cultural system made up of people cooperating with each other while working in the organization. There is a requirement for developing a cooperative system for achieving organizational objectives which should be based on the understanding about the behaviour of people in the organization. This approach can be characterized as under:

1. Every organization is a system of cultural relationships.
2. There exists relationships among the external and internal environment of the organization.
3. The pre requisite for achieving organizational goals is cooperation among group members.
4. There is a requirement of establishing harmony between organizational goals and the goals of the groups existing within the organization.

Chester Bernard is the major contributor of this approach and his contributions can be explained in following points:

- An organization exists when there are people able to communicate with each other, they are willing to contribute and they work for achieving the common objective.
- For the effective management, a manager should give due importance to both formal and informal organizations. Formal is the one which has consciously coordinated interactions having a common objective and informal is the one having social interactions without having consciously coordinated joint objective.
- Four elements of a formal organization are: specialization, an incentive system, a system of power and a system of rational and logical decision making.
- A subordinate would accept the communication from superior to be authoritative only on fulfilling four conditions: it is understood, it is not perceived to be inconsistent with the organizational objective, it is considered to be compatible with his/her personal interest and he/she

is mentally and physically fit to comply with it.

- There are three functions that an executive performs in the organization: maintaining communication through formal interactions, making individuals in the organization work for achieving organizational objectives and defining the organizational purpose.
- Apart from money, other non-financial incentives that can motivate people are feeling of belongingness, pride of workmanship, pleasant organization, participation, etc.
- An executive needs to exhibit a high order of responsible leadership in order to be effective. Effective leadership secures cooperation from people.
- There should a match between individual efforts and organizational efforts to satisfy individuals.

The major concern of Bernard that is reflected in above contributions is development of the organization through social systems.

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## **2.7 DECISION THEORY APPROACH**

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According to this approach, decision making is a function of every manager and every organization is a decision making unit. The requirement is of taking rational decisions. Following points characterize the decision making approach:

1. Managing means taking decisions
2. Members of the organization act as decision makers and problem solvers.
3. An organization is made up of several decision making centers.
4. Organizational effectiveness gets affected by the quality of decisions it takes.
5. The subject matter of study of management comprises all the factors decision making in the organization.

The contributions of Herbert Simon can be described in the following points:

- The concept of organization is viewed as a complex network of decisional processes. The best way to get analyse any organization is to know where and by whom decisions are made.
- Management is synonymous with decision making.
- Man is not completely rational in approach while taking decisions. The concept of bounded rationality says that managers are satisfied with good enough satisfaction from a decision rather than going for maximum satisfaction.
- The concept of administrative man rather than that of economic man is found more logical in real world decision making scenario. An administrative man is the one who adopts the satisfying approach in decision making rather than maximizing approach which is found more realistic.



- Informal communication plays a major role in effective functioning of an organization.

The contributions of Peter Drucker can be summarized as under:

- The main objective of management is to lead towards innovation. Moreover, management is both a discipline and a profession. Managers are expected to be good practitioners who can understand cultural and social aspects of various organizations.
- Three basic functions of management are: enabling an organization to make its contributions towards its mission, making workers achieve the objectives and discharging social responsibilities.
- Three important characteristics of an effective organization are: organizing should revolve around performance, it should have least number of levels and it should enable the training and testing of tomorrow's top managers.
- The concept of federalism is advocated which means centralized control in decentralized structure.
- The concept of MBO (Management by Objectives) changes the basic assumptions of managing from exercising control to self-control.
- The organizations should be dynamic for being able to absorb rapid changes.

### **Management Science Approach**

Management is viewed as a logical entity by this approach. This approach is also known as mathematical or quantitative measurement approach. According to this approach, the actions of the organization can be expressed in terms of mathematical symbols and relationships. The focal point of this approach is mathematical model with the help of which managerial and other problems can be expressed in basic relationships where a given objective is to be sought. The model tries to optimize the goal. Many things in this approach are derived from decision theory approach and it provides many techniques for rational decision making. The features of this approach can be described as under:

1. Management is a mechanism that solves problems with the help of mathematical tools and techniques.
2. Quantification of managerial activity is possible and management problems can be expressed in terms of mathematical symbols and data.
3. The main elements of this approach are: decision making, system analysis and some aspects of human behavior.
4. The basic methodologies for solving managerial problems are: operations research, mathematical tools, simulation, etc.

The significant contribution of this approach is the development of orderly thinking in management which has brought exactness in management discipline. But it fails to provide answers to total managerial problems so it cannot be considered as a separate school of management. Moreover, so many managerial activities cannot be expressed quantitatively because of involvement of human beings.

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## **2.8 HUMAN BEHAVIOR APPROACH**

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Fundamentally the study of management should revolve around human behaviour since management is all about getting things done by people. This approach emphasis on the understanding of human behavior to increase efficiency and achieve the objective of the organization. This approach studies all aspects of human behaviour ranging from personality features of individuals to relations of culture with behaviour. There are two parts of this approach: interpersonal behaviour approach and group behaviour approach. Major contributions made by the behaviourists can be summarized as under:

1. Job itself is the biggest source of motivation and satisfaction for the employees. Primarily, employees do not dislike work. They would want to achieve objectives when they are given help in establishing the objectives.
2. There always exists some unutilized potential among employees. Most of the employees are capable of producing more than how much they are doing on their current job.
3. The basic task of a manager is to make use of untapped potential of employees in achieving organizational objectives.
4. Creation of an enabling healthy environment wherein subordinates can contribute to the best of their capacity is the responsibility of a manager. There should be healthy, safe and comfortable environment for employees to work in.
5. It is the duty of a manager to provide for self-direction by subordinates and employees should be motivated to participate fully in all the important matters.
6. Self-direction and self-control are the ways to improve operating efficiency.
7. The result of subordinates making full use of their potential would be workspecialization.

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## **2.9 SYSTEM APPROACH**

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The generalization on which the systems approach is based is that an organization is a system comprising of inter related and inter dependent components. "A system is made up of inter related, dependent and internally interacting elements forming a unitary whole." The important feature of a system is that it is composed of a hierarchy of sub systems. The national economy is a system comprising of several industries as sub systems, each industry comprises of several firms as sub systems and in turn each firm comprises of different departments like marketing, finance, production and HR as sub systems. Thus, each system comprises of several sub systems and each sub system may be further comprising of several other sub systems.

According to this approach, an organization is system and it has following

features:

1. An organization consists of several inter linked and inter dependent sub systems.
2. The boundary of a system separates it from other systems.
3. An organization as a system gets affected by government policies, changing preferences and tastes of customers, competition in the market, etc.

There are two types of system: open and closed. A closed system is the one that does not give any consideration to external environment and there is no active interaction with the environment.

An open system can be visualized taking inputs such as labour, raw materials, information, capital, machines, etc. from the environment. Several processes including managerial processes are performed on the inputs to get desirable output which is given back to the environment. Environment's evaluation of the output is received through feedback which acts as one of the inputs for further organizational activities. An activity is repeated if the environment gets satisfied with the output and if the feedback is not favourable, changes are introduced until desirable relationship is established. The biggest advantage of the open system is that it responds to the environment and adjusts itself with the changing environment.

The main characteristic of the systems approach is that overall effectiveness is given importance rather than the effectiveness of the sub systems. As we apply the systems approach to an organization, we can say that overall objectives and performance of the organization are considered over the objectives and performance of different departments and sub systems. This approach emphasizes on the inter relationships between different components of the organization and the effect of these inter relationships on the overall functioning of the organization.

Systems theory offers management the concepts from different disciplines like operations research, management information system, organization behaviour, industrial dynamics and socio-technical system. This approach is basically related to formal organization and concepts.

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## **2.10 CONTINGENCY/SITUATIONAL APPROACH**

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The major premise on which the contingency approach is based is that there is no single best way of managing and handling managerial problems. The application of management principles and theories and their effectiveness is contingent upon the circumstances under which they are applied. The decision of applying functional, behavioral, quantitative and systems tools of management should be based on situations under which they are to be applied. Three elements that constitute the conceptual framework of the contingency approach are: environment, management concepts, theories and principles and contingent relationship that exist between the first two elements.

Looking at the relationship between the environment and management,

we can say that environment is an independent variable and management is dependent variable. In other words, environment presents "IF" side and management is on "THEN" side. "THEN" is to be adjusted according to changes that take place on "IF" side. Management theories and principles are to be used in accordance with environmental changes and situational factors. The effectiveness of management principles depends on the appropriate match between the situation and the application of principles.

According to contingency theory, one leadership style that gives the best result in every situation cannot be devised. It means one leadership style does not bring the effective result in all situations. The effectiveness of a leadership style depends on the situation in which it is put to use. For example, authoritative leadership works the best in a situation where a leader has a team of unskilled employees doing routine tasks. On the other hand, participative leadership style brings the best result in a situation where a team of self-disciplined and self-motivated employees is to be led.

▪ **Evaluation of contingency approach:**

This approach acts a best guide to managers in choosing their style and methods while adapting to environmental changes. Managers are advised to have tailor made approach while selecting the management principles and theories. In this approach, managers are liberated from dogmas and pre conceived notions. Managers are expected to be open minded and pragmatic in approach as readymade solutions to all management problems are not available.

Contingency approach has an element of superiority to systems approach as it examines the relationship between the organization and management apart from understanding the inter relationship between different parts of the organization. The contribution of the contingency approach in future development of management theory and practice is substantial. All the other approaches of management can be merged in the contingency approach.

However, there are two limitations of this approach: the influence of management concepts and theories on the environment is not recognized.

## **What Managers Do?**

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### **2.11 MANAGEMENT FUNCTIONS**

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A brief account of commonly agreed upon functions of management can be presented hereunder:

#### **1. Planning:**

Planning is taking decision regarding future course of action. This includes elements like what, why, how and when. Planning has several elements like determining objectives, finalizing programmes and projects, formulating policies and strategies, setting rules and procedures,

and making budgets. Considering the time elements, plans can be made for long term – for five years or more, medium term – for two to five years and short term – for a year. Long term plans are taken as a base for making plans for shorter time period.

## **2. Organising:**

Organizing is a process wherein the total is divided into small convenient tasks and duties, grouping of similar tasks and developing departments and sections, developing positions within the departments, attaching authority and responsibility and establishing interrelationships. Organizing develops a structure to put plans into practice. Thus, it develops the means to implement plans to achieve organizational objectives.

## **3. Staffing:**

Staffing fills the positions in the organization structure with manpower. It involves determining the requirement of manpower by comparing the available personnel with future requirement, identifying the sources from where the required manpower can be acquired, selecting the right personnel on different positions by matching the job requirements with the qualifications and qualities of the candidates, training and developing people, determining compensation, evaluating their performance, etc.

## **4. Directing:**

Managers need to direct employees so as to enable them to know what they are expected to do in the organization. For this purpose, the superior needs to communicate with subordinates and guide them on proper path. Superior manager is also expected to continuously motivate employees for better performance and lead them in the desired direction. Thus, communication, motivation and leadership are three important elements of directing function.

## **5. Controlling:**

The process of controlling involves measurement of actual performance, comparison of actual performance with the standard performance as determined in the planning process, identification of deviations, if any and taking corrective actions so that the actual performance match with the expected performance. Controlling ensures that everything happens in the organization as envisaged during planning process.

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## **2.12 MANAGEMENT ROLES**

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A role defines the expected behavioural pattern for a particular position in the formal organization. Mintzberg has divided the roles of a manager in three categories: interpersonal, informational and decisional.

## **1. Interpersonal roles**

A manager performs an interpersonal role as he/she interacts with people inside and outside the organization. There are three interpersonal roles of a manager:

### a) Figurehead:

While performing ceremonial and symbolic duties, a manager performs the role of a figurehead. These duties include receiving and greeting the visitors, attending social programmes involving their subordinates, presenting merit certificates to employees, etc.

### b) Leader:

A manager performs the role of a leader while hiring, training, motivating and directing the subordinates. This role is performed in every interaction of a manager with his/her subordinates.

### c) Liaison:

A manager performs the role of a liaison while connecting his/her organization with others. It is remaining in contact with outsiders to gather useful information. It includes such activities like business correspondence, acting as a representative of the organization in external meetings, etc.

## **2. Informational roles**

According to Mintzberg, the most important aspect of a manager's job is receiving and communicating information. Information is the base for making right decisions.

### a) Monitor:

This role is about seeking and gathering work related information. A manager needs to keep on acquiring information regarding changes happening with respect to customers' tastes and preferences, competitors' actions, government policies, etc. information can be acquired by reading periodicals and newspapers, attending seminars, remaining in personal contacts with others in the field, etc.

### b) Disseminator:

Here manager distributes otherwise inaccessible information to subordinates. This is done through sending reports and directly informing to subordinates.

### c) Spokesperson:

A manager communicates with outsiders and thus, represents an organization to outsiders. It can be by presenting progress report of the organization on the conference and meetings, directly passing on materials, etc.

### **3. Decisional roles**

Managing is taking decisions. Thus, the role of a manager as a decision maker is very crucial.

#### a) Entrepreneur:

As an entrepreneur, a manager initiates new projects and promotes new ideas with an objective to improve the organizational functioning. Here, manager implements innovations and even plans for future to enable an organization to adapt to environmental changes.

#### b) Disturbance handler:

Manager deals with disputes and handles crisis situations. He/she resolves the conflicts and selects strategic alternatives. The situations could be strike, major grievances of employees, shortage of materials, etc.

#### c) Resource Allocator:

A manager determines the use of all the resources – human, physical and monetary resources. This requires actions such as approving plans and budgets, setting priorities, etc.

#### d) Negotiator:

A manager defends business interests while acting as a negotiator. This includes mediating in internal conflicts and negotiating with other units for the benefit of one's own unit.

- 3.1 Introduction**
- 3.2 Nature of planning**
- 3.3 Planning process**
- 3.4 Types of planning**
- 3.5 Approaches of planning**
- 3.6 Planning premises**
- 3.7 Strategically consideration while planning**
- 3.8 Roadblocks to effective planning**
- 3.9 Forecasting**
- 3.10 Objective setting**
- 3.11 Management by objectives with process**

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### **3.1 INTRODUCTION**

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Functions of management are classified as planning, organizing, staffing, directing and controlling. All these functions are required to achieve the objectives of an organization. However, without setting the objectives there are nothing to organize, direct or control. Therefore, every organization is required to specify what it wants to achieve. Planning is basically related to this aspect.

The meaning of the word planning is something of a paradox (inconsistent). To some, it is an omnibus term having convenient utility and a generalized context extending from broad philosophical consideration to precise details. They think of it as specific activity. In contrast, others believe it is a part of, perhaps even a symbol for almost everything a person does. Then, too, the upsurge in planning has created different kinds of planning, and this array of different entities, all identified by planning, have added to confusion. There are some who consider planning synonymous with decision making. This is also erroneous (inaccurate). Decision making is not the same as planning because one can make decisions in other activities also, though the role of decision making is highly important in planning.

Another confusion that arises in the concept of planning is the two words:



planning and plan. Two words are similar but their meanings are different. There is fundamental different between the two. **Planning** is an activity. It can be considered as consisting of a process, hence various sub-activities. On the other hand, **plan** is a commitment to a particular course of action believed necessary to achieve specific results. For example, Government of India prepares Five-Year Plans which consist of various actions to be taken, results to be achieved, and resources to be used. These are plans. The plans are prepared through the planning process which involves taking various activities to arrive at what is to be achieved, how it is to be achieved, and when it is to be achieved. Therefore, *planning is taken as a process.*

Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action and when to take action. These why, what, how and when are related with different aspects of planning process. Why of action reveals that action has some objectives or the end-results which an organization wants to achieve; what of action specifies the activities to be undertaken; how and when generate various policies, programmes, procedures and other related elements. Thus, all these elements speak about future perspective of action.

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

- **Terry**

Thus, in planning, a manager uses facts, reasonable premises, and constraints, and from all these, he visualizes and formulates what necessary activities are, how they will be conducted, and what will be their contribution to achieving desired results.

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

- **McFarland**

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## **3.2 NATURE OF PLANNING**

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On the basis of the definition of planning, the following features can be identified:

1. Planning is a process rather than behaviour at a given point of time. This process determines the future course of action.
2. Planning is primarily concerned with looking into future. It requires forecasting of future situation in which the organisation has to function. Therefore, forecasting of future situation leads to correct decisions about future course of actions.

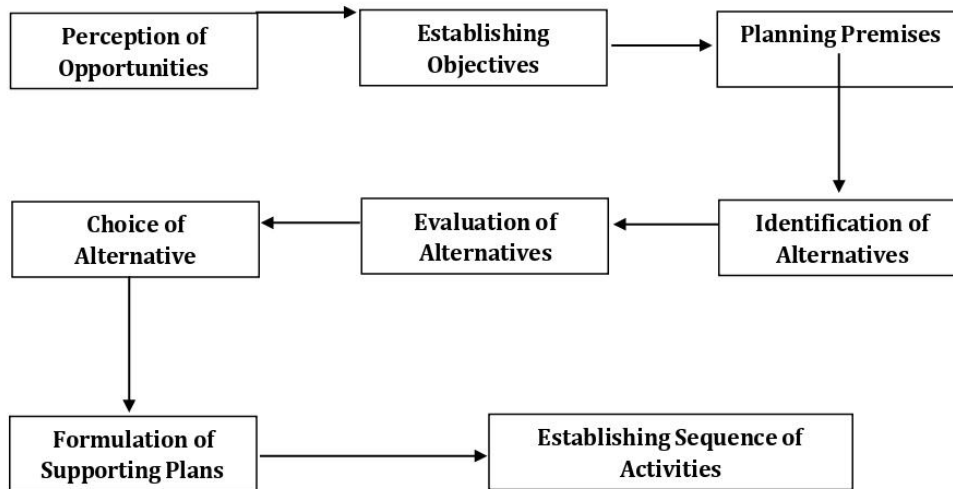
3. Planning involves selection of suitable course of action. This means that there are several alternatives for achieving a particular objective or a set of objectives. However, all of them are not equally feasible and suitable for the organisation.
4. Planning is undertaken at all levels of the organisation because all levels of management are concerned with the determination of future course of action. However, its role increases at successively higher levels of management. Moreover, planning at different levels may be different in the context that at the top management level, managers are concerned about the totality of the organisation and it tries to relate it with the environment by managers at low levels may be involved in internal planning.
5. Planning is flexible as commitment is based on future conditions which are always dynamic. As such, any adjustment is needed between various factors and planning.
6. Planning is a pervasive and continuous managerial function involving complex processes of perception, analysis, conceptual thought, communication, decision and action. The very pervasiveness of these planning elements makes it difficult to identify and observe them in detail

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### **3.3 PLANNING PROCESS**

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It is not necessary that a particular planning process is applicable to all organisations and for all types of (plastic) Please check are the various factors that go into planning process may differ from plan to plan or from one organisation to another. For example, planning for a major action will take more serious evaluation of various elements necessary for planning but this may not be true for a minor one. Similarly, in a small organisation, a large organisation. Here is a given process of planning which is applicable to a major programme like the opening of a new product line or acquisition of a major plant. With minor modifications, the process is applicable to all types of plans. The planning process is presented in the following diagram:



The sequence of various steps in planning should be implemented in such a way that they lead to the translation of an idea into action by reaching to the state of establishing of sequences of activities.

Each stage contributes to plan formulation in the following ways:

### **1. Perception of opportunities**

Perception of opportunities is not strictly a planning process. However, this awareness is very important for planning process because it leads to formulation of plans by providing clue whether opportunities exist for taking a particular plan. From this point of view, it can be considered as the beginning of planning process. perception of opportunities include a preliminary look at possible opportunities and the ability to see them clearly and completely, a knowledge of where the organisation stands in the life of its strengths and weaknesses, and understanding of why the organisation wants to solve uncertainties, and a vision of what it expects to gain. This provides a reported??? To set your objectives in real sense because the organisation tries to relate itself in the environment. In doing so, it takes the advantages of opportunities and avoids threats. This is a preliminary stage; hence the analysis of environment is not taken in a very elaborate form. Analysis relates to the determination of opportunities at first instance. Once the opportunities are perceived to be available, the steps of planning are undertaken.

### **2. Establishing objectives**

At this stage, major organisational unit of objectives are set. Objectives specified the results expected eight endpoints of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by various types of plans. The organisational objectives should be specified in all results areas. Key result areas are those which are important for organisation in achieving its objectives. These are identified on the basis of organisational objectives. For example, for an

organisation, key result areas needing profitability, sales, research and development, manufacturing and so on. Once organisational objectives are identified, objectives of lower units and subunits can be identified in that context organisational objectives give direction to the nature of all major plans which, by reflecting his objectives, to find the objectives of major departments. These, in turn, control the objectives of subordinate departments and so on down the line. Thus, the hierarchy of objectives in the organisation.

### **3. Planning premises**

After determination of organisational goals, the next step is establishing planning premises, that is, the conditions under which planning activities will be undertaken. Planning premises are planning assumptions - the expected environmental and internal conditions. Thus, planning premises are external and internal. External premises include total factors in task environment like political, social, technological, competitors plans and actions, government policies etc. Internal factors include organisation's policies, resources of various types, the ability of organisation to withstand the environmental pressure. The more individuals charged with planning understand and utilise consistent planning premises, the more coordinated planning will be. Forecasting plays a major role in planning premises.

The nature of planning premises differs at different levels of planning. At the top level, it is mostly externally focused. As one moves down the organisational hierarchy, the composition of planning premises changes from external and internal. the major plans, old and new, the future against which the managers at lower units must plan. For example, a superior's plans affect the subordinate manager's area of premises for the latter's planning.

### **4. Identification of alternatives**

Based on the organisational objectives and planning premises, various alternatives can be identified. The concept of various alternatives suggested that a particular objective can be achieved through various actions. For example, if an organisation has set its objective to grow further, it can be achieved in several ways expanding the same failed product line, diversifying in other areas, joining hands with the organisation or taking over the organisation and so on. Within each category, there will be several alternatives. For instance, the diversification itself may point out the possibility of entering into one of several fields. The most common problem with alternatives is not that of finding alternatives only but to reduce the number of alternatives so that most promising ones taken for detailed analysis. Since all alternatives cannot be considered for further analysis, it is necessary for the planner to reduce in preliminary examination, the number of alternatives which do not meet the minimum preliminary criteria. Preliminary criteria can be defined in several places such as minimum investment required, matching

the present business of the organisation, control by the government etc. for example, one company has defined criteria in terms of size of investment in new project and may not consider any project involving an investment of less than ₹ 40 crores.

### **5. Evaluation of alternatives**

Various alternatives which are considered feasible in terms of preliminary criteria taken for detailed evaluation. At this stage, an attempt is made to evaluate how each alternative contributes to the organisational objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect but negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also it was less risk. Moreover, there is no certainty about the outcome of any alternative because it is related to future and future is not certain. It is affected by a large number of factors making the evaluation quite complex. This is the reason why more sophisticated techniques of planning has been developed.

### **6. Choice of alternative**

After evaluation of various alternatives, most fit one is selected. Sometimes, evaluation shows more than one alternative. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of action is to be undertaken in future which is not constant. Course of action keeping in view of various planning premises may not be the best one is the change in planning premises. Therefore, planner must be ready with alternative, normally known as contingency plan, which can be implemented in changed situations.

### **7. Formulation of supporting plans**

After formulating the basic plan, various plans are the light??? source to support the main plan. In organisation there can be various plans like planning for buying equipment, buying raw materials, recruiting and training personnel, developing new product etc. These derivative plans are formulated out of the main plan and, therefore, to support it.

### **8. Establishing sequence of activities**

After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budgets for various periods can be prepared to give plans more concrete implementation.

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### 3.4 TYPES OF PLANNING

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Organisation has got choices when it comes to planning. Depending on the activities of the organization, planning differs from time to time, from event to event, etc. . Depending on the importance of the content, element of time and the degree of formalisation, following are the types of plans which can be applied in the business organisation.

#### **Corporate Planning v/s Functional Planning**

Corporate planning is a type of activity which takes place at the topmost level of an organisation. The basic objective of corporate planning is to set up the long-term objectives of an organisation, which then can be passed on to various departments or strategic business units in order to achieve them. Corporate planning involves strategic consideration and decision making as it is being done for a long term. Once the corporate planning is set, the organisation can move on to decide upon various other types of plans to achieve the long-term corporate objective.

As against corporate planning which is comprehensive, functional planning is selective and segmental and it is taken at the departmental level. For instance, production department, marketing department, finance department et cetera. Functional planning is generally derived from corporate planning which aims to achieve the overall corporate objective of an organisation.

#### **Strategic Planning v/s Tactical Planning**

Strategic planning, also sets long-term direction of an enterprise and helps decide the vision of the organisation. In the words of Robert N Antony, “*strategic planning is the process of deciding on objectives of the organisation, on changes of these objectives, on the resources used to attain these objectives, and on the policies that are govern the acquisition, use and disposition of these resources.*” Strategic planning includes planning for growth rate in sales, diversification, expansion, changing portfolio of the products et cetera.

Operational planning on the other hand is generally short-term in nature and usually covers the tenure of at the most one year. It largely covers activities that are to be done in the routine course of business, for instance, production of certain category of products, distribution of a product in a particular region, et cetera. Operational planning requires the manager to answer the following questions in order to successfully implement the objectives set under the strategic planning:

- What action is to be taken?
- Why is this action required?
- What will it accomplish?
- What will be the result of this action?
- Which all objectives will be achieved with the action?

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### **3.5 APPROACHES OF PLANNING**

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#### **Proactive v/s Reactive Planning**

This type of planning is generally based on the organisation's response to the environmental changes. If a manager, predicts what is going to happen in future, he will be ready with the preparation in advance. It is known as proactive planning. If the manager makes changes after the change takes place in the environment, it is known as reactive planning. Thus, proactive planning involves designing suitable course of action in anticipation of the probable changes that are going to take place in the near future in the environment.

In reactive planning, the suitable course of action comes after the environmental changes have already taken place. Many a times, organisation may not have any idea about what is going to happen in the future, hence, they are left with nothing else but to react to the changes. Reactive planning is applied when the conditions are going to remain stable for a long period of time.

#### **Formal v/s Informal Planning**

This classification of planning is based on the degree of formalisation which is used by the managers to undertake planning activities. Former planning, as the name suggests, is well structured and designed process involving various steps to achieve any objective for an organisation. Here, everything is clearly defined regarding who will do it, when it will be done, where it will be done, how it will be done and so on. Formal positions are staffed by people from different backgrounds like engineers, managers, statisticians, economics et cetera. This is rational, systematic, well-documented and is in order.

As against former planning, informal planning does not have high degree of formalisation. There is no clear path or steps to be followed. Informal planning is generally taken for smaller activities where organisation may or may not have enough time to plan rather formally the action for achieving any objective. The planning process here is based on experience, institution and judgement of the manager rather than systematic evaluation of environmental aspects.

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### **3.6 PLANNING PREMISES**

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The term premise refers to a proposition stated or assumed at the beginning of a deed. Using this term in the context of planning, it involves various assumptions on which plans are formulated. Since there are many factors which affect the implementation of a plan, assumptions are made in respect of factors. Therefore, there will be various assumptions on which a plan is formulated. For example, when a company introduces a new product in the market, it makes assumption that the product will succeed by taking into account various factors which

are likely to affect the products' success or failure. Wehrich and Koontz have defined planning premises as follows:

*“Planning premises at the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that may affect the operations of plans.”*

Thus, planning premises include both anticipated and known conditions under which plans are formulated. There are many environmental factors whose likely behaviour are anticipated but there are many inter-organisational factors like policies, facilities etc, which are known at the time of plan formulation.

### **Types of Planning Premises**

Since there are many factors which are considered in plan formulation, these may be identified in different ways. Generally planning premises are classified based on various perspectives which are discussed below:

#### **A. External Premises**

External premises are one of the most important elements in planning formulation. These exist in an organisation's external environment. Various external factors are grouped into five broad categories: economic, political and legal, technological, socio-cultural and competitive. These factors either present opportunity or threat to an organisation. Opportunities are favourable condition in the organisation's environment which enables it to strengthen its position. A threat is an unfavourable condition in the organisation's environment which causes a risk or damage to organisation's position. For understanding external factors and premising these, environmental analysis is undertaken which is the process through which an organisation monitors and comprehends various environmental factors to identify opportunities and threats that are provided by these factors. All environmental factors do not affect a particular organisation in the same way. Some of the factors are more important than the others.

#### **B. Internal Premises**

Besides external factors, internal factors of the organisation are also taken into consideration for plan formulation. Various internal premises are related to events occurring within the organisation like organisation structure, management system, human resource, etc. such factors may lie in various functions of the organisation such as production, marketing, finance and personnel and management. These factors may either be strength or weakness of an organisation. A strength is an inherent capability of the organisation which can be used to gain strategic advantages over its competitors. A weakness is an inherent limitation or constraint of the organisation which create strategic disadvantages to it. Strength and weakness of an organisation can be identified by corporate or organisational analysis which is a process through which managers analyse various factors of the organisation to evaluate the relative strength and weakness so as to meet the opportunities and threats of the environment.



### **C. Tangible v/s Intangible Premises**

There are planning premises which may be classified as tangible and intangible. Tangible premises are those which can be expressed in quantitative terms like monetary unit or unit of product, labour hour, machine hour and so on. For example, sales forecast which provides premises are of qualitative nature and cannot be translated into quantity. For example, image of the company in its environment can be expressed in qualitative terms and interpretation has to be drawn from these. In fact, many external and internal factors cannot be meaningfully quantified and managers have to make decisions on the basis of such intangible premises. This is the real art of managing. Managers are confronted with a variety of qualitative information.

### **D. Controllable v/s Uncontrollable Premises**

Planning premises can be classified on the basis of the controllability. Thus, premises may be either controllable or uncontrollable. However, in between these two, there may be semi-controllable premises. Controllable premises are those that can be controlled by an organisation's action. For example, policies, structure, human resource etc. Uncontrollable premises are mostly external and cannot be controlled by an organisation's action. For example, rate of economic growth, population, tax, etc. The semi-controllable premises are those which can be controlled to some extent but not wholly. For example, market share of company's product, labour efficiency, product pricing, etc.

### **Limitations/Barriers to Planning**

Planning is a management function which is essential to every manager of an organisation but there are some practical problems in proper planning. The reasons why people tend to fail in planning emphasises that the practical difficulties encountered in planning disclosed that effective planning is not easy. Managers can do better if they are aware of the limitations so that they can take cautions against them. Given below are the major limitations to effective planning.

#### **1. Difficulty of accurate premising**

Planning exercises are undertaken under certain assumptions of future events which are defined by a large number of factors in the environment. Thus, a limiting factor in planning is the difficulty of formulating accurate premises. Since the future cannot be known with accuracy, premising is subject to a margin of error. Though this margin of error can be minimised by making suitable forecasts of future events, protection cannot be expected. It is often suggested that since long-range planning requires peeping into distant future, and distant future is not certain, it is useless to undertake long-range planning. In fact this is true to some extent and especially under two situations long-range planning cannot be undertaken: first, in the formulating stage of organisation's development when it may not be possible to take up long-range planning;

and second, the environment in which the organisation operates is unstable and uncertain owing to social and technological changes.

## **2. Problems of rapid change**

Another problem which is related to external environment is the rapid change which takes place in the environment. In a complex and rapidly changing environment, complications that make planning extremely difficult often magnify the succession of the problems. The problem of changes is more complex in long- range planning and short-range planning. Present conditions tend to weigh heavily in planning, and by overshadowing future needs may sometimes result in error of judgement. In rapidly changing conditions, planning activities taken in one period may not be relevant for another. Because the conditions into periods are quite different.

## **3. Internal inflexibilities**

Managers while going through the planning process have to work in a set of variables. These variables often provide less flexibility in planning which is needed to cope up with the changes in the future events. Such inflexibilities may be either internal to the organisation or may lie outside. The top major internal inflexibilities are psychological, policies and procedures and capital investment.

Psychological inflexibility is in the form of resistant to change. Managers and employees in the organisation may develop pattern of thought and behaviour that are hard to change. They look more in terms of present rather than future for them. Present is not only more certain but is also more desirable and more real. They believe that 'if they do not take care of present, future will not be there'. For them, planning tends to accelerate change and unrest. Thus, this approach works against planning because planning often depends on the willingness of people to accept change.

Another internal inflexibilities emerges because of organisational policies and procedures. Once these are established, they are difficult to change. Though peace policies, procedures and rules are meant to facilitate managerial actions by providing guidelines, they often tend to be too exacting and numerous that they leave very little scope for manager initiative and flexibility. Since managers help to plan for future which is not static but changing, they often find themselves in great constraints. Such problems are more prominent in bureaucratic organisations with rules and procedures become more important than results.

In most cases, once funds are invested in fixed assets, the ability to switch future course of action becomes rather limited, and investment itself becomes a planning premise During the entire life of the fixed assets, this inflexibility continues unless the organisation can reasonably liquidate its investment or change its course of action or it can afford to write off the investment.

#### **4. External inflexibilities**

Besides the internal inflexibilities, managers are confronted with many external inflexibilities and they do not have control over these. Whether these changes take place quickly or slowly, they do stand in the way of effective planning. Three environmental factors generate inflexibilities for an organizational planning: political climate, trade unions and technological changes.

##### **1. Political climate**

Every organisation, to a greater or lesser degree, is faced with inflexibility of the political climate existing at any given time. Attitude of government towards business, taxation policy, regulation of business etc, generate constraints on the organisational planning process. Government, being the major supplier of certain raw materials finances through financial institutions may affect business organisation considerably.

##### **2. Trade unions**

The existence of trade Unions particularly those organised at the national level, tends to restrict freedom of planning. Apart from wages and other associated benefits, they affect the planning process by putting limitations on the work undertaken by the organisation. They setup work rule and productivity to that extent, managers are not free to make a decision of their choice.

##### **3. Technological changes**

The rate and nature of technology changes also present very definite limitations upon planning. An organization is engaged in its process with a given technology. When there is a change in technology, it has to face numerous problems resulting in higher cost of production and less competitive competence in the market. However, the organization cannot change its technology so frequently. Thus, higher the rate of technology changes, more would be the problem of long-range planning.

##### **5. Time and cost factors**

Planning process is quite costly and time-consuming process. Various steps in planning may go as far as possible because there is no limit of precision in planning tools. Managers can spend unlimited amounts of time in forecasting, evaluating alternatives, developing supporting plans, or attending other aspects of planning. If they do not have limitations of time and money. Planning process suffers because of time and cost factors. Time is a limiting factor for every manager in the organization. If managers are busy in preparing elaborate reports and instructions beyond certain level, they are risking their effectiveness. Excessive time spend on securing information and trying to fit all of it into a compact plan is dysfunctional in the organization.

Besides time factor, planning is also limited because of cost factor.

Planning cost increases if planning becomes more elaborate and formalized. Additional staff is to be appointed. Looking at the cost aspect, many people have commented that planning consumes more but contributes less. Thus, planning cannot be undertaken beyond a certain level. It should be taken at a level where it justifies its cost. Apart from direct cost involved in managers; time, financial compensation for those who are involved in planning, paper work, etc., also make planning costly to the organization indirectly. Plans provide rigidity of action, though the action is based on future projection. If future events change, the organization does not have any alternative except to sustain loss on the investment committed for planning period.

### **6. Failure of people in planning**

Apart from the above factors, sometimes, people involved in planning process fail to formulate correct plans. There are many reason why people fail in planning at the formulation level as well as implementation level. Some of the major reasons for failure are lack of commitment to planning, failure to formulate sound strategies, lack of clear and meaningful objectives, tendency to overlook planning premises, failure to see the scope of plan, failure to see planning as a rational approach, excessive reliance on the past experience, lack of top management support, lack of delegation of authority, lack of inadequate control techniques, etc. These personnel factors are responsible for either inadequate planning or wrong planning in the organization.

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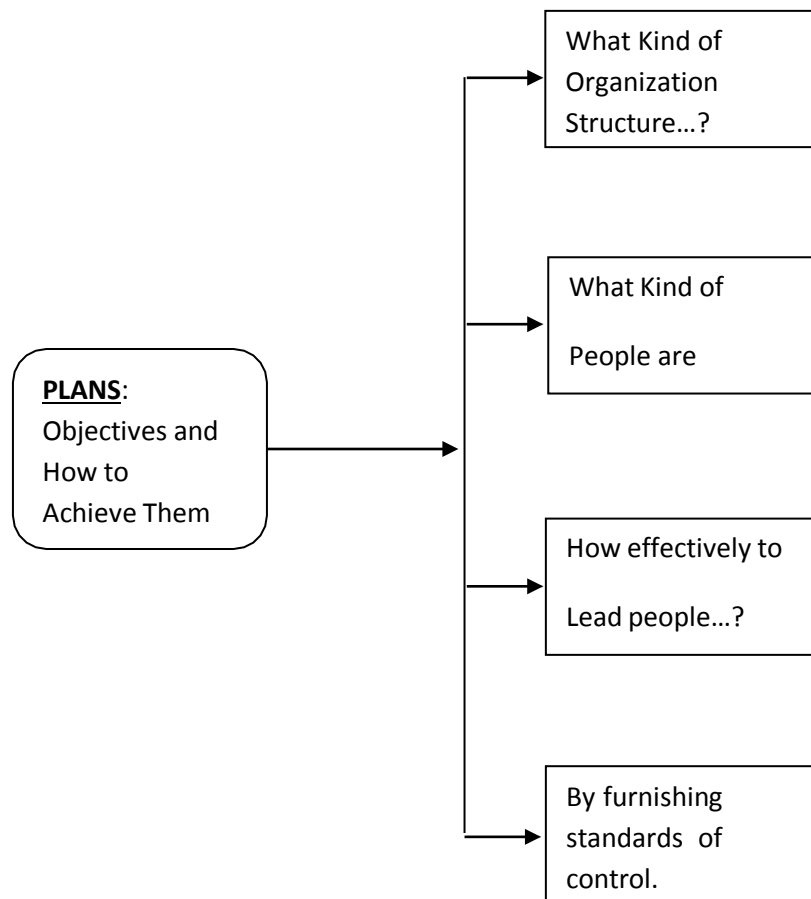
## **3.7 STRATEGICAL CONSIDERATION WHILE PLANNING**

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Planning has assumed great importance in all types of organizations – business or non- business, private or public sector, small or large, in developed countries or developing countries. The systems approach of management suggests interaction of an organization with its environment on continuous basis. This interaction can better be maintained through efficient planning. In fact, in today's context, the difference between successful and unsuccessful organizations is because of planning activities undertaken by them. The organization which thinks much ahead about what it can do in future, is likely to succeed as compared to one which fails to do so. Planning contributes in the following ways:

### **1. Primacy of Planning**

Planning precedes all other managerial functions. Since managerial operations in organizing, staffing, directing and controlling are designed to support the accomplishment of organizational objectives, planning logically precedes the execution of all other managerial functions. Although all the functions intermesh in practice as a system of action, planning is unique in that it establishes the objectives necessary for all group effort. All other functions are performed to achieve the objectives set by the planning process.



## 2. To Offset Uncertainty and Change

There is continuous change in the environment and the organization has to work in accelerating change. This change is reflected in both tangible and intangible forms. Tangible changes are in the form of changes in technology, market forces, government regulations, etc. Intangible changes reflect in changes in attitudes, values, cultures, etc. In order to cope up with the requirements of such changes, organization must look ahead for its future course of action which is basically provided by planning process. Planning does not stop changes in the environment but gears the organization to take suitable actions so that it is successful in achieving its objectives.

## 3. To Focus attention on Objectives

Planning focuses on organizational objectives and direction of action for achieving these objectives. Sometimes, people in the organization may not be specific about its objectives because of lack of clarity and precise definitions. For example, often we take profit as the objectives of a business organization. It is too abstract to be pursued. In order to enforce

managerial actions, this should be defined more precisely. When planning action is taken, these objectives are made more concrete and tangible. The objectives are defined in more meaningful terms so that managerial actions are possible. For example, even if the organization objective is profit-earning, planning activity will specify how much profit is to be earned looking into all facilitating and constraining factors.

#### **4. To Help in Coordination**

Though all managerial functions lead to coordination in the organization, real beginning is made at the level of planning stage. Well-considered overall plans unify interdepartmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus, various departments work in accordance with the overall plan, and harmony is achieved. It is true to say that coordination is essence of management and planning is the base for it.

#### **5. To Help in Control**

Control involves the measurement of accomplishment of events against plans and correction of deviations to assure the achievement of objectives as set by the plans. Thus, control of exercise in the context of planning action as standards against which actual results are to be compared are set up through planning. At the control stage, an attempt is made to monitor the performance on continuous basis so that immediate action is taken if anything goes wrong.

#### **6. To increase Organizational Effectiveness**

Planning ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are put to the best of their efficiency but also that they are put in a way which ensures their maximum contribution to organizational objectives. In fact, this can be done by taking appropriate planning. Thus, planning along with control ensures that resources are put in action in a way which these have been specified. If this is done, organization will achieve effectiveness.

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### **3.8 ROAD BLOCKS TO EFFECTIVE PLANNING**

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Besides time factor, planning is also limited because of cost factor. Planning cost increases if planning becomes more elaborate and formalized. Additional staff is to be appointed. Looking at the cost aspect, many people have commented that planning consumes more but contributes less. Thus, planning cannot be undertaken beyond a certain level. It should be taken at a level where it justifies its cost. Apart from direct cost involved in managers; time, financial compensation for those who are involved in planning, paper work, etc., also make planning costly to the organization indirectly. Plans provide rigidity of action, though the action is based on future projection. If future events change, the organization does not have any alternative except to sustain loss on the investment committed for planning period.

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## **3.9 FORECASTING**

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The concept of forecasting is related to the events of future. Forecasting basically is a process through which relevant events of the future are estimated based on the analysis of the past and the present behaviour. It is said that future cannot be ascertained unless one knows the past of a particular event. Thus, the past and the present analysis of any event or



activity provides information about the future occurrences. The term forecasting is closely related with statistics as it makes use of various statistical tools in order to ascertain the future. However, not all statistical tools help in analysis of forecasting.

“Business forecasting refers to the statistical analysis of the past in the current movement in the given time series so as to obtain clues about the future pattern of those movements.”

- **Neter & Wasserman**

### **Features**

1. Forecasting is related to the future. Hence it is a part of planning as it needs to forecast the future course of action.
2. Forecasting also clarifies the probability of happening of future events. Therefore, happening of future events can be precise only to a certain extent.
3. Forecasting is done by analysing past and present situations or events which have already taken place, (which will then it was the future roads.)
4. Forecasting makes use of various statistical tools and techniques for providing accuracy along with various personal observation in the process.

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### **3.10 OBJECTIVE SETTING**

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The term objective setting is used more often than not but seldom people take it in a serious sense and would like to make general statements which may not be formal, explicit or sometimes illegal as well. A sincere effort to set objective of an organisation should be made with formal procedure and meeting, recognising explicitly what needs to be achieved and should also be legal in nature. Most of the times, it is the top management which determines the overall objectives of the organisation which the member agrees and tries to achieve it. While in some organisation, the objectives are set by shareholders through voting. Setting objectives may look an easy task but it is one of the complex tasks in the world. These factors could be value system, strengths and weakness of an organisation, opportunities and threats are available in the environment et cetera.

The management needs to see various aspects and should involve all the concerned parties in order to set a sustainable objective for an organisation. The objectives can be general in nature or it can be specific or both. General objectives are normally broad which needs to be transformed into action through various tactical plans. The specific objectives should prescribe the manner in which general objectives may be achieved as there is always end means chain.

#### **Guidelines for objective setting**

1. It must be clearly specified

2. It must take into account various factors affecting their achievement
3. It must be consistent with the organisational mission
4. It must be rational and realistic in nature
5. It must be achievable and should throw a challenge to prove responsible for achievement
6. It should yield specific results towards the end
7. It should also be periodically reviewed

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### **3.10 MANAGEMENT BY OBJECTIVES WITH PROCESS**

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#### **Management by Objectives (MBOs)**

Peter Drucker, in his book 'The Practice of Management' introduced management by objectives by emphasising on the concept of managing by objectives. Since then, many organisations have been adopting it in some of the other forms. Of course there are some variations in adoption but it is highly successful. It is also known as management by results. It has generated considerable attention and circulation due to two facts:

- It focuses largely on objectives or results which a manager is expected to achieve within a specific period of time.
- It highly focuses on participative management which provides motivation to individuals in an organisation

Heinz Weihrich and Harold Koontz, define management by objectives as,

*"MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner, consciously directed towards the effective and efficient achievement of organisational objectives."*

S. K. Chakraborty, defined management by objectives as follows:

*"MBO is a result centred, non specialist, operational managerial process for the effective utilisation of material, physical and human resources of the organisation by integrating the individual with the organisation and the organisation with the environment".*

MBO is a strategic aspect that aims to improve efficiency of the organization by setting objectives that are agreed to by both management and employees. When employees are involved in setting the objectives and action plans it encourages participation and commitment towards the task. Here the performance standards are set and the actual performance is measured and as compared with the standard, just like controlling, helps in deciding the deviations which can be corrected and thus the performance can be improved.

#### **Process**

1. The first step is to determine the objectives for the entire organisation. Generally the objectives are derived from the company's mission and vision. Thus the first task for the manager is to determine or revise the organisational objectives.
2. The second step in practising MBO is to translate these objectives and

make employees understand so as to operate effectively. Peter Drucker used the acronym SMART (specific, measurable, acceptable, realistic and time bound) to express the concept.

3. The third step is to stimulate the participation of the employees in designing the individual objectives. After the oral objectives are shared, employees are motivated to set their own objectives in order to achieve the overall objectives.
4. The fourth step involves the overseeing or monitoring of the performance of the employees. Once the objectives were set in step two and being translated, they are simply to be measured in order to know how well the employee have achieved the objectives.
5. The last and final step is to evaluate the performance of the employees. The evaluation will tell the organisation how well the employees have met with the objectives. It is nothing but the feedback on what has been achieved by each employee and rewards the ones who have done good job and correct the deviation in case if the employee failed to achieve the objective.

### **Strategies Types**

The term 'strategy' has been derived from a Greek word 'strategos' which means general. And thus it came to be popularly known as the art of general. When it is used in a Military sense, it represents or refers to the actions taken in response to the action taken by the enemy. The use of the word strategy in management context came much later than its use in Military sense. In management literature, the strategy is used in a different form than its other applications. Following are the definitions of few authors who have made an effort to define strategy in the context of management

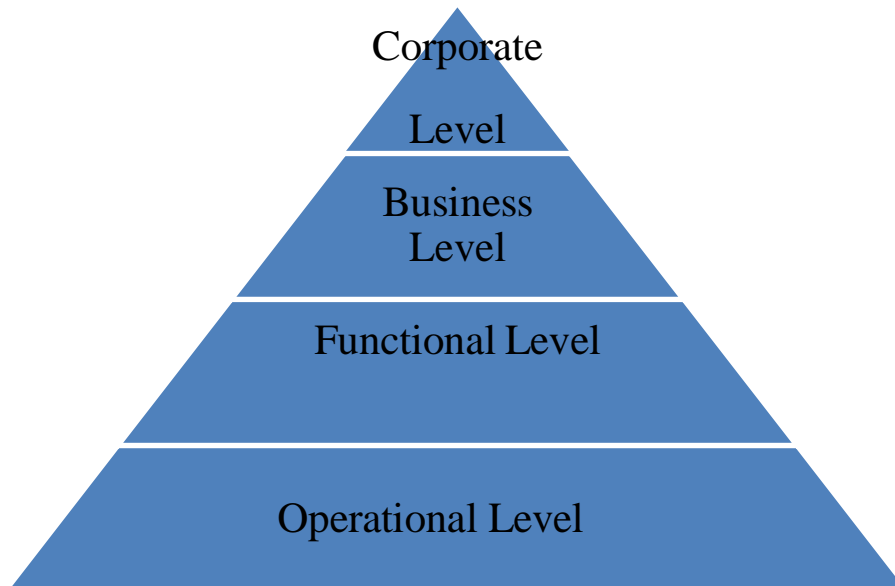
*“Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals.”*

- Alfred Chandler (1962)

*“Strategy is the pattern of objectives, purpose or goals, and major policies and plans for achieving these goals, stated in such a way, so as to define what business the company is in or is to be and the kind of company it is or is to be.”*

- Kenneth Andrews

## Types of Strategies



### **Corporate Level Strategy**

Corporate level strategy is formulated at the top level of the management. Generally, the Board of Directors, CEO, senior management, et cetera deliberate on various aspects and formulate a strategy for the whole corporate house. This strategy gives out the market and business in which the company is operating. Hence, it gives direction of the business in the product lines of the company. Corporate level strategy defines the long-term goals of the corporate and affects the whole organisation under its roof.

### **Business Level Strategy**

Business level strategy is a strategy for a strategic business unit. This is generally formulated by the senior managers of a separate business unit of the corporate house. The strategy majorly focuses on the competitive position of the products and services offered by the company. This strategy is just an extension of corporate level strategy but it is customised to suit the requirement of the products and services offered by the strategic business unit. This would include, for instance, new product development, innovation, integration, et cetera. This strategy aims to build competitive position and get competitive advantage in the marketplace.

### **Functional Level Strategy**

A functional level strategy is carried out at the departmental level or a division level in a particular strategic business unit. The strategy is

formulated in different functional areas of the organisation, for instance, production strategy, marketing strategy, financial strategy et cetera. This strategy emphasises on development of a particular functional area and formulate such objectives which maximises the performance of the particular department. This strategy is derived from the business level strategy. The strategy of each department would vary or differ from each other based on their functions and importance. For instance production department may set the strategy to produce product at a very low cost, while finance department would like to procure funds at a very cheap rate of interest.

### **Operational Level Strategy**

Towards the end of the pyramid the last strategy which is formulated at every grassroot level is the operational strategy. This strategy is formulated at a very basic level by concerning the people actually working on the field. These people are consulted by the immediate supervisors or subordinates and the objectives are designed or formulated in order to achieve desired results and that matches with the overall strategy of the unit. The responsibility of designing operational level strategy may rest upon the frontline managers Generally it is formulated with the help of middle level managers.

### **Multiple Choice Questions (MCQs)**

1. Is planning pervasive in nature?
  - a. **Yes**
  - b. No
  - c. Can't say
  - d. Subjective matter
2. Which of the following is for a short term planning?
  - a. Tactical
  - b. Informal
  - c. Strategic
  - d. **Both A & B**
3. Which of the following planning depends on dynamics of environment?
  - a. Proactive
  - b. Reactive
  - c. Formal
  - d. Informal
  - e. **Both A & B**
4. \_\_\_\_\_ are the anticipated environment in which plans are expected to operate.
  - a. Roadblock to planning
  - b. Approaches to planning
  - c. **Planning premises**
  - d. Objective setting
5. Find the odd one out.
  - a. Problems of Rapid change

- b. Inflexibilities
  - c. Failure of people
  - d. Organizational effectiveness**
6. Which of the following is not true regarding objective setting?
- a. It must be clearly specified
  - b. It must be said taking into account various factors affecting their achievement
  - c. It must be consistent with the organisational mission
  - d. Not on the least**
7. \_\_\_\_\_ is formulated at the top level of the management
- a. Business Level Strategy
  - b. Corporate Level Strategy**
  - c. Function level strategy
  - d. Both B & C

### **Descriptive Questions**

1. What is planning? Discuss features of planning.
2. Discuss the concept of Planning along with features and importance of Planning.
3. Explain in detail the planning process/steps in Planning/Planning procedure.
4. What is Planning? Discuss various approaches to Planning.
5. Explain in detail the Planning premises.
6. Discuss various types of Planning for the organization.
7. What is Planning? What hinders successful Planning?
8. What is MBO? Discuss its process.
9. What is Strategy? Discuss various types of strategies.
10. Discuss in detail the limitations/roadblocks of Planning.

### **Short Notes**

- Features of Planning
- Corporate strategy v/s functional strategy
- Objective setting
- Forecasting
- Formal v/s informal Planning
- Strategic v/s tactical Planning

- 4.1 Concept and Meaning & Definition**
- 4.2 Formal and Informal Organization**
- 4.3 Principles of Organizing**
- 4.4 Process of Organizing**
- 4.5 Organization Structure**
  - 4.5.1 Line Organization Structure**
  - 4.5.2 Line and Staff Organization Structure**
  - 4.5.3 Functional Organization Structure**
- 4.6 Factors affecting structure**
- 4.7 Departmentation**
- 4.8 Span of Management**
- 4.9 Forms/Types of Structure**
- 4.10 Delegation of Authority**

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#### **4.1 CONCEPT AND MEANING & DEFINITION**

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Once the manager defines what needs to be done in the process of planning the next issue that comes before the management is who will do it and how it will be carried out. This needs to be answered as there are so many persons working together for a particular task and they are related in some sort of authority and responsibility. Hence this aspect is taken up by the organisation in form of organising which involves analysis of activities to be performed by various persons or groups working under some divisions or departments or sections in order to achieve organisational objectives. The term organising and organisations are used interchangeably but technically they are different. Thus, before going into detail and dealing with various issues of organising, it is apt to clarify the difference between the term organisation and organising.

The term organisation is used in various ways and in each way, the user uses it with a specific reference. There are various authors who have

made an effort to clarify the term organisation, and they have come to conclusion that the term organisation is used in the following ways with or without prefix or suffix:

- as an entity
- as a group of people
- as a structure
- as a process

The term organisation as an entity refers to any organisation with legal existence, for instance, a partnership firm, a company, or any other organisation. When it is used as a group of people it may be defined either as an entity or any formal or informal group of people and organisation comes into existence to satisfy their social needs. Organisation is a structure which prescribes the relationship among individuals in the position that they hold. There are different types of structures available which clarifies the authority responsibility under which people are put. These structures will be discussed in detail further in this chapter. Lastly organisation is referred as a process wherein instead of the term organisation it is used as organising. The term organising here consists of the following elements viz., Departmentation, linking departments, defining authority responsibility and prescribing authority relationships.

### **Definition**

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

L. Allan

*“An organisation consists of people who carry out differentiated tasks which are coordinated to contribute organisation’s goals.”*

G. Dessler

*“Organisation is the form of every human association for the attainment of common purpose.”*

Mooney and Reiley

*“An organisation is the rational coordination of the activities or rules of a number of people for achievement of some common explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility.”*

E. H. Schein

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## **4.2 FORMAL AND INFORMAL ORGANIZATIONS**

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Organisation, right across the world can be of two types formal and informal. Existence of both is sometimes inevitable for any country as both of them are capable of doing good for the economy. In a country like India informal organisation runs parallel to formal organisation and sometimes in a better way. There are lot of difference between formal and informal organisation right from the purpose towards the execution of the tasks. Depending on the usage, complexity, degree of involvement, et cetera, existence of formal and informal organisation would rely. As discussed above organisation could be a group of people, could be an entity or a structure. Hence when we say formal and informal organisation, it may be formal group of people or informal group of people, it may be formal entity established to achieve certain goals or informal, entity which has no name on the legal books and it can be a formal structure designed by authority responsibility or it could be just as informal structure when everybody performs their tasks to achieve a common objective.

However, a major point of difference between a formal and informal organisation is that the formal organisational structure is created intentionally but the process of organising informal organisation is that it is created without any committed process of creating it. Formal organisation to create scalar chain of communication and command with superior subordinate relationships.

<b>Formal Organization</b>	<b>Informal Organization</b>
Establishment of defined goals and objectives	Based on beliefs and assumptions
Creation of policies and procedures	Gets affected by perceptions and Attitudes
Job analysis	More role of value system and group Norms
Established communication channels	Existence of informal leaders
Proper delegation of authority	Mixed bag of feelings (joy, fear, anger, etc)

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### **4.3 PRINCIPLES OF ORGANIZING**

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#### **1. Division of Work**

Division of work is one of the finest and most important principles of the term organisation. It forms the basis of an organisation. There would not be any organisation with does not have division of work. It is pervasive and hence significant principle. Under division of work, the entire work of the business organisation is divided into many departments or divisions or sections. The work of every division is further divided into

sub-works. In this way each individual has to do some repeated work which makes the person an expert in the course of time.

## **2. Specialization**

Another important principle of organisation is specialisation. Specialisation comes from the possession of division of work. Each work needs a specialist to complete in an effective way hence every organisation (expresses the law of specialisation.) bracketed part is ambiguous. Generally, each area of specialisation is interrelated and integrated through coordination among the departments in various activities.

## **3. Coordination and communication**

Once the work is divided among various employees it is very important that there exists coordination between the work and the people. It is very essential in order to achieve common goals. In case if there is no coordination, it will create havoc in the organisation and the organisation will not be able to achieve the goals in specified time period. Further good communication is also essential for the smooth flow of information and understanding in order to achieve excellence in performance. The line of authority should offer forward and downward communication in order to avoid confusion.

## **4. Delegation**

Delegation is again very much important when it comes to management. Generally, it is the lowest competent level which works while the higher level only makes decision and delegates the objectives. Hence authority and responsibility needs to be delegated right down to the lowest possible level so as to carry out the work effectively. If proper delegation is not done, it will create problems of responsibility and accountability. Thus the manager needs to be very clear when to delegate the tasks. Communication is also very important when it comes to delegation.

## **5. Ensure Flexibility**

In today's era it is very much important that the organisation is flexible enough to incorporate all the environmental changes happening in the economy. In order to achieve growth and expand without dislocation, the organisation needs to be adaptable to changing circumstances. At any point of time it should not be rigid or inelastic which hinders the growth of organisation. Hence organisation should be flexible in their approach in every area.

## **6. Authority – Responsibility**

Authority-responsibility clarifies the principle of scalar chain or chain of command. The line of authority flows from top to bottom level and the chain of command at any point of time should not be broken. As far as possible it should be short in order to achieve effective implementation.

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## 4.4 PROCESS OF ORGANIZING

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Process of organizing basically involves effective delegation of authority and making people responsible and accountable for the task allotted to them. Let us discuss how this can be undertaken by the manager:

### 1. Identifying Work

It is but obvious that it's the first step in the process of organizing. In order to distribute work or tasks, the first thing is to identify which or what tasks are there which needs delegation. This should happen at every level of management, right from top to bottom. The degree of delegation will be more at the bottom than at the top. Identification of work helps in avoiding duplication, miscommunication and wastage of time and effort.

### 2. Grouping Work

Once the work across the organization is identified, the next thing is that to check whether there are any similar tasks or activities which can be performed together or in a group or can they be grouped under one head or department. If yes, then they need to be grouped under a specific division or department. This makes it more systematic and accountability can be very easily ascertained. Grouping of work actually depends on size of the organization, volume of work, number of tasks, complexity of work, etc.

### 3. Establishing Hierarchy

The next step in the process of organizing is to establish hierarchy among various positions or individuals in the company. Technically, horizontal and vertical relationships among the working people need to be established so that they operate effectively and answer to the right person or subordinate. This helps establishing sound reporting system and effectiveness in conducting various activities.

### 4. Delegation of Authority

Authority is nothing but a right given to an individual based on the work allotted and position hold. With authority, the individual gets freedom to make certain decisions, of course, the corresponding responsibility also accompanies. Once a person receives authority, he can make certain decisions regarding work and can operate without any intervention. Hence, the senior managers must delegate the work to the next level managers and so on. Delegation of authority in today's era is a must as centralization cannot get you more benefits if the firm operates on a large scale.

### 5. Coordination

At last, the manager needs to make sure that all the work which are delegated to various employees and groups are being operated in a well-

coordinated manner. If there is lack of coordination, there will be chaos and conflicts among employees and it will lead to duplication of work and efforts. The manager must ensure all the departments carry out their work in a harmonious manner. Ultimately, they need to work in the achievement of the overall objective of the organization.

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## **4.5 ORGANIZATION STRUCTURE**

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In layman's term, structure is any pattern or some sort of arrangement in which various parts or components are interrelated or interconnected with each other. The term organisation structure is nothing but pattern of relationships among various people existing in the organisation. It specifies relationship of people in activities and position that they hold.

When it comes to designing organisation structure, the managers need to adapt formal aspect or approach. However, in actual practice, the total pattern of interaction is not governed by formally prescribed structure but some of the interactions emerge through informal ways. Thus, the term organisation structure can be formal as well as informal. But when it is used in the corporate world, it needs to be formal which specifies authority responsibility and accountability of the people involved. Of course informal organisation structure also helps in attaining organisational goals and hence cannot be ignored.

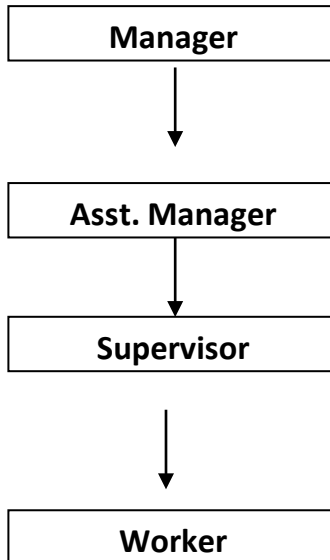
Designing organisation structure is considered to be a matter of choice among large number of alternatives. There are various choices available before the managers but he or she needs to take into consideration various factors which affect the organisation and then derive a sustainable structure which can stand every situation faced by organisation. From this point of view, managers must be aware of various alternatives which are available to form a structure which suits the organisational requirements, they are briefly discussed below:

1. Line organisation structure
2. Line and staff organisation structure
3. Functional organisation structure
4. Project organisation structure
5. Matrix organisation structure

### **4.5.1 Line Organization Structure**

Line organisation structure is also known as scalar, military or vertical organisation structure. This is one of the oldest forms of organisation structure available which so many firms over the years have adopted. The concept of line organisation holds that there is a downward process of delegating authority and responsibility from top level to bottom level. There must be single head which commands everything. It is vertical form of organisation structure because it flows from top to bottom in a straight line which is unbroken. It means the subordinate receives the instructions from the immediate superior and no one else. There is hardly any scope for the reverse transmission of the information.

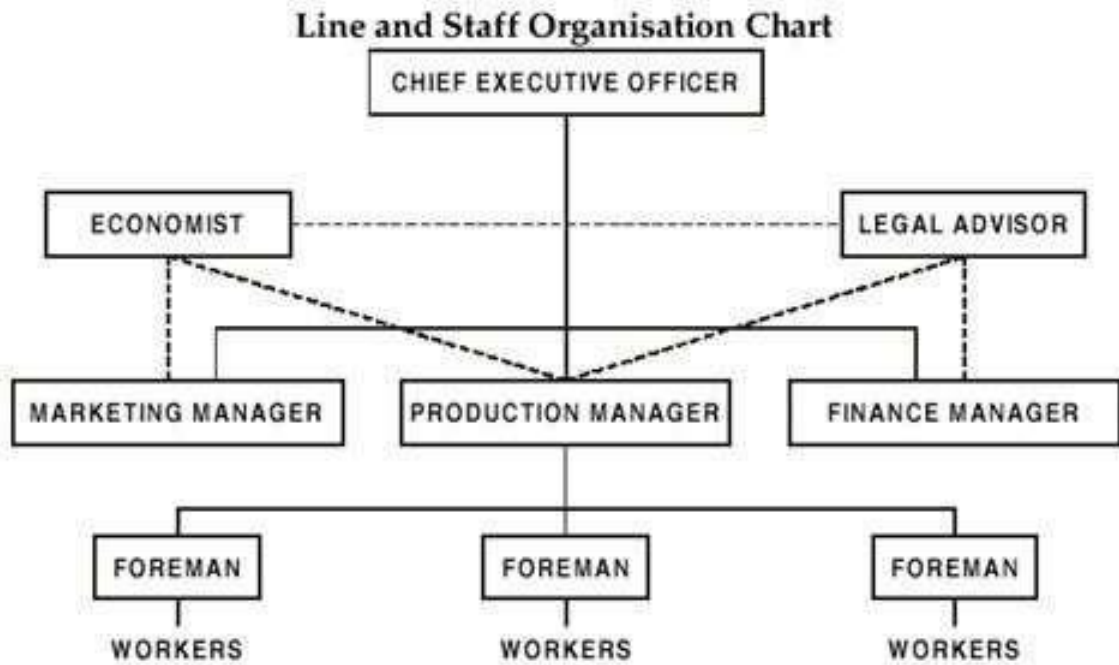
The line organisation structure is not suitable for the large organisations because it cannot fulfil the requirements of large organisations. However, it is quite suitable to small-scale organisations where the number of subordinates is quite small.



#### **4.5.2 Line and Staff Organization Structure**

Line and staff organisation structure is also a simple structure which is derived from the first one but the only difference between them is that in line and staff, staff specialists are added which will advise managers to perform their duties. This particularly is done when the work of an executive increases and the performance requires the services of the specialists which cannot be done by the front line managers. The staff positions are purely advisory in nature. They only recommend but they have no authority to take any decision on behalf of the Department. The staff specialists could be for a particular department or could be for the whole organisation.

This structure can be followed in large organisation where specialisation of activities is

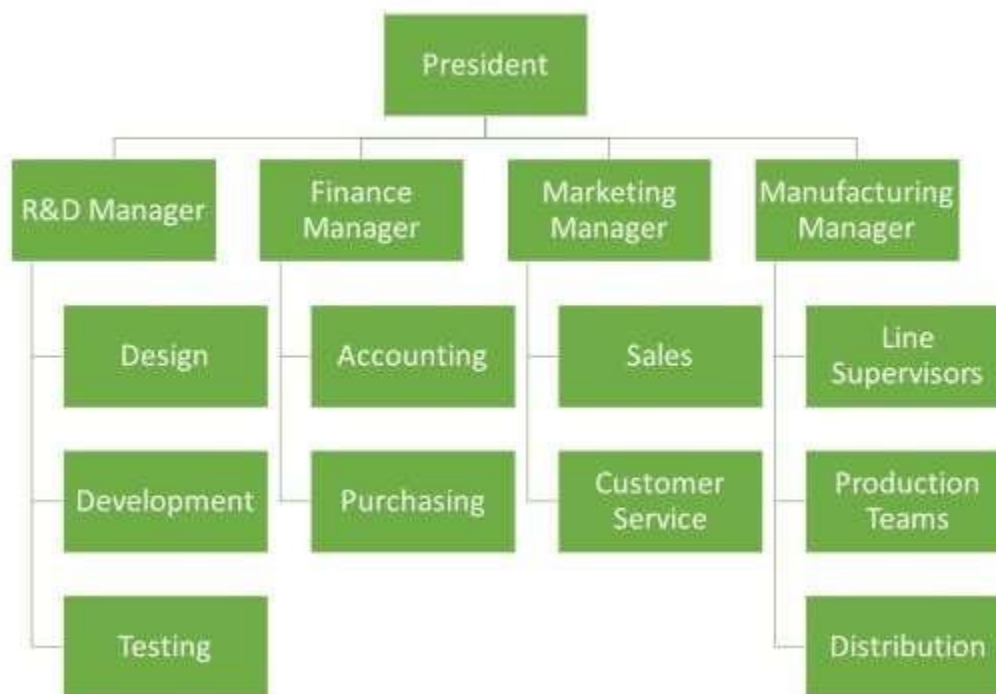


*Note: Straight lines represent line and broken lines represent staff.*

required because it offers ample opportunity for specialisation. When employed in the large organisations, its success depends upon the degree of our money that is maintained among various departments and personnel, the clarity in line authority and interpersonal contacts of executives particularly in line and staff positions.

### **4.5.3 Functional Organization Structure**

One of the most widely used organisational structures in various organisational units is the functional organisation structure. This type of structure emerges from the idea that the organisation generally performs functions in various departments or divisions. In each of these divisions are departments that require some sort of an authority to carry out its operations. Functional structure is created by grouping the activities on the basis of functions required to perform for achievement of the organisational goals. For instance, production department, marketing department, finance department, accounts department et cetera.

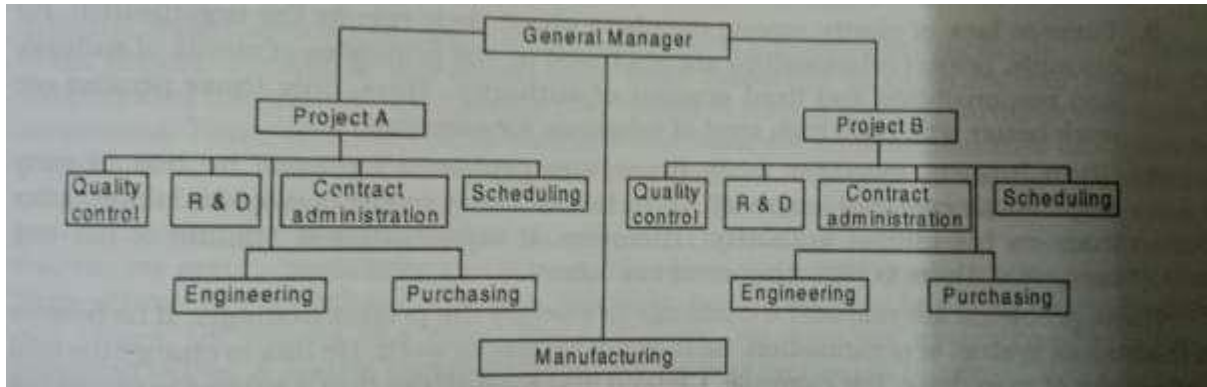


### **Project Organization Structure**

The above discussed structures have been labelled as traditional structure as there has been a new invention in the organisational structure or rather we would say there is a revolution in the way organisational structures are framed keeping in mind various requirements that comes up with increasing complexity in the environment. There are so many structures evolved, for which project organisational structure and matrix organisational structure have become quite popular. The underlying idea behind this type of structure is that the environment keeps on changing and the activities of the organisation have become limited to or committed to a project. The stability the structure have gone off due to changing environment and organisation needs to be dynamic and flexible when it comes to changing the hierarchy level in the organisation.

The project organisational structure appears like a divisional structure where the divisions of the departments are created on a relatively permanent basis when the project is supposed to continue for a long time and departments are relatively of permanent in nature. In order to design project structure, appointment of project manager becomes significant who is responsible for completion of the project. Project manager will coordinate the activities of the project and decides upon what is to be done, how is to be done and when is to be done. People from various functional departments will be drawn to perform the task in a particular project.

This type of organisational structure is suitable for projects like building a bridge, roads, housing colonies, et cetera. The frequency of the project is low. The project will be relatively unique and complex and calls for high degree of interdependence among the tasks.



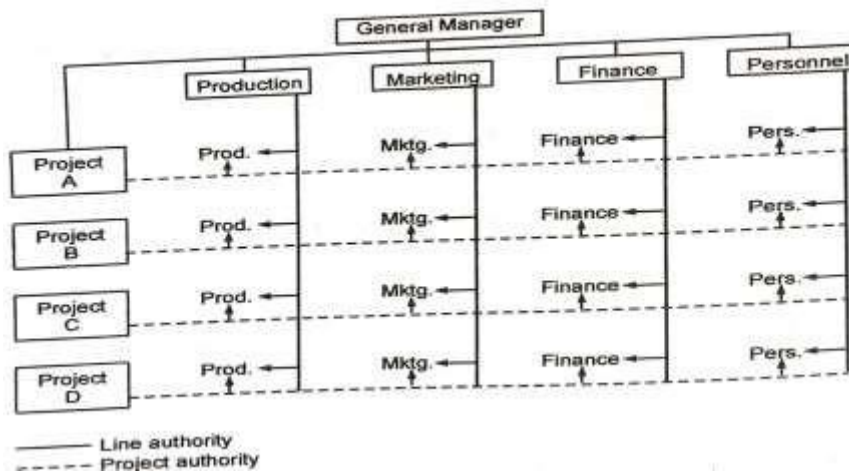
### **Matrix Organization Structure**

Matrix organisation is not the conventional one and it essentially violates the unity of command. It is actually a two dimensional structure which emanates directly from two- dimensional authority. It is a simple merger of project structure and functional organisational structure. Unlike project organisational structure, here the manager is not assigned a complete responsibility for the task. Instead of that he shares the responsibility of achieving the task with the other members of the organisation. This is basically suited for the organisation which has got large number of small projects at the disposal, so that when the project is complete the resources and the people are directed to other projects.

Appointment of the project manager is done to oversee the work of the project and coordinate the activities of the project. Personnel are drawn from the respective departments and once the project is complete they can go back to their own original departments and wait for the the assignment. So these personnels receive instructions from two bosses one from the department and one from the project manager. This sometimes may create confusion and chaos as one of them is permanent boss and the other is temporary, also keeps on changing,

Matrix structure is suitable for manufacturing activities like aerospace, chemicals, pharmaceutical et cetera. In service sector it is more suitable in banking, insurance et cetera, while it is also suitable in various government organisation, namely hospitals, government agencies and universities.






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## 4.6 FACTORS AFFECTING STRUCTURE

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### 1. Strategy:

Strategy refers to long term decisions adopted by managers to achieve organizational goals. Top managers generally formulate strategy after a careful analysis of opportunities in the environment and after evaluating strengths and weaknesses of the organization. The influence of strategy on structure may be expressed as under:

Strategy determines organizational goals

Strategy influences the choice of technology and people, appropriate for accomplishment of such organisational tasks, and in turn, these influence the appropriate structure. Strategy determines the specific environment, within which the organisation will operate.

### 2. Size:

Size determines structure. Size provides a greater opportunity to utilize the economies of specialization. As an organization grows in size, there is a tendency to assign more and more persons to specialized services. The number of subunits increases, more levels are created in the hierarchy, impersonal rules, procedures and control increase formalization and the organization will become more and more structured.

### 3. Technology:

Technology is an important variable in the design of organizational structure. To achieve satisfactory performance, managers must create an

organizational design with the proper mix of technology, structure and human behaviour. Technology, in simple terms, is the organization's transformation process. It is the combination of skills, equipment and relevant technical knowledge to bring about desired transformation in materials, information and people. There is definite relationship between technology and structure.

#### **4. Environment:**

Organizations are open systems. Organizations interact with their environment continuously. The open system perspective places enormous weight on the external environment of the organization as being influential for its internal functioning. Some organizations face relatively static environments; others face very dynamic environments. In a simple environment, the organizational structure is simple. As the environment complexity increases, the organization structure is less formalized and less centralized.

#### **5. People:**

A major influence on organization structure is the 'stock' of personnel employed at the enterprise. The attitudes, aspirations, experiences and roles of organization members are also related to the structure of the organization. It is, therefore, necessary to consider the forces affecting subordinate's behavior and performance. The desire for independence, for assuming responsibility, for facing challenging jobs, for achieving something worthwhile greatly influence the organizational structure.

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### **4.7 DEPARTMENTATION**

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Departmentation is the process of analysing, dividing and arranging work or activities into manageable portion for individuals, sections and departments. Thus, Departmentation is the organisation ??? wise division of work. In short, it is the process of identifying the activities and group them properly so as to operate effectively. For any organisation of any type, the first task is to divide the work that needs to be performed. For this, they have to group the task in order to form individual jobs. This is called arranging the work into manageable units for individuals. Once this is done then sections are formed. A section is a group of workers under one supervisor or superior. Then these sections are grouped to form a larger administrative units such as departments or divisions. Hence, departmentation is the process of analysing, dividing and arranging work or activities for individuals, sections and departments.

Generally, departments are formed through the process of departmentation. In corporate organisations, it is termed as divisions, departments or sections. In government organisation, they are called as branch, bureau or department. In military organisation they are referred as battalion, group or a company. The term may vary in different

organisation of the same nature but the department is in process remains the same.

### **Basis of Departmentation**

Following are the recognized and accepted basis of departmentation:

#### **1. Function or purpose**

It is the most popular and simple way to departmentalize the organization. It is similar to division of work. Activities, here, are grouped around functions viz., production, marketing, finance, accounts, etc. It is recommended, purely, on a logical ground.

#### **2. Product**

This basis is popular with the companies which has got large product portfolios. It is also known as divisionalization. These large companies with many product lines create manageable units based upon the product. One department or division is in charge of one product line. For instance, Philips company may allot one division each for TVs, Music System, Electronics, etc.

#### **3. Customer**

One of the first companies to do departmentation by customer was General Electric Company. It was done in order to serve as a supplier to different customers. These include aerospace, construction, consumer products and power generation. Retail stores may organise a special department to cater to teenagers, collagens, brides and adult people.

#### **4. Geography**

This is mostly popular among government organizations such as LIC, Railways, etc where they create department zone-wise or for any geographical area-wise. This is done keeping in mind the inadequate transport and communication facilities.

#### **5. Process**

At the plant level, we may have departmentation on the basis of process, e.g. Departments for milling, lathe work, painting, etc. Physically scattered operations create difficulty of coordination.

#### **6. Time**

In many organizations, where the work is done 24x7, this type of departmentation is applied. The organization would work in shifts and each shift will be recognized as one department or division.

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## **4.8 SPAN OF MANAGEMENT**

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The term 'Span of Management' refers to the number of people or subordinates who work under a supervisor or superior efficiently and can

be managed by him/her. This group of people are generally the subordinates working under a manager or superior who directly report to him. Span of management gives us an optimum number of subordinates which can be handled by a superior working at a particular position. It is quite obvious that a single manager cannot handle all the workers or workers beyond a certain number. When the number of people working in a department is large, it needs to be divided among various superiors in order to operate effectively. Hence, span of management gives us the guidance on limit of number of subordinates who can be managed effectively by a single supervisor.

Writers' across the globe agree to the view that 5 to 6 is an optimum number that a manager can effectively handle, especially at the upper level. When it comes to the lower level, the number may increase as the burden of work and intellectual capability is not much required at that level. However, exact number of employees that can be managed by the superior cannot be absolutely defined, as it keeps on changing depending on nature of firm, nature of work, industry, economy, product portfolio, etc.

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## **4.9 FORMS/TYPES OF STRUCTURE**

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Following the factors that help in determining suitable span of management in an organization:

### **1. Competence of Managers**

One of the first factors that could affect the span of management is the competency of the managers at the job. If the manager is competent enough to do his job, they can have a wide span of management while if the manager is not so competent, there is no scope to put in more people to supervise. The competency of the manager can be assessed by their ability to make decisions, leadership style, communication, flexibility et cetera. Hence, if the manager is aware of above-mentioned abilities he can supervise large number of subordinates.

### **2. Nature of work**

Another important factor which affects the span of management is the nature of work. If the work that is performed by the subordinates is relatively simple and repetitive in nature, then manager can supervise large number of subordinates and thus can have wide span of control. If the tasks are not repetitive and are challenging than span of control may become narrow.

### **3. Assistance to Managers**

A single manager operating department and handling of workforce with no assistance or helping hand can supervise only a few number of people. While if a manager has an access to other staff assistance, a large number

of subordinates can be managed. With the staff assistance at the disposal of the manager, various other work like collecting and processing information, issuing orders, circulating instructions, et cetera., can be handled by them and manager can focus on more important matters.

#### **4. Competence of Subordinates**

As we discussed about the competence of the manager, it is quite apt that competence of the subordinates also makes a huge difference in deciding span of management. If the subordinates are competent to manage their work or task allotted to them without much of the assistance than the span of control can become wide. If the manager needs to intervene every now and then in the work of subordinates in the span of management cannot be enlarged

#### **5. Organizational Level**

The span of management also differs with reference to at what level it is decided. If the span of management happens to be at the top level than only a few people can be accommodated by a senior manager and the work will not be repetitive and will be challenging. While at a lower level the span of management can be wide as the work is repetitive and routine in nature. According to J. C. Worthy, a manager can supervise as many as 20 subordinates at the lower level.

#### **6. Authority – Responsibility Structure**

If the authority responsibility is clearly defined and understood by all the employees working in an organisation than a manager can afford to have large number of people working under him. Lack of clarity in the authority and responsibility will create confusion and miscommunication in the organisation which will eventually lead to narrow span of management.

#### **Concept of Power**

The term power has different connotations. It is used and perceived differently under different situations. Max Weber, the famous sociologist, has defined power and it is followed in management. According to Weber, *‘Power is the probability that one actor within the relationship will be in a position to carry out his own will despite resistance’*.

According to Bass and Stogdill, *“Power refers to a capacity that A has to influence the behaviour of B so that B does something he or she would not otherwise do”*.

The above-mentioned definitions give us three perspectives:

- Mr A has potential to influence the behaviour of Mr B which may or may not be effective.
- There seems to be dependency in the relationship between A and B
- B has some discretion as to his or her behaviour in the absence of the

usage of the power by A.

Thus, the effectiveness of the power is determined by the dependency of the target over the person who is exercising the power and to what extent the power is used with conviction. Another important point with reference to power is that it is relative in nature. Power cannot be exercised on a person in isolation. Hence, person exercising the power is also dependent on situation where he gets the chance to influence the behaviour of the target person. The parties involved in power relationship are mutually dependent. Dependency is one of the salient features of power which influences modern organisations.

Another important thing to be noticed is that the power of a person to influence the target also depends on the amount of resistance the other person has. The power cannot influence if both the parties are equal and are equally dependent upon each other. It is the imbalance in the relationship that reminds how effective the power will be. The dependency of the target over the agent exercising the power is determined by how important the resource (knowledge, expertise, skills, etc.) is; is the resource scarce in nature and whether the resource can be replaced or substituted. If the resource is not important, it is available in abundant and it is replaceable than the extent of influence of the power gets reduced, hence, low dependency.

### **Bases of Power**

Understanding the basis of power is significant as power are of different types and are implemented in difficult and different situations. There are few researchers who do not agree for the basis of power but it is observed that these bases of power helps the agent in influencing the target in different ways. Lasswell and Kaplan have suggested eight forms of influence viz., physical power, respect, affection, well-being, wealth, skills, rectitude and enlightenment. Of course these forms of influence are societal in nature and may or may not be applied in the modern organisation but the success ratio is also quite substantial. Now let us understand various bases of power.

### **Positional Power**

Positional power is drawn from a particular position that an individual holds in an organisation. It is also known as formal power. It is nothing but an authority given to a position to perform certain tasks. This type of power is given to a position irrespective of the person who is handling it.

- **Legitimate Power**

Legitimate Power is based on agreement and commonly held values allowing one person to have power over another. Such legitimacy may either be formal or can be informal. Generally, in case of organisation, it is formal for in case of social context it could be informal. In the organisational context it is a form of authority which is delegated to a position by the senior management in order to perform various tasks, to utilise resources and handling superior subordinate relationships.

- **Reward Power**  
Reward Power is based on a person's ability to control and allocate various material resources and rewards in the organisation. From the organisational context when a person can control salary, wages, commissions, benefits, et cetera, he is said to be vested with reward Power.
- **Coercive Power**  
Coercion means force. Coercive power, thus, is a power which rests upon the application of physical sanction or threat of application of physical sanction. For instance, when a person has an authority to take action for dismissal, suspension, demotion, et cetera, he holds coercive power.
- **Information Power**  
In today's world information is everything. When a person has control and access over information of an organisation which are confidential and sensitive and which can decide upon the future course of action then that person possesses informative power.

### **Personal Power**

Personal Power is generally informal in nature and resides with a particular person regardless of the position he holds in the organisation. It does not have formal delegation of authority. It simply emerges from the qualities of a particular person which are unique and people accept them willingly.

- **Expert Power**  
Knowledge is power. Hence if a particular person has an expertise over a particular field or has special skills or knowledge then that person possesses expert power. It is an individual's personal characteristic which he/she utilises in the service of the organisation or various people. Generally, these kind of people are rarely found and are irreplaceable in the organisation.
- **Charismatic Power**  
One of the popular examples which justifies charismatic Power is Mahatma Gandhi. Mahatma Gandhi was a charismatic leader and he had charismatic Power. Charismatic Power emerges from an individual's unique quality, known as, 'charisma'. Due to this charisma, the individual possesses vision, demonstrate incredible emotions and sensitivity and is willing to engage in most unconventional behaviour. They have the capacity to influence masses. Many other examples can also be given such as Martin Luther King, Adolf Hitler, Narayan Murthy and so on.

### **Concept of Authority**

Authority is a cornerstone of an organization. In simple words, when a person has expertise, knowledge and skills in a particular area than his call to have an authority. It is characterized as the legitimate power imparted in a particular job or position held by the person, which he or

she utilizes to perform his or her responsibilities effectively. Authority is a particular authorization obtained from the top management for finishing a particular task or perform role effectively. Authority is needed to carry out certain duties with full responsibility. The authority delegated could be for any purpose such as supervision, procure and utilize funds for organization, to issue orders, etc.

To sum up, authority can be defined as a legitimate right to a decision that may be given or assigned. It is entitlement to command. It is the right to see that the decision is implemented properly and honestly.

#### **Features of Authority**

- It is a right given to individual which is legitimate
- It needs to be practiced in a certain manner
- It can emerge ??? Please check and delegated at any level of organization
- Major purpose of creation and delegation of authority is to achieve organizational goals.
- It needs to be distinguished with power. Power is the ability to influence the behaviour of the other whereas, authority is not used for that purpose, rather it cannot be used for it.

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### **4.10 DELEGATION OF AUTHORITY**

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Delegation of authority is nothing but a systematic way of distributing responsibilities or tasks among various employees or subordinates either on a temporary or a long- term basis. Generally, most of the organisation which follow decentralisation will always have a hierarchy of the positions starting from top to the front line managers wherein the authority along with responsibility will be delegated systematically for conducting various business operations.

Delegation of authority is something which benefits everybody in the organisation. It lowers the burden of the top management and helps them focus on more important matters while the middle and the bottom level management gets the opportunity to learn leadership qualities and assume responsibility to perform certain tasks.

Once the business organisation has decided to endorse their work with the subordinates, following steps are taken to make sure that the tasks or activities get completed effectively:

#### **1. Prepare a plan**

Planning has always been the very first step taking up any task on hand. Hence in delegating authority the first step is to plan how that will be delegated. The organisation needs to divide the bigger projects or tasks into smaller achievable objectives. Then the organisation needs to take the inventory of the available resources that they have and then plan on how to distribute, whom to distribute to what extent to distribute and so on.



## **2. Providing instructions**

The second step in delegating authority is providing clear-cut instructions so that there remains no ambiguity among the employees. Communication becomes the most important factor in providing instructions. Instructions could be in the form of deadlines, milestones, expectations, procedure of doing work, whom to report, how to report, et cetera. At this stage the manager must clarify everything and make sure the instructions are not misunderstood at any stage.

## **3. Granting authorisations**

When it comes to delegation of authority, sometimes few decisions require some sort of permission in order to make an important decision. For instance, buying a machine in production unit. Now this decision is to be taken by the production manager or engineer but as the amount of the machine is big they need authorisation from the higher authority. Hence granting proper and timely authorisation is extremely important. Delegation must convey in which type of decisions authorisation needs to be obtained by the subordinate and in which type of decisions authorisation may not be required.

## **4. Regular follow-up**

The need for follow-up on regular basis is very much important as sometimes there could be employees who may make misuse of the authority or may end up making wrong decisions which can hurt the unit badly. Proper follow-up periodically should be taken by the managers so that the autonomy doesn't backfire. The employees should also be taught to have a contingency plan in case something goes wrong with their decisions.

## **5. Analysis and feedback**

On the basis of analysis and feedback the manager would come to know the potential of the employees who could outperform and can be allotted bigger tasks because they know how to handle the authority. The analysis will help organisation in evaluating employee's performance and would further bring constructive feedback on scope of improvement in various areas or resources.

### **Centralization and Decentralization**

One of the important concepts of organisation is centralisation and decentralisation. (This concept measures the extent to which authority has been centralised or is it the centralised in a formal organisation structure.) When it comes to management, in simple terms centralisation refers to concentration of authority and decentralisation is this provision of authority. The usage of these terms is wide and is used in various contexts of administrative processes, geographical locations, various functions being performed or the degree to which delegation of authority is issued.

When it is used in the context of geographical location, centralisation is when an organisation's operations are concentrated at the single geographical location; while if the operations are conducted throughout the country at different locations it is decentralisation. When used in performing various functions, functional centralisation refers to concentration of organisational functions for instance production, marketing, finance et cetera. If these functions are disposed either at different locations or are given separate autonomous operation authority, it is called the functional decentralisation.

Hence, the terms are used with certain prefixes while defining them in organisational context. But when it comes to management in an organisation, it is nothing but the degree of delegation of authority that conveys the meaning of centralisation or decentralisation. Thus it is precisely used as centralisation of authority or decentralisation of authority. Allen has defined both the terms as follows:

*'Centralisation is the systematic and consistent preservation of authority at certain points within an organisation. Decentralisation applies to systematic delegation of authority in an organisation-wide context.'*

In simple terms, centralisation means concentration or reservation of authority at the top level of the organisation while decentralisation means systematic delegation of authority to various positions in an organisational structure. Generally there are very rare possibilities of absolute centralisation or decentralisation. They are the extreme points. An organisation will always swing between the two with only the ratio, the degree keeps on changing. There could be organisation with less delegation of authority while there could be organisation with less reservation of authority.

Centralisation is suitable for the organisation which are small in size and the ones who are producing single or very limited products which are homogeneous and operate in a limited geographical area. While decentralisation is suitable for the organisation which has got relatively large size, (the produce many products which are different or other differentiated in the operate at multiple locations.) Reframing of sentence is needed Due to this fact, management needs to delegate authority at various levels in order to operate effectively.

### **Rationale for Centralization**

The term centralisation as discussed earlier is a systematic and consistent concentration of authority at central points within an organisation. By doing this there are a number of benefits which goes with the organisation that are mentioned below:

- Centralisation provides opportunity for personal leadership
- It helps in integration of efforts
- It makes communication and control easy for the top management
- It facilitates quick decision-making which is very important in case

of emergencies

- It reduces wastage of efforts because delegation sometimes creates duplication of efforts
- It offers uniformity in action throughout the organisation and thus coordination as well.

### **Rationale for Decentralization**

Decentralisation emerged due to few limitations which are entailed in centralisation. The experience of keeping centralisation shows that you can work effectively to some extent but the moment organisation becomes large, one needs to adopt the concept of the centralisation of authority in order to cope up with the situation. If decentralisation is not adopted when required, it will lead to chaos in the organisation.

Decentralisation offers the following benefits:

- By delegating the authority, the burden of the top management gets reduced and they can focus on more strategic issues.
- Another merit of incorporating decentralisation is that it facilitates group and also helps in diversification of the organisation
- It is a good philosophy to be adopted as it motivates managers once they have been given authority to make decisions.
- It also provides opportunities for shouldering more responsibility on managers which will help them in carrying out work effectively
- Delegation of authority pinpoints the attention on results to be achieved by each unit or a person by making them accountable.

### **Descriptive Questions**

1. What is organizing? Discuss its definition and features.
2. What is organizing? Discuss various principles of organizing.
3. Explain in detail the process of organizing.
4. What is organizational structure? Discuss various factors affecting organizational structure.
5. Write a detailed note on Departmentation.
6. Write a detailed note on Span of Management
7. What is power? How can one derive power?
8. What is authority? Discuss delegation of authority in detail.
9. Write a detailed note on centralization.
10. Write a detailed note on decentralization.
11. Explain Functional organization structure.
12. Explain Line organizational structure. How it is different from Line and Staff organization structure.

### **Short Notes**

- Formal and informal organizations
- Project organizational structure
- Line organizational structure
- Bases of power
- Concept of span of management
- Concept of power

### **Multiple Choice Questions**

1. Organization is also known as...
  - a. An entity
  - b. A group of people
  - c. A structure
  - d. **All of the above**
  
2. Find the odd one out with reference to formal and informal organization.
  - a. Based on belief
  - b. Affected by perception
  - c. **Establishment of defined goals**
  - d. Mixed feelings
  
3. Which one of these is/are not the principle/s of organization?
  - a. Division of work
  - b. Specialization
  - c. Coordination
  - d. Delegation
  - e. Both A & C
  - f. A, B, C, and D
  
4. Do staff specialists have authority to make decisions in line and staff structure?
  - a. Yes
  - b. **No**
  - c. Can't say
  - d. Subjective matter
  
5. Which of the following violates the unity of command?
  - a. Line organization structure
  - b. Function organization structure
  - c. Project organization structure
  - d. **Matrix organization structure**
  
6. Find the odd one with reference to basis of departmentation.
  - a. Function/purpose
  - b. Product
  - c. Customer
  - d. **Education**
  
7. Which of the following is a source of personal source?
  - a. **Expert**
  - b. Legitimate
  - c. Coercive
  - d. Information

- 5.1 Introduction**
- 5.2 Meaning and Definitions of Staffing**
- 5.3 Definitions of Staffing**
- 5.4 Characteristics/Features/Nature of Staffing**
- 5.5 Importance of Staffing**
- 5.6 Factors affecting Staffing**
  - 5.6.1 Internal factors**
  - 5.6.2 External Factors**
- 5.7 Elements of Staffing**

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## **5.1 INTRODUCTION**

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All organisations are made up of people who perform various functions and hold various positions that are created by the organisation for the purpose of attainment of organisational goals and objectives. In the words of Peter Drucker, “man of all resources available to mankind, can grow and develop”. A human being himself determines what he contributes to the organization. If he is motivated, he will work for the organization more effectively and efficiently. Selecting the most suitable resource is therefore important in order to achieve the defined objectives through people and use of resources. Selecting the right plans, right machinery and equipment and right tools are important but selecting the right people to do each task is of more importance. If the skill of people and their will are appropriately utilized, wonderful things can happen in any organization. An organization has a good chance to survive and prosper if it consists of right people. Broadly speaking, staffing is concerned with the management of human beings in an organization. It involves many functions like manpower planning, recruitment, selection, training, performance appraisal, promotion and transfer.

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## **5.2 MEANING AND DEFINITION OF STAFFING**

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Many experts consider staffing to be the function of organizing. However, staffing is a unique function that is different from organizing. It

is concerned with making people suitable to jobs while organizing pertains to creation of jobs. Thus, Staffing is the process of matching the jobs with capable people. It is concerned with the selection, placement, growth and development of people in an organization. It requires certain knowledge and application of techniques. It involves the determination of what personnel are needed, in what quantity and of what quality. It is development- oriented, as it tries to maintain and develop employees through appropriate training and compensation programmes.

### **Definitions**

According to George Terry, “Staffing is concerned with obtaining and maintaining satisfied employees”

According to Koontz O Donnell, “The managerial function of staffing is defined as filling positions in the organization structure through identifying workforce requirements, inventorying the people available, recruitment, selection, placement, promotion, appraisal, compensation and training of needed people”

“Staffing is concerned with the selection, placement, growth and development of people in an organization”

According to Dalton Mc. Farland, “Staffing is the function by which managers build an organization through recruitment, selection and development of individuals as capable employees”

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### **5.3 CHARACTERISTICS/FEATURES/NATURE OF STAFFING**

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The main features of Staffing may be stated as under:

1. Staffing involves people: Staffing is difficult because it deals with people. Unlike other managerial functions such as planning, organizing and controlling that may be totally objective and performed mechanically; staffing function is difficult to perform. Where right kinds of people are not selected, many problems may arise later on.
2. Staffing is Development –oriented: Staffing is simply not hiring people. It aims at developing people through training. It also aims at maintaining people through appropriate compensation policies.
3. Staffing is a continuous process: People join and leave an organisation for various reasons. To meet the growing needs of an organisation, new hands have to be hired from time to time. Staffing, thus is a continuous activity and an integral part of the management process.

Staffing is a three -step process: It basically involves three things :

- a. Hiring the right kind of people to fill vacancies
  - b. Developing their skill through training
  - c. Maintaining them by creating favourable conditions to work
- 2 It is related to other managerial functions: Staffing is integrated

with every other managerial function of planning, organising, directing and controlling.

Thus, precisely speaking, the purpose of staffing is to ensure that the right number and right type of people are working on right jobs at the right time and right place.

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## **5.4 IMPORTANCE OF STAFFING**

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Nothing is more important to a firm than the qualities and abilities of people it employs. People are indispensable in the generation of goods and services. Only an organisation that consists of the right kind of people can hope to survive and flourish in the present – day competitive environment. Staffing helps the organisation in the following ways:

- 1 Key to other managerial functions: An organisation having the right kind of people can translate its plans into results very easily. It can organize its facilities and resources effectively. It can keep its activities on the right track and achieve its goals smoothly.
- 2 Motivation to do outstanding work: Where the vacancies in an organisation are filled with the right kind of people, it is possible to achieve the organisational objectives and goals smoothly. The talents of people are put to good use providing them job satisfaction and their contributions are taken note of and rewarded appropriately, thus, employees remain highly motivated.
- 3 Design a sound organisation: Staffing is a useful function for designing a sound organisation. Proper recruitment and selection practices enable the organisation to attract talented people for jobs. Jobs are therefore in the hands of the best brains and leads to the development of right work culture and atmosphere. Employees are willing to work sincerely and give good results in the workplace.
- 4 Filling the vacancies in the organisation: A basic problem that most organisations are facing today is competing in finding good quality human resources. Cost of acquiring human resources is increasing day by day. Although there is a huge working population, finding good quality of managerial and technical persons is a challenge in the Indian context. In this context, systematic staffing becomes inevitable so that the organisations can fill its vacant positions with good quality personnel.
- 5 Developing Competencies: Due to the changing job profiles, it is essential that the human resources acquired need to be trained and developed. There is a lot of skill obsolescence in the changing business environment. The organisations must focus on developing different competencies amongst their employees; develop newer training and development techniques to ensure that their employees are able to face the challenges posed by the business environment. Staffing functions aims to develop such competencies and make the employees multi-skilled.

6 Retention of employees: A high employee turnover rate is a burning issue faced by most organisations today. A turnover of managerial employees disturbs the overall functioning of an organisation. Many Organisations have adopted various methods to retain their employees by empowering them, providing quality of work life and also through performance based compensation systems.

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## 5.5 FACTORS AFFECTING STAFFING

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**Staffing** is a dynamic function that is affected by many internal as well as external factors.

**5.5.1 Internal Factors :** Various internal factors affecting staffing function are

**Size of the organisation:** The staffing activities of a small scale organisation and large scale organisation always differ. A large scale organisation can attract candidates who are highly talented and competent. The cost of such employees can be affordable to a large scale organisation. Thus, the size of the organisation determines its staffing practices.

**Goodwill and Reputation of the organisation:** The name and fame of the business organisation as perceived by job seekers enables to attract potential candidates. In turn, the goodwill of the organisation is built through the staffing practices like training facilities, compensation and benefits offered to personnel, the work culture and growth opportunities provided by the organisation.

**Past staffing activities:** Past staffing practices of any organisation have a major impact on its future staffing activities. The fairness and transparency of the staffing activities in the past indicate the consistency of the organisational practices and also the culture of the organisation.

**Growth plans of the organisation:** Business plans for growth or expansion directly affect the manpower requirements of any organisation. Through attractive compensation packages they would search for candidates. While an organisation which focuses on stability would need to retain its existing manpower by offering financial incentives and an organisation which is declining would need to layoff some employees to support downsizing strategy.

### 5.5.2 External Factors

The external factors that affect staffing practices are :

**Legal factors:** There are various laws that affect the staffing policy of an organisation. The Equal Employment Opportunity act would ensure that people from various classes and gender get an equal opportunity for securing jobs. The Minimum Wages Act would ensure that the personnel hired are paid a minimum wage as compensation. The Factories Act,



1948 restricts the appointment of women to work near cotton openers.

**Social Factors:** Certain social factors influence the employment of women or children are hired in the workplace. They affect the placement decisions as well. In India, women are not allowed to work in Factories during the night shifts. On the other hand, in Thailand the Tourism industry predominantly uses the services of female employees for customer servicing.

**Demand and supply of employees:** The supply of unskilled or skilled and the demand for such employees decides the level of competition for human resources and in turn affects the staffing policy and practices. Countries where there is a shortage of required manpower institute very good retention strategies and offer attractive compensation packages while those countries where supply of skilled employees is abundant like in India, employee welfare programmes, training programmes would be given less importance.

**Other Factors:** Many other factors like technological, political factors and natural factors affect the staffing decisions of an organisation. Presently, the Covid- 19 pandemic has led to loss of jobs for many employees while creating new job opportunities for some prospect candidates in many reputed organisations due to loss of lives of many competent human resources.

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## 5.6 ELEMENTS OF STAFFING

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Staffing process involves the following elements:

- 1 Human Resource Planning
- 2 Recruitment
- 3 Selection
- 4 Placement
- 5 Induction and Orientation
- 6 Training and Development
- 7 Performance Appraisal

**1 Human Resource Planning:** The first step in the staffing process is to estimate the requirement of employees. While estimating the number and type of human resources required, the specific needs of the jobs to be filled should be kept in mind. Manpower planning is essentially the process of getting the right number of qualified people into the right job at the right time. It is the system of matching the supply of people with the job vacancies or openings that an organisation expects to have over a period of time. It helps in creating a talent pool , prepare people for the future needs beforehand , increase or decrease the supply of manpower, control manpower costs and also succession planning.

It involves the following steps:

- Forecasting the demand for human resources

- Preparing the manpower inventory ( supply forecasting)
- Determining manpower gaps
- Formulating manpower plans

**2 Recruitment:** The human resources are the most important assets of an organisation. The success or failure of an organisation depends upon the capability and talent of its human resources. In order to achieve the organisational goals, recruiting people with the necessary skills, qualifications, competencies and experience is essential. While doing this, the present and future requirements of the organisation also have to be borne in mind. Recruitment is the function that links the job seekers and job providers. It is thus also referred to as the linking function. It is a joining process carried out with the intent of encouraging job seekers to apply for a job. The basic purpose of recruitment is to develop a group of potentially qualified persons. This can be done by identifying the appropriate source of recruitment and contacting them.

***Sources of Recruitment***

There are broadly two sources of recruitment. The present workforce, past employees who were on the payroll of the organisation and retired employees comprise of the internal source of recruitment. The external source of recruitment includes employees working in other organisations, job seekers registered with employment exchanges, students from reputed educational institutions, candidates referred by unions, relatives, friends and existing employees. It also includes candidates who respond to advertisements issued by the organisation, candidates forwarded by private employment agencies, contractors and recruiting firms and walk – ins/ unsolicited applications.

**3 Selection:** Selection is usually a series of hurdles or steps. It is the process of picking individuals who can most successfully perform the job from a pool of qualified candidates. The purpose of selection is to pick up the most suitable candidate who would meet the requirements of the job as well as the organisation. The basic purpose is to choose the individual who can most successfully perform the job from a pool of qualified candidates. The purpose of selection is to pick up the most suitable candidate who would meet the requirements of the job and the organisation and to find out which job applicant will be successful, if hired. To meet this goal, the company obtains and assesses information about the applicants in terms of age, qualifications, experience, skills etc. The needs of the job are matched with the profile of candidates. The most suitable person is then picked up after eliminating the unsuitable applicants through various stages of selection process. The process of selection includes various steps. The sequence of these steps may vary from job to job and organisation and organisation.

- Reception of applications
- Screening Interview or Preliminary Interview
- Application Blank
- Selection Tests

- i. Intelligence tests
- ii. Aptitude tests
- iii. Personality tests
- iv. Integrity tests
- v. Achievement / proficiency tests
- vi. Simulation tests
- vii. Polygraph/lie detector tests
  - Selection Interview
  - Medical Examination/ Physical tests
  - Reference Check
  - Hiring Decision

**4 Placement:** After selecting a candidate, he should be placed on a suitable job. Placement is the actual posting of an employee to a specific job. It involves assigning a specific rank and responsibility to an employee. The placement decisions are to be taken by line managers after matching the requirements of a job with the qualification of the candidate. Most organisations put new recruits on probation for a given period of time, after which their services are confirmed. If a new recruit fails to adjust himself to the new job, the organisation may consider his name for placement elsewhere. Such second placement is called Differential Placement. Faulty placements could lead to problems like absenteeism, turnover, accidents, poor performance etc. The employee would also suffer seriously and may quit the organisation.

**5 Induction and Orientation:** This process is the one through which a new employee is introduced to the job and the organisation. Armstrong defines it as, “ the process of receiving and welcoming an employee when he first joins a company and giving him the basic information he needs to settle down quickly and start work” Induction helps in

- Removing Fears
- Creating a good impression
- Acting as a valuable source of information

**6 Training and Development:** Training is a part of staffing. It is carried out to help employees improve performance. According to Flippo, “Training is the act of increasing the knowledge and skills of employee for doing a particular job. A trainee learns new habits, refined skills and useful knowledge during training that helps an employee to do his present job more efficiently and prepare himself for a higher level job. Training may be carried out on the job or off the job. On the job training involves imparting training in the workplace using internship or apprenticeship methods or using demonstration or job instruction training methods. Off the job training is conducted at a place other than the actual workplace in a classroom or a training center or a simulated environment with the help of lecture method or simulation, workshops, seminars and /or programmed instruction methods.

Development on the other hand is referred to be more general than training and more oriented towards individual needs in addition to

organisational needs. It is most often aimed towards executives. Usually the objective of development is to provide knowledge and understanding that will enable people to carry out non – technical organisational functions effectively. These functions include problem solving, decision-making and relating to people. Development is a proactive process. It is future –oriented training focusing on personal growth of the employee. Thus, those activities which prepare an employee for future responsibilities can be considered as development. It is concerned with improving the performance of managers by giving them opportunities for growth and development.

**7 Performance Appraisal:** After employees are trained and settled into their jobs, one of the functions to be performed is performance appraisal. Performance appraisals are important for validating selection devices, assessing the impact of training programmes, deciding pay raises and promotions, determining training needs and offering valuable feedback to employees. Apart from appraising and assessing performance, maintaining human resources is equally important. Performance appraisal or evaluation is the process of deciding how employees do their jobs. It is a systematic and objective way to evaluate both work related behaviour and capability for future growth of employees. It is useful in making compensation decisions, promotion and transfer decisions, training and development programmes, feedback to employees and personal development. It helps to analyse and reveal the causes of good and poor employee performance and thus enables to improve performance of an employee.

### **Conclusion**

It can be said that Human Resource Management is concerned with the most effective use of people to achieve individual and organisational goals. Staffing involves the process of attracting, developing, evaluating and compensating people at work. All these are a part of Good Human Management Practices.

### **Exercise**

#### **Multiple Choice Questions**

- i. Staffing is the function of management that involves \_\_\_\_\_
  - a. Recruitment and Selection
  - b. Training and development
  - c. Communication and Motivation
  - d. a and b both**
  - e. b and c both
- ii. \_\_\_\_\_ is the act of increasing the knowledge and skills of employee for doing a particular job.
  - a. Staffing
  - b. Development
  - c. Appraisal

**d. Training**

iii. \_\_\_\_\_ is the process of getting the right number of qualified people into the right job at the right time.

- a. Recruitment
- b. Selection

**c. Manpower planning**

- d. a and b both
- e. b and c both

iv. Which one of the following statements is a feature of staffing?

- a. It involves managerial staff
- b. It is a development –oriented function
- c. It facilitates change
- d. It motivates people
- v. Which of the following is not an internal factor affecting staffing?

**a. Legal factors**

- b. Size of the organisation
- c. Goodwill of the organisation

**d. Demand and supply of employees**

vi. The staffing process includes the following elements. Name the odd one

- a. Manpower planning
- b. Communication and supervision
- c. Training and development
- d. Performance appraisal
- e. Compensation

**vii. The external factors affecting staffing are**

- a. Demand and supply of labour
- b. Legal factors
- c. Social Factors

**d. All of the above**

- e. None of the above

viii. A few steps of selection process include medical examination, screening interview, selection tests and placement. Which one of the following is the correct sequence for these activities?

- a. Screening interview, medical examination , placement, selection tests
- b. Selection tests , screening interview, medical examination, placement
- c. **Screening interview, selection tests, medical examination, placement**
- d. Medical examination, Screening interview, selection tests , placement

ix. \_\_\_\_\_ is the process of welcoming a new employee

- a. Training
- b. Staffing
- c. Placement

**d. Induction**

x. The various types of selection tests are \_\_\_\_\_

**This question is not properly framed**

- a. Intelligence tests
- b. Aptitude tests
- c. Proficiency tests
- d. Interest tests
- e. **All of the above**

**Short Questions**

- 1 Define the term staffing.
- 2 What is Recruitment?
- 3 Explain the term Human Resource Planning.
- 4 Classify the sources of recruitment.
- 5 What is Placement?
- 6 Enumerate the internal factors affecting recruitment.

**Write Short Notes on**

- 1 Nature of Staffing
- 2 Importance of staffing
- 3 Induction and Orientation
- 4 Placement
- 5 Importance of Staffing
- 6 Factors affecting staffing

**Detailed Questions**

- 1 Explain the meaning and nature of staffing.
- 2 Define Staffing and discuss its characteristics and importance.
- 3 What is staffing? Discuss factors affecting it and also explain its elements.
- 4 Discuss various elements of staffing.
- 5 Define the term staffing and discuss its features and elements.



**MBA**  
**SEMESTER-1**  
**PRINCIPLE OF MANAGEMENT**

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- 6.1 Definitions of Directing**
- 6.2 Characteristics/Features/Nature of Directing**
- 6.3 Importance of Directing**
- 6.4 Guiding principles of Directing**
- 6.5 Elements of Directing**
- 6.6 Tools and Techniques of Directing**
- 6.7 Communication**
- 6.8 Leadership**
- 6.9 Motivation**
- 6.10 Supervision**

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## **6.1 DEFINITIONS OF DIRECTING**

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Direction represents one of the most essential functions of management since it deals with human relations. Once the organisational plans have been laid down (planning), the structure has been designed( organisation), and competent people have been brought in to fill various positions in the organisation ( staffing) , direction starts. Directing is the managerial function of guiding, motivating , leading and supervising the subordinates to accomplish desired objectives. Acquiring physical and human assets and suitably placing them is not enough, what is more important is that the people must be directed towards the attainment of organisational objectives. Without proper direction and supervision

employees tend to become inactive, dull and inefficient and as a result the physical assetslike machinery and plant will also be used inefficiently.

To get the work done through subordinates, tasks have to be assigned to them. Directing thus, is the function that initiates organizer's action. It is a connecting and activating link between various managerial functions. It is mainly concerned with utilizing and synthesizing human resources and efforts to accomplish the organisational goals. A manager's most important job is to direct the efforts of employees.

Directing is the heart of management in action. It provides necessary guidance and inspiration to people at work in order to carry out their assigned duties. Direction is the essence of operations. It is a continuous function. A manager can never stop directing, guiding, teaching, watching and supervising subordinates.

## 2 Definitions

It is through directing that managers get the work done through subordinates. Various experts define this function in different ways.

Koontz O'Donnell states, "Directing is the executive function of guiding and overseeing subordinates".

Urwick and Breach define Directing as, "the guidance, the inspiration, the leadership of those men and women that constitute the real core of responsibilities of management".

According to J.L. Massie, "Directing concerns the total manner in which a manager influences the action of his subordinates. It is the final action of manager in getting others to act after all preparations have been completed" Earnest Dale opines that, "Direction is telling people what to do and seeing that they do it to the best of their ability. It includes making assignments, corresponding procedures, seeing that mistakes are corrected, providing on the job instructions and of course, issuing orders."

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## 6.2 CHARACTERISTICS/FEATURES/NATURE OF DIRECTING

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### 3. Features/ Nature of Directing

Directing is the process of guiding, inspiring, supervising and commanding subordinates towards the achievement of goals of the organisation. It has the following features:

- i. **It deals with people:** Direction is the managerial function that deals with people. It is the process of inspiring people to achieve the goal. It seeks to create harmonious relationships between people. People are primarily interested in achieving their individual goals and not in the enterprise goals. Hence, directing is a complex function as managers have to deal with people having diverse goals.
- ii. **It seeks performance:** Direction makes things happen. It translates plans into action. It makes people goal-oriented. To attain results, managers not only issue orders but also supervise the performance of their subordinates. They also try to integrate efforts at various levels. This helps in securing desired performance at minimum cost.
- iii. **It acts as a linking activity:** Direction is a function of management that follows planning, organising and staffing. It gives these functions a

meaning by ensuring accomplishment of goals. Without direction, the individual and organisational goals would never match.

- iv. **It is all pervasive:** Directing function is performed by managers at all levels in the organisation. Every Manager is expected to supervise, motivate, lead and communicate with one's subordinates to get results.
- v. **It is dynamic and continuous:** It is a dynamic activity. Whenever any plans change, the techniques of directing also change. A manager has to suitably modify or adopt that technique of directing which is consistent with the changing times. It is also a continuous activity since a manager needs to direct, guide, motivate and lead subordinates on an ongoing basis.
- vi. **It has a wide scope:** Directing function is much beyond giving orders and instructions and supervising. It is more concerned with interpretation and effective communication of policies and procedures to subordinates. It involves problem solving and motivating capabilities which makes a manager a leader and a coach.

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### 6.3 IMPORTANCE OF DIRECTING

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Directing is a vital function of management that brings life to an organisation. Planning, organising and staffing are preparatory functions. It is through directing that managers get things done Hence, it is also called management in action. The importance of directing function is discussed below:

- i. **It initiates action:** Directing lends meaning to other managerial functions like planning, organising and staffing. It is through directing function that managers seek to achieve goals. In most cases, systematic planning, sound organisation and staffing does not ensure accomplishment of goals. Along with these functions, managers must initiate action by:
  - a. Issuing instructions
  - b. Providing guidance
  - c. Supervising work
  - d. Motivating subordinates to realize goals
- ii. **It achieves integration:** Direction creates harmony and co-operation among the members of a group. In an organisation, the total work is performed by different people at different levels. If the managers don't supervise the work appropriately, work does not proceed in a desired manner. Direction secures whole-hearted cooperation of people at all levels through good communication, people-oriented supervision and motivation. It tries to integrate the efforts of individuals and groups in a systematic manner.
- iii. **It motivates people:** Directing function motivates employees to higher levels of performance. To achieve this, various incentives, a healthy work climate, counseling and guidance are provided to employees. Employees are made to realize how their performance leads to organisational

success. This helps in getting superior performance from employees by motivating them.

- iv. Directing facilitates change:** Directing helps the organisation in introducing necessary changes smoothly. Managers can clear the doubts of subordinates by emphasizing that automation and computerization will help the organisation in attaining growth and thereby would be beneficial to employees. It would ensure that employees earn attractive incentives. Through persuasive leadership and appropriate communication, managers can secure cooperation of employees in facilitating necessary and smooth changes for the organisation.
- v. Attains balance and stability:** Directing helps an organisation to strike a harmonious balance between individual needs and organisational demands. People are made to work hard so that the organisational goals can be realized and thereby, they can earn rewards. They are compelled to use resources in a balanced manner to attain steady growth. Directing converts plans into action. It is the nucleus around which management practice is built. Directing ensures stability of an organisation by continuously ensuring that everything is on the right track.

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## 6.4 GUIDING PRINCIPLES OF DIRECTING

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Some important principles need to be followed to ensure that directing becomes effective. The following are the guiding principles of directing:

- i. Principle of Harmony of objectives:** Directing function must resolve conflicts between individual goals and organisational objectives. A manager must try to bring harmony between individuals, groups and the organisation. A manager should foster among the individual employees a sense of belongingness to the organisation so that they can identify themselves with the organisation and integrate the organisational and individual goals. This leads to effectiveness and efficiency at work.
- ii. Principle of Unity of Command:** A sound principle of directing is that subordinates should receive orders from only one superior. This ensures that there is no chaos, confusion or disorder. It clearly states that there should not be dual subordination since it weakens the authority of the superior.
- iii. Principle of Direct Supervision:** Since directing involves motivating employees towards work, it is essential for the concerned manager to have a personal connect with the subordinates. It is also important that the manager involves in face to face communication regarding work-related matters. They need to develop informal relationships with their subordinates in order to make the employees happy and boost their morale.
- iv. Principle of maximum individual contribution:** Performance improves to a large extent when employees contribute their best to the organisation. The manager therefore, should inspire the subordinates in such a manner that they contribute their maximum while realizing organisational objectives.

- v. **Use of Appropriate techniques:** The techniques used for directing should be appropriate to the type of people, situation and task. Democratic style at work can give good results in some cases but might fail in some situations. On the other hand, an autocratic style of leadership may work best with some people but may fail with creative people and creative tasks.
- vi. **Use of motivation techniques:** A manager should know how to motivate and inspire the employees. They should develop selective motivational techniques like monetary rewards, pay, status, job enrichment, autonomy etc.so that the productivity and quality of output improves. Motivation also leads to higher job satisfaction.
- vii. **Managerial Communication:** A two-way communication is an essential pre- requisite for effective directing. The manager must explain not only the policies and practices to subordinates but also the results expected of them. Proper feedback should come through upward communication and managers must encourage subordinates to express their views and ideas freely and fearlessly.
- viii. **Informal organisation:** Managers need to make use of informal groups to supplement, support and strengthen the formal organisation structure. The co- operation of informal leaders goes a long way in putting everything in order.
- ix. **Principle of follow-up:** Successful direction is a never- ending activity. It involves constant and continuous supervision, coaching, counseling and helping employees in their respective activities. Directing is also concerned with ensuring that people do what they have been asked to do. This requires continuous feedback. Feedback is essential to turn or stop or adjust the wheel of management –in - action.

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## 6.5 ELEMENTS OF DIRECTING

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The directing function of management consists of the following elements:

- x. **Issuing Orders and Instructions to subordinates:** Every instruction must be reasonable, clear and complete. The instructions or orders must be in writing so that they can be carried out by several individuals and can be extended over a period of time. It also reduces the possibility of misunderstanding and / or forgetting.
- xi. **Follow-up instructions:** Another important element of directing is that once orders and instructions are issued, they should be followed up to see whether they are executed properly or not. If the follow-up is not done well, it would lead to delay in work and careless administration. Thus, execution of instructions and orders is vital for ensuring efficiency in directing.
- xii. **Standard Practice and Indoctrination:** The use of standard operating procedures (SOPs) and customary ways of doing things is an essential component of directing. Standard practice simplifies the

instructions given by the manager. Most misunderstanding of standard practice leads to inadequate direction. Another aspect of a standard practice is indoctrination which means inculcating a set of beliefs and attitudes in subordinates so that they look at an operating situation in a desirable way and accept it easily.

- xiii. Explanations:** While issuing orders and instructions, the manager must also explain why the order has been issued to ensure clarity and importance of the task to be accomplished.
- xiv. Consultative Direction:** Before an order is issued, the people responsible for executing need to be consulted about its feasibility, workability and also identifying better ways of accomplishing the results.

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## 6.6 TOOLS AND TECHNIQUES OF DIRECTING

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There are four techniques of directing. The techniques consist of:

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## 6.7 COMMUNICATION

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It is the process of passing information, experience, opinion etc. from one person to another person. It is one of the techniques used to direct people at work. It is a must for effective leadership, motivation and supervision. Even for other functions, communication is highly essential. Most managerial problems can be prevented, minimized and /or resolved by effective communication. In contrast, poor communication not only creates problems but also complicates and minimizes them. To make people work for firm's objectives, a manager must be a good communicator. There can be different levels at which communication takes place. It could be intra-personal, inter-personal and group communication. People communicate with each other in a number of ways that depend upon the message and its context in which it is being sent.

Types of communication based on the communication channels used are

- i. **Verbal Communication:** It refers to the form of communication in which message is transmitted verbally. Communication is done by word of mouth and a piece of writing. Verbal communication must always be kept short and simple.

**Verbal Communication** is divided into:

- a) **Oral Communication:** In oral communication, spoken words are used. It includes face-to-face conversations, speech, telephonic conversation, video, radio, television, voice over internet. Communication is influenced by pitch, volume, speed and clarity of speaking.
- b) **Written Communication:** In written communication, written signs or symbols are used to communicate. In written communication message can be transmitted via email, letter, report, memo etc. Written Communication is most common form of communication being used in business.

ii. **Nonverbal Communication:** Nonverbal communication is the sending or receiving of wordless messages like gesture, body language, posture, tone of voice or facial expressions,. Nonverbal communication is all about the body language of speaker.

In an organisational setting, communication can be formal and/or informal. Formal communication is usually written but could be oral as well. It could be in the form of Upward Communication , Downward Communication, Diagonal Communication while informal communication can take place in the form of free flow communication or grapevine communication.

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## **6.8 LEADERSHIP**

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In an organization whatever objectives are formulated are achieved in a proper manner due to the efforts of a leader. A leader influences the subordinates in such a way that they are in a position to work utilizing all their potentials. It is an important aspect of managing and a key to directing. Without leadership, an organization is only a confusion of people and machines. Leadership is the process by which an executive influences his subordinates to work together willingly and enthusiastically on related tasks to attain the desired objectives.

The essence of leadership is follower-ship i.e. willingness of people to follow. This can be achieved in two ways:

- 1 By exercising authority
- 2 By winning support

Of the two, the second method has a long lasting effect over the employees since it motivates them to work. Thus, leadership and motivation are closely related. By understanding motivation; a leader can appreciate what people do and can understand why they act as they do. He may respond to subordinate motivations and also arouse them through the organizational climate which they develop.

### **Definitions**

“Leadership is the influence, the art or process of influencing people so that they strive willingly and enthusiastically towards the achievement of group goals. To lead is to guide, conduct, direct and proceed” – Koontz, O’Donnell and Weibrich

“Leadership is the interpersonal influence exercised in a situation and directed through communication process towards the attainment of a specialized goal or goals” – Keith Davis

### **Styles of Leadership**

Leadership styles refer to the pattern of behaviour which a leader adopts in influencing the behaviour of organizational members towards the attainment of enterprise objectives. A variety of leadership styles have been suggested by people who have studied the leadership area of

management. Some of the leadership styles categorized under power styles are as follows:

- i) **Autocratic Style** – An autocratic leader is one who commands and expects compliance. He is also known as authoritarian or directive leader. They can be of three types: strict, benevolent and incompetent. This style of leadership is characterized by maximum centralization of authority, close supervision, one way communication and unilateral decision-making.
- ii) **Democratic Style** -The democratic leader draws ideas and suggestions from his group by discussion, consultation and participation. Such a leader is known as participative or consultative leader. A participative leader decentralizes his decision making power, he leads the group by the consent of the group rather than by the use of authority. Democratic leader is characterized by decentralized authority, participation, two-way communication and effective delegation. It is group-centered leadership.

The ideology of this type of leader is, “Employees are important resources of the organization and they are equal participants in the process of goal achievement and can be motivated through financial as well as non-financial incentives.”

- iii) **Free Rein Style** – A free-rein or laissez-Faire leader avoids power, gives subordinates high degree of independence or free-rein in their operations and depends largely on subordinates to set their own goals and means of achieving them. Under this style group members train themselves and provide their own motivation. The leader exists primarily as contact with the group’s external environment to bring the group the information and resources it needs to accomplish its goals. It is subordinate-centered leadership. The ideology of the leader under the free rein style of leadership is that “the subordinates are highly capable and efficient and can perform in the best way even if they are left free. Freedom given to the workers acts as the strongest motivator”. In this style the leader does not guide, supervise, order or keep a check on the subordinates. The leader comes into picture only when some information or resources are required by the subordinates. Thus, a leader plays the role of a facilitator. However, the best style of leadership depends on the nature of followers and the type of situation which a leader is facing.

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## 6.9 MOTIVATION

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Motivation is an internal state or a psychological state within a person which stems from the needs of a person. Motivation stimulates a person to act and react in a certain manner so that maximum satisfaction can be secured. These needs are the basis of motivation. Individual’s activities and behavior are decided on the basis of needs. Due to deprivation of certain needs, an individual experiences psychological tension and dissatisfaction. In order to remove this psychological tension, they put in efforts to satisfy needs. However, human behaviour is complex in terms



of need- behaviour and action process.

Motivation has been **defined** as :

- “The act of stimulating someone or oneself to get a desired course of action”- MichealJucius
- – “ Motivation means a process of stimulating people to action to accomplish desired goals” - William Scott

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## **6.9 MOTIVATION**

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### **Nature of Motivation**

- It is a Psychological concept/ mental process
- Existence of unfulfilled needs/ desires are a prerequisite to motivation
- It is a key task to prompt people to put efforts
- It is a continuous process
- Motivation is based on expectancy ( future satisfaction / expected outcomes)
- It differs from person to person and time to time
- There are different types of motivation like positive and negative, monetary and non –monetary, intrinsic and extrinsic
- It is a determinant of / factor affecting behaviour

A manager uses various monetary and non – monetary tools to motivate subordinates so that the organisational goals are attained effectively and efficiently.

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## **6.10 SUPERVISION**

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It implies overseeing the work of subordinates by their superiors. It is the act of watching and directing the work and the workers. It is a function of management that is concerned with facilitating employees at work. Managers perform supervisory function at all levels in the organisation. However, this task is more important at the operating level. A supervisor is responsible for issuing orders and instructions, laying down work methods and procedures and initiating action. Supervision is considered a directing as well as a controlling technique.

### **Conclusion**

Directing includes all the activities which a manager undertakes to influence the actions of his subordinates and achieve goals of the organisation. The importance of directing function is clear as it converts managerial decisions into effective action by motivating the organisation and its members to work effectively and efficiently.

## Exercise

### Multiple Choice Questions (1mark each)

- i. The heart of administration function is \_\_\_\_\_
  - a. Planning
  - b. Organising
  - c. **Directing**
  - d. Controlling
- ii. The leadership style in which subordinates are asked to set their own goal and develop plans for achieving them is called \_\_\_\_\_
  - a. Democratic style
  - b. Free Rein style
  - c. Autocratic style
  - d. Benevolent leadership style Answer is not highlighted
- iii. Which of the following statement is incorrect about directing
  - a. Directing facilitates change
  - b. Directing motivates people
  - c. Directing initiates actions
  - d. **Directing is the function of planning**
- iv. The following are the elements of directing except \_\_\_\_\_
  - a. Issuing orders
  - b. Follow-up instructions
  - c. Standard Operating Procedures
  - d. **Motivation**
- v. The tools of directing include \_\_\_\_\_
  - a. Motivation
  - b. Leadership
  - c. Supervision
  - d. Communication
  - e. **All of the above**
  - f. a and b only
  - g. b and c only
- vi. \_\_\_\_\_ is the act of stimulating someone or oneself to get a desired course of action.
  - a. Leadership
  - b. **Motivation**
  - c. Supervision
  - d. None of the above

vii. The definition , “Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real core of responsibilities of management”. is given by \_\_\_\_\_

- a. Earnest Dale
- b. Micheal Jucious
- c. Theo Haimann
- d. **Urwick and Breach**

viii. \_\_\_\_\_ is the process of passing information, experience, opinion etc. from oneperson to another.

- a. **Communication**
- b. Directing
- c. Leadership
- d. None of the above

### **Short Questions**

- 1 Define the term Directing.
- 2 What is Motivation?
- 3 Explain the term Leadership.
- 4 Classify the types of communication channels.
- 5 Enlist the tools of Directing.
- 6 Enumerate the elements of Directing.
- 7 Define Motivation

### **Write Short Notes on**

- 1 Characteristics of Directing
- 2 Significance of Directing
- 3 Techniques of Directing
- 4 Principles of effective Direction
- 5 Elements of Directing
- 6 Leadership as a tool for Directing

### **Detailed Questions**

- 1 Explain the meaning and nature of Directing.
- 2 Define the term Directing and discuss its features and importance.
- 3 What is directing? Discuss its elements.
- 4 Discuss the various techniques of Directing
- 5 Define the term Directing and discuss its features and tools of directing.

**7.1 Introduction & Need****7.2 Difference Between Coordination And Cooperation****7.3 Types Of Coordinating****7.4 Techniques of Coordinating**

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**7.1 INTRODUCTION & NEED**

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We have understood from the previous chapters that management is a goal oriented process which includes organised efforts of different group of people. These various interest groups belong to different departments. A variety of departments are created to work efficiently irrespective of type of organisational structure that a business unit has. Further, these departments have sub-divisions. Every department is individually responsible to carry out the task allocated, yet they cannot work separately. The activities of one department are linked with other departments. Working in the business needs harmony between different departments and within sub-division of the same department too. In order to ensure a smooth flow of work, it is necessary to synchronise the efforts of various departments in a systematic way. The process which brings unity in numerous activities is known as coordination. Coordination is required to integrate group efforts in the organisation. This chapter discusses coordination in detail. To start with, let's have definitions of coordination given by different authors.



**Figure 7.1 Coordination  
Definitions**

- To co-ordinate is to harmonise all the activities of a person in order to facilitate its working and its success. (Henry Fayol)
- Coordination is the orderly synchronising of efforts of the subordinates to provide the proper amount, timing and quality of execution so that their unified efforts lead to the achievement of the stated objective, namely the common purpose of the enterprise. (Theo Haimann)
- Coordination deals with the task of blending efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organising, actuating and controlling. (G. R. Terry)
- Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of a common purpose. (James D. Mooney and Alan C. Reilly)
- Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of common purpose. (Mc Farland)
- Coordination is a set of human and structural mechanism designed to link the parts of the enterprise together to help in achieving the specified objectives. (Glueck)

## **Need**

Whenever and wherever a group of people work together to achieve common objective, the need of coordination arises. The reasons for considering coordination as the essence of management by some authors are as follows.

### **1. Increasing size and complexity of operation**

A modern business unit consists number of departments and further subdivisions. Activities have increased in number compared to older days. The classification of department is also very large in present business organisation. The increased size creates problem of communication. Also, larger the classification and number of activities, higher the complexity of its operation. Growth in size and complexity of numerous activities are major indicators to the need of coordination. If all the departments do not coordinate well, it will result into chaos.

### **2. Specialisation**

Generally, work division is based on the degree of specialisation in the modern industrial world. Thus, business units have specialist experts in their field like marketing, production, finance, personnel. Over a period of long time, thesespecialists start taking more interest in developing their own departments and thereby influencing the organisation. Sometimes they are even unable to see beyond their own respective fields. This may create dispute among them and it affects negatively to collective achievement of objectives. This dispute could be resolved with the help of coordination. Without coordination, people would lose their role as a contributor in the organisation as a whole.

### **3. Difference in working style**

An organisation includes large number of personnel working. According to some authors, the need for coordination arises due to different working style of all these people. Every person is having different behaviour, approaches and way to deal with situation. Each department and their sub divisions differ in methods, standards, time orientations, attitudes, perceptions to work within and work for organisation. It is very clear that efficiency, intelligence and the speed with which employees work are widely different and therefore, the need of coordination is very much needed to integrate these variety of humans with different qualities. This integration would be very helpful in achieving common organisational goals.

### **4. Interdependent Units**

Though all departments have specialisation, they are dependent on each other for their successful functioning irrespective of type of organisation. When one department is dependent on the activities of the other department then it is known as inter dependency. The need of coordination increases with increasing degree of inter dependency. It is the coordination which ensures smooth flow of the information between various inter dependent departments.

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## **7.2 DIFFERENCE BETWEEN COORDINATION & COOPERATION**

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Coordination and cooperation are often confused with each other. They are quite different in their meanings. Coordination is orderly and deliberate efforts of a manager to secure unity in action which further leads to achievement of common goals. On the other hand, cooperation is a voluntary in nature. It indicates willingness of people to help each other and to work with other. Let us discuss the differences between coordination and cooperation.

- I. Coordination is one of the functions of management. In fact, it is necessary to perform all other managerial functions smoothly and efficiently. On the other hand, Cooperation is not a function of management. Cooperation is important but it is not an official task included in the management process.
- II. Basic Principles of Coordination in management are Unity of Command, Early Beginning, Scalar Chain, Continuity, Span of Management, Direct Contact, Reciprocity and Dynamism etc. while the basic principles of cooperation are Voluntary and Open Membership, Democratic Member Control, Autonomy and Independence, Concern for Community, etc.
- III. Coordination is deliberate efforts of manager to carry out managerial activities. Cooperation is voluntary in nature. Management cannot function without coordination but this is not the same with cooperation. Management can function without cooperation.

IV. Cooperation is necessary for Coordination while coordination is necessary for business organisation. In a way, coordination is broader than cooperation. A successful organisation needs successful coordination while, organisation might not be successful only on the existence of cooperation.

V. The achievement of common organisational objectives and coordination is directly connected with other. Whereas there is no such direct connection between cooperation and the achievement of goals.

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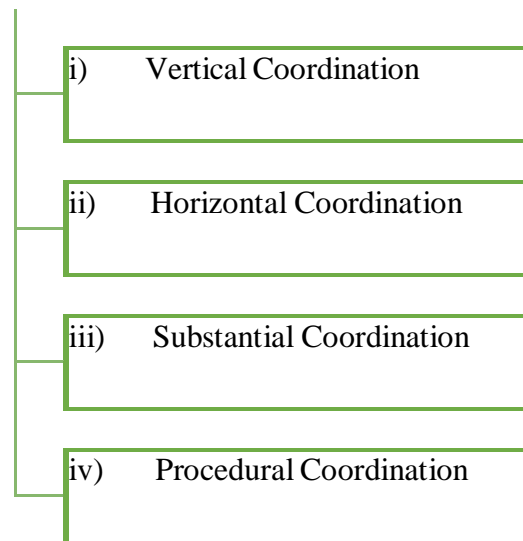
### 7.3 TYPES OF COORDINATING

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Different types of organisational structures available in management. The organisational relationship and authority relationships differ with the different organisational structure. This requires different types of coordination in the organisation. Along with this, business organisations are constantly in touch with external environment which again requires coordination. Thus, coordination is broadly classified in two types: Internal and External. Let's discuss both the categories in detail.

#### A. Internal Coordination

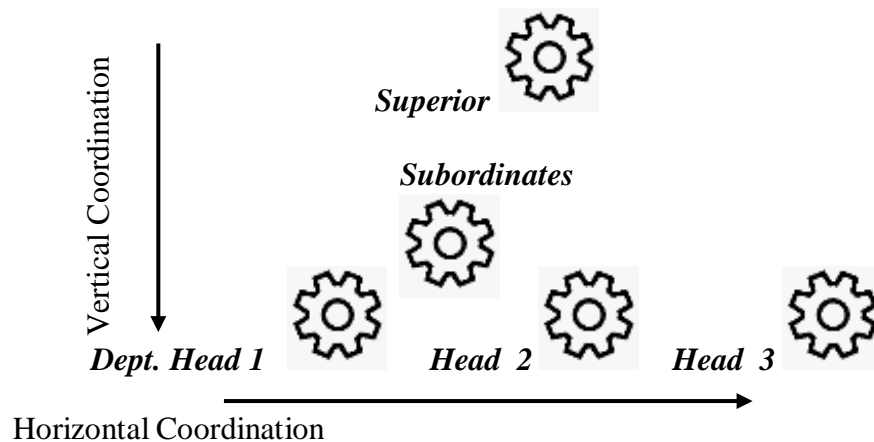
#### B. External Coordination



**Figure 7.2 Types of Coordination**

#### A. Internal Coordination

Internal coordination is understood as the coordination between different departments and divisions, sub divisions, branches and people within the organisation. It consists of synchronisation between activities of different departments. Internal coordination is further divided in to four sub categories: Vertical, Horizontal, Substantial and Procedural.



**Figure 7.3 Categories of Internal Coordination**

i) Vertical Coordination

Different people work at different levels in an organization. Coordination between different levels of an organization is called 'vertical coordination'. It is an integration between superior - subordinates working at different levels. Vertical coordination is required to maintain relationships in orderly manner to get the job done. For Example: Coordination between Production manager to plant supervisors and vice versa.

ii) Horizontal Coordination

Horizontal coordination means coordination between people working at the same level in the organization. For example: Coordination between various departmental heads, supervisors, etc. horizontal coordination is achieved through mutual cooperation.

iii) Substantial Coordination

Substantial dimension of work includes decision regarding what to do. Substantial coordination signifies how all the interrelated activities should be divided to perform them in synchronised way. For Example, production manager is assigned to produce a product for which he/she needs a particular raw material of a particular quality on time. But purchase of raw material is assigned to purchase department. Therefore, both production manager has to coordinate his/her need to purchase department.

iv) Procedural Coordination

Procedural dimension of work includes decision regarding how to do. Procedural coordination involves prescribing the method of performing different activities which have an impact on more than one department.



## **B. External Coordination**

The coordination between employees of an organisation and its external environment is known as external coordination. The external environment consists of customers, suppliers, competitors, general public, market agencies, union government and state government, other governmental agencies, financial institutions, technological institutions, different industrial associations, different commercial associations. External coordination is essential because no organisation operates in isolation. Every organisation has to interact with external environmental factors listed above for survival and success.

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## **7.4 TECHNIQUE OF COORDINATING**

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Managers use various techniques to make coordination effective and to avoid conflicts between people and departments. These techniques are as follows:

### **1) Clearly defined Objectives**

The main aim of all managerial functions is to get the job done through coordinated efforts which will lead to achievement of organisational goals. Therefore, the organisational set of objectives must be clearly and precisely defined to each member of various departments to make coordination effective. They should be clear about what exactly they are going to contribute in the overall objectives. Rules, regulations, policies and procedures must be communicated clearly.

### **2) Effective Chain of Command**

Every organisation has clearly stated chain of command, specifically important in vertical coordination. Chain of command indicates the relationship between superiors and subordinates. It means, line of command decides who is responsible, to whom, who can issue orders to whom. If this chain command is effective and clear, the superior has effective control over their subordinates. Thus, superior can decrease conflicts and secure compliance.

### **3) Effective leadership**

An effective leader can motivate subordinates to coordinate willingly. Effective leadership contributes in making coordination effective at the planning stage as well as at the implementation stage. A good leader can create atmosphere of trust and cooperation within the organisation. By his/her leadership, one can avoid many conflicting and unpleasant situations and put the activities on the right track of achieving objectives.

### **4) Coordination by Committee**

Committee is a group of people who are responsible to perform some activities collectively. Every organisation has various committees. The tasks assigned are interrelated among such committees. The role of each committee is important specifically in horizontal coordination.

Coordinating horizontally means collective efforts of committees working at the same level. Committee resolves many issues by interchanging ideas, group decision making, and discussions. Thus, improved understanding leads to better coordination.

### **5) Effective Communication**

Regular communication will lead to smooth functioning of the activities. In today's technological advanced business world, wide range of communication ways are available in an organisation. Modern communication system includes computers, data processing equipment, internet, etc. to speed up the communication flow. It is now easy to pass on the information with a single click. The more regular passing on the needed information, the less will be misunderstanding between different groups of people. This further makes the functioning easy and smooth. Effective and regular communication leads to effective coordination both horizontal as well as vertical.

### **6) Self-Coordination**

Self-coordination is achieved through modifying the method of a department which affects other department in such a way that each division coordinates with other divisions. Each department, division and sub divisions are inter linked. Because of this interlinked activities, each division affects others, and each division is affected by some others. So the methods applied should be such that each department will get benefits by others and vice-versa. Self-coordination can be achieved by making horizontal communication more effective.

### **❖ LONG QUESTIONS**

1. What do you mean by coordination? How does it differs from cooperation? Why is coordination called an essence of management?
2. Discuss various techniques used by managers to make coordination effective.
3. What are the types of coordination? Discuss the need for such coordination in an organisation.

### **❖ SHORT QUESTIONS**

1. Define coordination
2. Give any two difference between coordination and cooperation
3. What is vertical coordination?
4. Give meaning of procedural coordination
5. Define horizontal coordination
6. Differentiate between internal and external coordination

### **❖ SHORT NOTES**

1. Define Coordination. Why is it required in business organisation?
2. Techniques of coordination
3. Coordination Vs. Cooperation

#### 4. Types of Coordination

#### ❖ MCQ

1. Co-ordination with customers, suppliers, government and outsiders with whom the enterprise has business connections is called \_\_\_\_\_.
  - a. **External co-ordination**
  - b. Internal co-ordination
  - c. Vertical co-ordination
  - d. Horizontal co-ordination
  
2. To co-ordinate is to harmonise all the activities of a person in order to facilitate its working and its success.
  - a. Theo Haimann
  - b. **Henry Fayol**
  - c. Mc Farland
  - d. None of the above
  
3. Which one of the following is not a technique of coordination?
  - a. Leadership
  - b. Committee
  - c. Communication
  - d. **Conflict resolution**
  
4. Cooperation is necessary for Coordination while coordination is necessary for business organisation.
  - a. **True**
  - b. False
  
5. Effective communication makes \_\_\_\_\_ effective.
  - a. **Coordination**
  - b. Cooperation
  - c. Controlling
  - d. Chain of command

- 8.1 Introduction & Concept of Controlling**
- 8.2 Types of Control**
- 8.3 Design of Effective Control System**
  - 8.3.1 Essentials of Effective Control System**
- 8.4 Controlling Techniques**
  - 8.4.1 Operational Level Technique**
  - 8.4.2 Overall Control Technique**

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**8.1 INTRODUCTION & CONCEPT OF CONTROLLING**

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The first function of planning sets some standards to perform various activities in all types of organisation irrespective of its type and nature. At the end, one has to check the actual result with expected standards. Controlling is a process of comparing actual performance with expected performance. Controlling is not needed if all other functions of management such as planning, organising, coordinating and staffing performed well. But if any deviation is found in the results, controlling is required to take actions to correct that deviations from expectations. Thus, one can understand that controlling is the last function of management. The need of controlling arises to maintain the optimisation between use of scarce means and output. In fact, a well-established controlling system helps managers not only in taking corrective actions in case of deviation but also alerts them regarding potential problems. A developed controlling system ensures that end results are achieved according to plan.



## **Figure 8.1 Control**

Controlling cannot perform separately. It is closely connected with all other functions of management. Some authors have rightly said that, planning is the basis, action is the essence, delegation is the key and information is the guide for control. Thus, control is affected by other functions and it affects other functions too.

### **Definitions**

- Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established – Henry Fayol
- It is something that happens the way it was planned to happen. It involves the organisational activities and functions on right track and aligned with plans and goals

- K.A.Merchant

- Control refers to the task of ensuring that activities are producing the desired results. Control in this sense is limited to monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary taking corrective action – Reeves and Woodward
- Controlling is the measurement of accomplishment against the standards and the correction of deviations to assure attainment of objectives according to plans – Knootz and O'Donnell
- 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 plans – Goerge R. Terry and Franklin
- It is the process of regulating organisational activities so that actual performance confronts to organisational standards and goals – Newman
- Controlling keeps the organisation moving in the proper direction. – Griffin From the above definitions, let us discuss features of controlling in brief.
- Control is a forward looking function
- Control is a continuous process
- Control is interrelated with other management functions
- Control process is universal
- Control is a goal oriented function

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## **8.2 TYPES OF CONTROL**

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There are basically three stages of business process as shown in figure 8.2. Depending on the stage at which the control is implemented, there are three types of control: i) Feed Forward Control ii) Concurrent

Control, and iii) Feedback Control

i) Feed Forward Control

Planning being the very first function of management, plans various stages of business process. In that way, an organisation has the planning for Input stage as well. Feed forward control system is a type of control in which inputs are evaluated. If the inputs are not as per the plan, desired results cannot be achieved. Here, this system takes actions to make the input as specified in a plan with an objective of achieving expected results. It predicts deviation from standard or future problems before its occurrence. Therefore, this type is also known as Predictive Control. This control type is proactive in nature. By predicting the future problems, it may avoid the constraint of time gap of taking corrective actions. Cash budget is an example of feed forward control system in financial area.

ii) Concurrent Control

Concurrent control is a control type which is executed while the activity is in process. Such type of control is exercised during the operational stage of an activity. It is also known as real time control as it ensures to predict the damage before it is occurred. It provides the ability to adjust the programme while it is in process. Quality control assurance at different stages of production process in case of manufacturing organisation is an example concurrent control.

iii) Feedback Control

Feedback control is based on evaluation of final results that is output in case of business organisation. In feedback control, a person collects the information of an activity after the end of its process. If any deviation compared to expected standards is found in this evaluation, then corrective action will be taken in future for similar type of activity. This method suffers from major limitation that it cannot change the current activity as it is exercised after particular activity is over. But the need for such method lies in the fact that there are many human behavioural aspects in an organisation which cannot be predicted in exact manner. Hence, feed forward technique is not suitable. Therefore, when feed forward control is not suitable, feedback control is applied to maintain conformity between standards and actuals.

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### **8.3 DESIGN OF EFFECTIVE CONTROL SYSTEM**

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In an organisation, the responsibility for controlling is provided to departmental heads. He/she has to design the control system which ensures the effectiveness of performance. There are two ways of controls exist in an organisation, internal and external. Both ways are interrelated to each other. Company executes internal control to achieve external control effectively. For an example, organisation's financial controls includes policies that must be followed by employees to avoid mistakes to meet legal and contractual requirements and reduce the threat

of fraud. In the given example former is internal control and later is an example of external control.

It is expected from the managers to design control systems in an effective way that help businesses achieve uniform, desired outcomes. This is done to ensure satisfaction of consumer's expectation. When the control system can decrease deviations from goals and alert management when deviations are large enough, it is said to be an effective system. Effective control systems fulfil company's legal and regulatory requirements and internal standards. This is especially important for small businesses where practices may be more informal. There are certain important characteristics which make the control system effective. Managers are advised to consider that essential conditions while designing the control system in an organisation. Let us discuss different requirements of effective control system.

### **8.3.1 Essentials of effective control system**

- Accuracy

The control system provides the data on the basis of which a business unit will take corrective action. Effectiveness in the system lies in the accuracy in gathering the data and interpreting it as well. Inaccuracy in any of the case will lead to either wastage of resources and energy or divert the scarce resources on the less prioritised issues of an organisation.

- Timeliness

Timeliness is very much important in any of the management function and so as for control also. The observed deviation must reach to management promptly. Delay in reporting, makes the corrective measures useless. Issues must be resolved with prompt attention. Here, control system should ensure promptness in passing the information to management. Thus, timeliness is the prerequisite of an effective control system.

- Flexibility

Business organisation works in highly dynamic environment. Company has to be flexible to incorporate any change taken place in external world internally. Control system also must be flexible enough to incorporate such environmental changes. Rigid control system will lead to failure. Effective Control system must change its way to control according to the need of an environment. The changing environment may offer opportunities or give threat to a company. The control system must be designed in such a way that it can be modified by managers as and when required.

- Emphasis on Exception

The control system is said to be effective when it works on the principle of exception. It means that management must be informed only deviation and error if any. If the performance is as per the standard and no

deviations are found, then it is not required to inform top management about such smooth functioning. Control system should point out only critical issues having great significance. This will decrease unnecessary supervision.

- **Integration**

An organisation has set the objectives. Control system is designed and executed to contribute in overall achievement of organisational objectives. Therefore, control system has to integrate with the organisational objectives and strategic goals. Control must be functioned in consistence with strategic objectives and performance standards.

Therefore, integration is the key point to make the control system effective for an organisation.

- **Economic feasibility**

Control is applied to carry out smooth performance of an activity. Such activity is profit oriented. The control system must be economical in a sense that the system should not exceed in its costs to the monetary benefits of the activity.

- **Simplicity**

The effectiveness of any system is indirectly related to its complexity. Similarly, the control system is said to be effective when it is simple to understand. It must be simple to execute and administer by employees. The more complex system leads to divert the efforts on understanding rather than monitoring.

- **Objective**

Every function of management is goal oriented. Being an important function of management, control also possesses the same characteristic. Control system must be objective. A well-defined, straight forward and clear objective will drive the control system to smooth application of corrective action. The objective should be quantifiable as far as possible. Non quantifiable objectives are difficult to measure.

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## **8.4 CONTROLLING TECHNIQUES**

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For a goal oriented organization controlling is one of the most important functions. The types of controlling techniques are bifurcated into two categories: Operational control techniques and Overall control techniques. To understand both, first let's see the chart of techniques of control.

### **8.4.1 Operational Level Technique**

Operational control is exercised at the level of various operating units by the concerned operating managers. To control the day to day activity in the business, operational control is useful. In the operating system, there



are many aspects where control is required. To control such aspects several techniques are required depending upon nature of control.

**i) Statistical Control Reports**

These types of reports are prepared and used in large organizations, where the reports are prepared on the basis of statistical data of the specific area. On the basis of this report, standards are set. Then, the variations in actual and standard are easily measured. With the result of variation control is exercised by the management. The periodical reports of sales and production are the example of statistical control reports.

**ii) Cost accounting and Cost control**

For any kind of the business, profit is dependent on cost. To maximize the profit, reduction in cost of production is necessary. As the profit maximization is a goal of every business it can be achieved by putting emphasis on cost accounting and cost control. Many of the accounting systems are used by management to determine cost of products and services. The methods and procedures of cost accounting differ from one industry to another depending upon nature of industry. Effective cost reduction and cost control is possible with cost accounting and cost control.

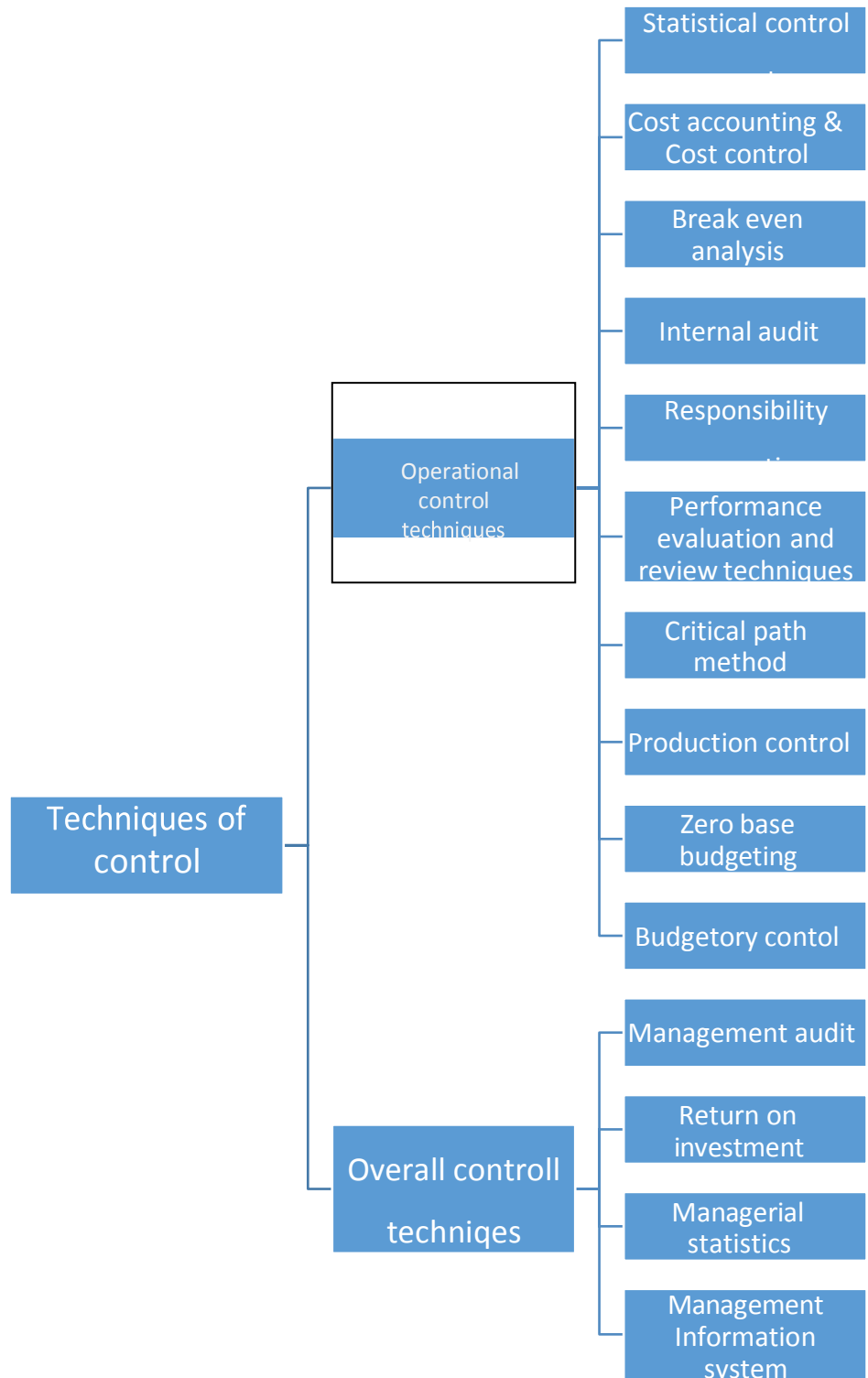
**iii) Break even analysis**

The relationship among cost of production, volume of production, volume of sales and profit is analyzed by break even analysis. It is also known as 'Cost Volume Profit Analysis (CVP analysis)'. It analyzes how the change in cost, price and volume of production impact profit of the business. The total cost of the business includes two types of cost: One is fixed cost which is fix for any volume of production and second, variable cost which varies with the number of units produce.

The profit of the business is equal to revenue minus cost. In other words, the remaining part of revenue over cost is called profit for the business. Break Even point is a point where the cost and revenue of the business are same. It is the condition where the business is in no profit no loss zone. Break-even point is helpful for manager to control over cost and production. The break-even point is calculated with the given formula:

**iv) Internal audit**

Internal audit reports are prepared in various area of operation by the head of department on a regular intervals, normally on monthly basis. The reports are sent to the top management of the business. At top management level, the deviation for the expectation of the performance of different department will be found based on internal audit reports. The suggestion is then made to improve the performance or to achieve the desired objective. Management will take steps to control the performance on the basis of internal audit report.



**Figure 8.3 Techniques for controlling**

**v) Responsibility accounting**

Responsibility accounting is a system of accounting in which each departmental head is responsible for the performance of his/her department. How far the person has achieved pre-determined objective is a way to measure the performance of a person at business. Department wise objectives are framed. On the basis of objectives, each department will be fixed as a responsibility center and every individual of the department is responsible for his/her area of operation in the department or section.

**vi) Performance Evaluation and Review Technique (PERT)**

PERT is a scheduling tool that is essentially a network of project activities showing estimates of time necessary to complete each activity and sequential relationship of activities that must be followed to complete the project. PERT is a technique used for problems that occur once. For the problems which come up continuously, PERT is not useful. The PERT was developed by Booz, Allen and Hamilton in 1958.

**vii) Critical Path Method (CPM)**

CPM is a statistical technique of project management that manages well defined activities of a project. This method is used to control cost and time. CPM is activity oriented technique and used on the activities which is repetitive in nature. It assumes that required time for every activity is constant. This controlling technique is applicable on projects like civil construction, ship building etc.

**viii) Production control**

It is necessary for every business to make a planning of its production because there are many costs associated with production. It is also important to determine inventory of raw material, finished goods, selection of production process and tools etc. Some author stated that Production control is the process of advanced planning of operations, establishing the exact route of each individual item, part or assembly, setting, starting and finishing dates of each important item, assembly and the finished product and releasing the necessary orders as well as initiating the required follow up to make the smooth functioning of the enterprise.

**ix) Zero base budgeting**

In a short period of time the zero-base budgeting technique has become popular. In the zero-base budgeting, previous year's profit is not considered at the time of preparation of

budget. Hence, it requires cost recalculation of all activities which is going to take place in the current year. Zero-based budgeting starts from zero and therefore it is more time-consuming than the traditional approach because you need to start from scratch. It helps business units to strategize where your expenses can be cut.

x) **Budgetary control**

Budget is a statement of planned allocation of resources expressed in financial and numerical term. Budget is a short-term operational tool used by the management for controlling. The systematic manner to monitor and regulate the activities in organization with the use of budget is called budgetary control. Thus, it helps management to compare the actual results with the budgeted results so that appropriate action may be taken about any deviations between the two.

### **8.4.2 Overall Control Technique**

Operational Controlling techniques control part of the organization but not the total organisation. The top management is interested in the organisation as a whole, so they exercise overall control techniques. The application of these techniques is for the total organisation. There are many techniques available for overall control. Let us discuss one by one.

i) **Management audit**

Management audit is a systematic appraisal of an overall performance of the management. It analyzes how well management functions like planning, organizing, staffing, coordinating, directing, budgeting etc. are performing in the organisation. It is an independent study of management quality of an organisation. With the management audit the people involved in the management process are able to know the areas of deficiency where the improvement is needed and the suggestions are made on the basis of deviation.

ii) **Return on investment**

Return on investment often termed as return on capital employed. Return on investments is calculated by dividing the net profit with total investment or capital employed in the business organisation. As the return on investment is used to measure the profitability rate, the profit of the organisation is determined by the relationship between cost and revenue.

iii) **Managerial statistics**

In this technique, managerial persons compare current results with the past result to know the cause for change. Such comparison will help management for the planning and taking decisions related to future. According to Kenit O. Hauson, Managerial statistics deal with data and methods which are useful to management executives in planning and controlling of organisation activities.

**iv) Management Information Systems (MIS)**

Management information system is an integrated technique to collect the information from different sources and pass on the information collected to the person to whom it is related or to the decision maker. Here the communication system is developed through which all the level of person in the organisation are informed related to growth of the organisation. Whenever deviation is found the corrective actions are taken. It emphasises the need of relevant information to take the best decision. It helps management in decision making by providing right information, at right time and in right form.

**❖ LONG QUESTIONS**

1. What is the meaning of controlling? Explain different controlling techniques in detail.
2. What are the essentials of designing effective control system? Explain
3. Give meaning of controlling. List out various controlling techniques with the help of diagram. Discuss Operational controlling techniques in detail

**❖ SHORT QUESTIONS**

1. Define Controlling.
2. Give any two feature of controlling.
3. Define zero base budgeting.
4. What is concurrent control?
5. What is break-even point?
6. How is managerial audit useful as controlling technique in organisation?

**❖ SHORT NOTES**

1. Define Controlling. Briefly explain types of controlling.
2. Describe how to design effective control system.
3. Overall control technique

**❖ MCQ**

1. Control is something which happens the way it was planned to happen. It involves the organisational activities and functions on right track and aligned with plans and goals. This definition is given by

.....

- a. **K.A.Merchant**
- b. Henry Fayol
- c. Reeves and Woodward
- d. Newman

2. Which of the following is not operational control technique?
- a. Statistical control reports
  - b. Cost accounting & Cost control
  - c. Break even analysis
  - d. **Managerial statistics**
3. Feed forward control is for which stage of business process?
- a. **Input**
  - b. Process
  - c. Output
  - d. All of the above
4. \_\_\_\_\_ is a systematic appraisal of an overall performance of the management.
- a. Managerial statistics
  - b. Managerial control
  - c. **Managerial audit**
  - d. Management information system
5. Which of the following is not Essentials for effective control?
- a. Integration
  - b. Timeliness
  - c. Flexibility
  - d. **Practicality**

**9.1 Definition & Importance****9.2 Features of Report****9.3 Types Of Reports**

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**9.1 DEFINITION & IMPORTANCE**

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Management reporting is a formal system in which the required information is supplied to top level management on regular basis. The means used for such communication is known as reports. In other words, “Report is defined as a formal communication, which moves upwards which means by a lower level to a higher level of authority in response to orders received from higher level”. Reports used as a means of checking the performance.

The first and foremost purpose of reporting is to receive information regularly about results of operations for further control. Secondly, it aims to review the organisational matters on regular intervals so as to make a base for taking corrective measures, if needed.

**Definition**

“Reporting to management can be defined as an organised method of providing each manager with all the data and only those data which he needs them and in form which aids his understanding and stimulates his action” – S.N Maheshwari

**Importance****i) Supply of Information**

The main purpose of reporting is to provide information to higher level of management. This supply of information is essential for management to review on different activities of organisation. It helps management to understand the functional areas of an organisation. By supplying the needed information, reporting helps the management to identify the weak areas of an organisation.

**ii) Essential for control system**

Reporting is a base for control. Management can use reports as a tool to control effectively. On the basis of reports, corrective actions are implemented to improve performance of an organisation. The management has to see whether the employees are working according to the targets and standards. The reports are prepared in such a way as to measure the actual performance with the standards. If any variances are

found, remedial or corrective actions are taken by the management. In this way, a report is used as a control tool.

**iii) Develop Public relation**

General reports are prepared and issued for the public. Such reports include overall growth and resource allocation within the organisation. Presenting general report in front of public increases goodwill and public image. Reporting is thus important to develop public relation.

**iv) Basis for performance measurement**

In an organisation employees are assigned the responsibilities to carry out various activities. Not only employees but departments and divisions are also assigned functions. At the end, employees, departments and divisions should measure their performance; whether they have achieved the established target or not. Reporting contains the information regarding activities and hence is used as a base for such measurement.

**v) Operational efficiency**

Reports are essential for management to maintain overall operational efficiency in an organisation by regular reviewing the provided information and taking corrective actions if needed. Remedial actions help to achieve overall objectives. On the basis of this type of report, a management can give clear instructions as how to increase profitability to its employees.

**vi) Legal requirement**

To fulfil the legal requirement is an important responsibility of an organisation. In some case reports are prepared to fulfil legal requirements. For example, Annual reports are prepared and presented for shareholders to satisfy the legal requirement of Company's Act. Likewise, audit report is prepared as per requirement of Income tax act.

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## **9.2 FEATURES OF REPORT**

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**i) Complete yet Concise Document**

A report is a written document. It provides information on a regular interval in a complete but concise form.

**ii) Systematic Presentation**

A report includes information about problem. A personnel investigates the issue in detail and then systematically presents all the analysed facts, data and relevant information in written document. Reports also contains conclusion and recommendations.

**iii) Written document**

Generally, reports are in written form. Written reports are important for future reference. Such written document can be saved for a long period. Management can refer to it in future whenever required.



**iv) Provides Information and Guidance**

Report is an important document which supplies information. It also provides guidance to the management while framing future policies. It assists planning and decision making. Reports are also useful for solving problems faced by a business enterprise.

**v) Self-explanatory Document**

Report is a self-explanatory and complete document by itself. It is a comprehensive document and covers all aspects of the subject matter of study.

**vi) Internal Communication tool**

Reports are used in upward and downward communication. In upward communication, reports are prepared and submitted by subordinates to higher authorities. While in downward communication, reports are submitted by higher management to lower level of management. Therefore, it can be said that it is a tool of communication between different levels of personnel within the company. Moreover, reports are also prepared for satisfying legal requirements and sent to variety of stakeholders of the company. Thus, report is an essential tool for communication.

**vii) Permanent Record**

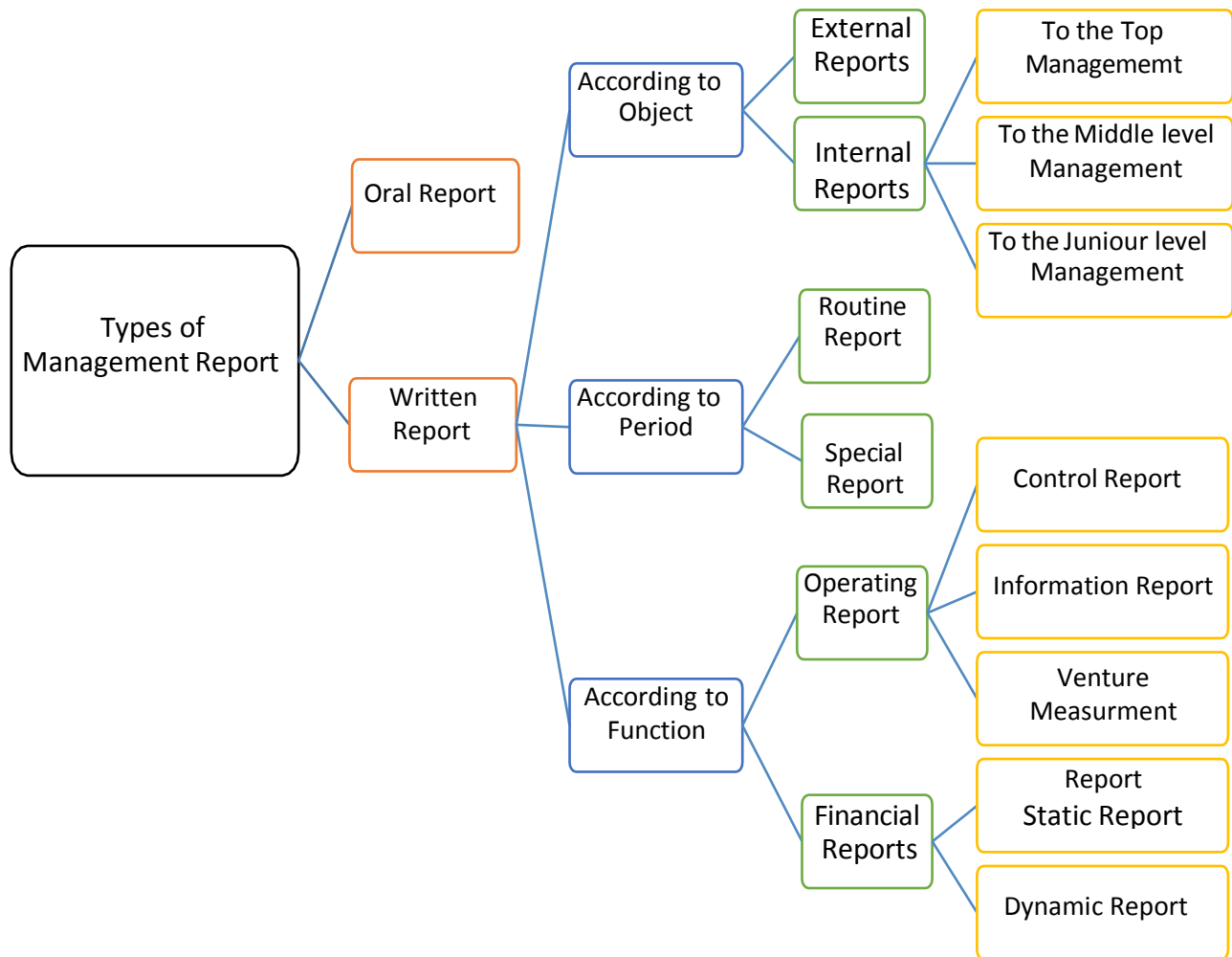
A report is saved as a permanent record relating to certain business matter when it is in written form. It is useful for future reference and guidance.

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**9.3 TYPES OF MANAGEMENT REPORT**

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Management reporting is broadly divided into two parts which are oral report and written reports. Oral reports are the reports in the form of face to face communication about the things observed or seen. Oral reports save time of reporter but at the same time it is time consuming for the receiver because he/she needs to listen to all the information. Written reports are further divided into three parts. Let's understand them one by one.



**Figure 9.1 Types of reports**

**A) ORAL REPORTS**

An Oral Report is the presentation of the findings obtained in form of spoken words. Oral reports mainly lack visual presentation or advantage.

**B) WRITTEN REPORTS**

Written reports are the in the form of written document which involves findings or observation of individual or group. In business, written reports are more used. Written reports are divided into three types which are according to objects, according to period and according to function. Written reports are further sub divided in different categories.

**i) According to Object or Purpose**

On the basis of purpose reports are categorised as external and internal reports.

- **External Reports**

External reports are prepared for the external environmental institutions/persons. They are government, stakeholders, creditors, bankers and stock markets. It includes the information related to the profit & loss account and balance sheet. According to Indian companies act 1956, schedule VI, every Indian company needs to prepare annual report. Annual report is the one of very common examples of external reports. Likewise, audit is prepared to submit Income tax department. Such external reports are prepared to satisfy legal requirements.

- **Internal reports**

Internal reports are also known as management reports. Such reports are prepared by internals for the use at different levels of management. Internal reports include the information which one needs not to disclose with the person outside the company. They do not need to fulfil any statutory requirements. From the view point of management they are classified in following categories:

- a. Reports for the Top level of management
- b. Reports for the Middle level of management
- c. Report for the Junior level of management

**a. Report meant for the top level of management**

Top level management includes broad of directors having chairmen, managing director, general manager and any other chief executive in many cases. This level of management formulates policies, set goals and objectives and makes the planning of activities. To do all the things top management requires operational reports related to performance of different department. With The information provided by report top management is able to compare standards with actuals. Some of the example of such reports are;

- (a) Reports on budgeted and actual profit
- (b) Sales Reports
- (c) Capital budget Reports
- (d) Production Reports
- (e) Periodical financial Reports
- (f) Plant utilization Reports
- (g) Machine and labour utilization Reports
- (h) Reports on R & D activities
- (i) Project Evaluation reports
- (g) Reports on Inventories
- (k) Cost reports

- (I) Reports on selling and distribution overhead expenses.

**b. Report meant for the Middle level of management**

Middle level management includes all the departmental heads like head of marketing department is marketing manager, head of personnel department is human resource manager or HR manager. This level of management focuses on the performance, functioning and control of particular department like marketing manager will take care of all the activities within marketing department. All the department heads basically work as a coordinators and controllers like the managers are going to coordinate the policies formulated by top management to the supervisors and the evaluate the performance. The managers may require more information about the department at frequent intervals. The middle level management requires report which differ from department to departments.

**Purchase Manager:**

- (1) Reports on price and variety of raw materials
- (2) Reports on carrying and maintenance cost

**Materials Manager:**

- (1) Reports on Inventory stocks
- (2) Reports on material wastage and losses
- (3) Reports on stock of materials planning and control
- (4) Reports on level of materials stock at the stores
- (5) Reports on surplus and deficiency report.

**Production Manager:**

- (1) Reports on budgeted and actual production
- (2) Reports on overtime work and ideal time
- (3) Reports on labour utilization
- (4) Reports on machine utilization
- (5) Reports on any accident causing dislocation of activity.

**Sales Manager:**

- (1) Reports on budgeted and actual sales
- (2) Reports on sales efficiency
- (3) Reports on cash sales and credit sales
- (4) Reports on stock of finished goods
- (5) Reports on market share and market potential
- (6) Reports on sales promotion efficiency.

### **c. Reports for the Junior Level of Management**

The execution of policies formulated by top management is done at junior level of management. The supervisor, foremen and sectional in charge are the part of this level. They are connected with the day to day performance of their section. The reports sent to this level are as follows:

- (1) Reports on ideal time, overtime and machine utilization
- (2) Reports on materials usage variance
- (3) Reports on credit collections and outstanding

#### **ii) According to Period**

According to period of reporting the reports are divided into two categories which are routine reports and special reports

- **Routine reports**

The routine reports are made to provide information related to day to day activities of the concern. These reports are prepared at regular intervals in various departments. Routine reports contain some of the fact or information in detailed or summarized form. It also includes remarks and opinions by the reporter. These reports are related to sales, purchase, production, human resource and capital expenditure.

- **Special reports**

According to the need of situation special reports are prepared. These reports may be prepared for some special enquiry and investigation by an individual or a specific committee made for the special purpose. The special reports are not prepared for the routine activities. The reports are prepared for some specific purpose like make or buy decision, technological change, market survey, change in government policies and so on.

#### **iii) According to Function**

According to function of working there are two types of reports; operating reports and financial reports.

- **Operating reports**

Information related to operation concerned are provided by operating reports. These are generally monthly or quarterly reports. Operating reports are of three types: *Control reports* which means these are the report prepared to exercise control over various operations of the business. *Information reports* which provide information for the planning and policy formulation. *Venture measurement reports* – the reports are prepared to show the result of venture which is going to undertake by the business.

- **Financial reports**

The information related to financial position of the business is provided

by financial reports. These reports are generally prepared annually in case of profit & loss account and balance sheet to know the financial position at the end of year. On the periodical basis the reports are prepared to know the cash position of the business in the given period of time in case of fund flow statement and cash flow. Financial reports are sub-divided into static reports and dynamic reports. Static reports include static information related to specific area of business. Dynamic reports give access to the most up-to-date information or real-time information, allowing the user to interact with data through interactive features and other functionalities to conduct basic and advanced data analysis. The dynamic real-time data is available online to anyone who has been given permission, anytime, and anywhere. It is easily accessible, always up-to-date, and easy to share.

### **LONG QUESTIONS**

1. List out the types of management report with the help of a diagram. Explain each of them in detail.
2. What is management reporting? Discuss why it is important for an organization.
3. Define management reporting.
4. What is a report? Discuss its features.

### **SHORT QUESTIONS**

1. Define management reporting.
2. Why written reports are important in an organisation?
3. Explain any two features of a report.
4. Differentiate between oral and written reports.

### **SHORT NOTES**

1. Define report. Explain features of a report.
2. What are the types of report according to function?. Explain any one in detail.
3. Explain the types of report according to period.

### **MCQ**

1. "Reporting to management can be defined as an organised method of providing each manager with all the data and only those data which he needs them and in form which aids his understanding and stimulates his action". This definition is given by .....
- a. K.A. Merchant
  - b. Henry Fayol
  - c. **S.N Maheshwari**
  - d. Newman

2. Which of the following is not the type of operating report?.

- a. Control Report
- b. Information Report
- c. Venture Measurement Report
- d. Static report**

3. Reports on budgeted and actual production, Reports on overtime work and ideal time, Reports on labour utilization, Reports on machine utilization are prepared by .....

- a. Marketing manager
- b. Human resource manager
- c. Production manager**
- d. Purchase manager

4. Which of the following is not importance of reports?

- a. Complete yet Concise Document**
- b. Supply of Information
- c. Basis for performance measurement
- d. Essential for control system

5. Which type of report is not required by top management.....

- a. Sales Reports
- b. Capital budget
- c. Production Report
- d. Reports on machine utilization

- 10.1 Introduction**
- 10.2 What is a budget?**
- 10.3 Characteristics of a budget**
- 10.4 What is budgeting?**
- 10.5 Why Budgeting?**
- 10.6 Advantages of Budgeting**
- 10.7 Limitations of Budgeting**
- 10.8 Types of Budgets**
  - 10.8.1 On the basis of time**
    - 10.8.1.1 Short term budgets**
    - 10.8.1.2 Current or Intermediate budgets**
    - 10.8.1.3 Long term budgets**
  - 10.8.2 On the basis of usage**
    - 10.8.2.1 Business budgets**
    - 10.8.2.2 Individual budgets**
  - 10.8.3 On the basis of flexibility**
    - 10.8.3.1 Fixed or Static budget**
    - 10.8.3.2 Flexible budget**
  - 10.8.4 On the basis of functions**
    - 10.8.4.1 Master budget**
    - 10.8.4.2 Subsidiary budget**
      - 10.8.4.2.1 Sales budget**
      - 10.8.4.2.2 Production budget**
      - 10.8.4.2.3 Cost budget**
        - 10.8.4.2.3.1 Direct material cost budget**
        - 10.8.4.2.3.2 Direct labour cost budget**
        - 10.8.4.2.3.3 Selling and distribution cost budget**



#### **10.8.4.2.3.4 Administrative cost budget**

#### **10.8.4.2.3.5 Production overheads cost budget**

#### **10.8.4.2.4 Financial budget**

##### **10.8.4.2.4.1 Cash budget**

##### **10.8.4.2.4.2 Capital expenditure budget**

#### **10.9 What is Budgetary Control?**

#### **10.10 Why Budgetary Control?**

#### **10.11 Techniques of Budgetary Control.**

##### **10.11.1 Variance Analysis**

##### **10.11.2 Responsibility Accounting**

##### **10.11.3 Zero based budgeting**

#### **10.12 Advantages of Budgetary Control**

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## **10.1 INTRODUCTION**

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Every enterprise strives to fulfil its objective of reducing costs and increasing income. The achievement of this goal is a complicated task and serves as a yardstick of the functioning of the management. As a result, an enormous amount of planning and effort needs to be put into this. Also, mere planning will not suffice in this direction, thus controlling becomes an unavoidable activity.

The success of an enterprise necessitates two actions: (1) Enhance revenues and (2) limiting costs.

The first action i.e., enhancing of revenues being well served will not enable an enterprise to flourish. Controlling the costs is an activity of prime importance and one of the control techniques adopted by every entity is – BUDGETING.

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## **10.2 WHAT IS A BUDGET?**

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The word budget is derived from the earlier French word 'bougette', that means a 'small leather bag' used to contain monetary bills to be presented in parliament by the chancellor of the Exchequer.

In this context, it is a document that shows the details of the entity's plans and policies of operation for a specific time frame.

Let us have a look at some of the definitions of budget as given by various experts:

**I.C.M.A., London** defines the budget as “(Budget is) financial and/or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given object”.

According to **Dimock and Dimock** “A budget is a balanced estimate of the expenditures and receipts for a given period of time”.

In a view of **Keller & Ferrara**, “A budget is a plan of action to achieve stated objectives based on predetermined series of related assumptions.”

**G.A. Welsh** states, “A budget is a written plan covering the projected activities of a firm for a definite time period.”

As per **Brown and Howard**, “The budget is a predetermined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.”

According to **George R. Terry**, “A budget is an estimate of future needs arranged according to an orderly basis covering some or all the activities of an enterprise for a definite period of time.”

Sanders opines, “The essence of a budget is a detailed plan of operations for some specific future period, followed by a system of records which serves as a check upon plan.”

As per **H. J. Weldon**, “A budget is thus a standard with which to measure the actual achievement of people, departments, etc.”

**Hemass C. Heiser** is of the view that “A budget is an overall blueprint of a comprehensive plan of operations and actions expressed in financial terms.”

In short, a budget is a comprehensive framework of financial activities for a specific particular period of time.

It serves as a barometer of an organization’s success.

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### 10.3 CHARACTERISTICS OF BUDGET

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After having a look at the above given definitions, one can identify the following characteristics of a budget.

- Budget is a comprehensive statement that consists futuristic information.
- Budget facilitates the achievement of predetermined objectives.
- Budget is made for a specified period of time.
- Budget is made for a future date.
- As budget is prepared for a future date, it shows estimated/projected figures of expenditures and incomes.
- Budget contains only monetary details.
- Budget contains details regarding receipts and payments of an entity.
- Budget serves as a tool for keeping a check on the expenditures.
- Budget serves as a standard for comparing the actual receipts and payments with the standard receipts and payments of an organization.

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### 10.4 WHAT IS BUDGETING?

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Budgeting means to plan for the future.

Under budgeting, detailed projections of future accounting is done and the deviations from the standards fixed are measured. These projections help to create a plan for the effective functioning of an organization

leading to fruitful results.

Thus, working effectively on the budget is known as Budgeting.

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## 10.5 WHY BUDGETING?

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Budgeting is done for achieving the following purposes and objectives :

- To formulate a clear business plan which is very essential for the efficient working of the entity.
- To facilitate coordination among various business activities that becomes a pre-condition for the success of an organization.
- To forecast the future and plan accordingly so as to avoid any menace.
- To assist the organizations in taking important business decisions and guide towards a proper path.
- To formulate futuristic set of actions to be performed by the organizations in order to achieve the goals.
- To cut all the unnecessary and wasteful expenditures which shall ultimately bring financial gains to the organization.
- To continuously evaluate and re-evaluate the managerial activities to bring out the best results.
- To continuously monitor the working of an enterprise and achieve the set objectives.
- To make use of all the available resources optimally to avoid any sort of wastage.
- To take suitable corrective actions when needed i.e., when deviations arise, need to be looked upon.
- To maintain suitable long-term financial position of the enterprise by ensuring adequate cashflow and liquidity.

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## 10.6 ADVANTAGES OF BUDGETING

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- **Optimum utilization of resources**  
Budgeting ensures that there is no wastage and resources be used to their full potential in order to achieve maximum benefit.
- **Addressing future difficulties**  
Budgeting provides a sense of potential future difficulties, allowing them to be addressed well in advance so as to avoid any risky situations.
- **Improved coordination**  
Budgeting aids in the improved coordination of various functions or activities of a business organization and, as a result, creates improved understanding about various functions.
- **Analysis of policies**  
Budgeting is a technique for analyzing the core policies of the organization on a regular basis so that required changes can be made in due time.

- **Fixation and achievement of objectives**  
Budgeting assists an organization to determine its objectives and make necessary efforts for achieving those.
- **Investments**  
Budgeting enables to identify the most lucrative investing ventures and gain fruitful results by investing the surplus available resources in the same.
- **Evaluating the working of an entity**  
Budgeting can also be used to measure the entity's functioning by comparing actual results and budgeted targets.
- **Cost conscious attitude**  
Budgeting encourages the effective utilization of scarce resources and fosters a cost-conscious mentality in the organization.
- **Cost control**  
Budgeting sets estimates for various budget centres, helping in maintaining costs of production under control.
- **Maintaining liquidity**  
By creating a cash budget, an organization's liquidity could be well maintained.

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## 10.7 LIMITATIONS OF BUDGETING

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- **Lack of accuracy:**  
Under budgeting, estimated figures of incomes and expenditures are considered but estimates are not accurate all the times and lead to uncertainty.
- **Mere estimates:**  
One cannot rely on mere estimates, doing so could be hazardous to the success of the enterprise.
- **Ignorance of time value:**  
Budgets are formulated for the upcoming year. This leads to ignorance of the time value of money leading to the setting up of unreliable standards, which when compared with the actual results shall bring about huge deviations.
- **Lack of initiative**  
There are times when employees as well as other members are hesitant to go beyond budgeted standards, as they fear failure. But there are times when such initiatives by the employees lead to fruitful results, but due to this hesitant behaviour, this opportunity is lost.
- **High Costs**  
Budgets are set of estimates, yet the preparation of budgets is a costly affair. Despite such high costs, it is not evident that it will be followed to the point.
- **Leads to rigidity:**  
Following the budget becomes a necessity for the employees, budgets are formulated by the top management but it is the specific worker who is much aware about the procedures and working. But as per the given

instructions he is bound to follow the budgeted standards, leading to rigidity.

Despite a few limitations, one cannot ignore the merits of preparing and following budgets. So, budgeting becomes an inevitable function.

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## **10.8 TYPES OF BUDGETS**

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There are numerous types of budgets designed with different purposes and objectives. To fulfil these goals, different types of budgets are prepared.

Budgets can be classified on various parameters such as time, usage, flexibility, functions etc. On the basis of time, budgets can be classified as short term, current and long-term budgets. On the basis of usage, budgets can be classified as business budget and individual budget.

On the basis of flexibility, budgets can be classified fixed or static budget and flexible budget.

On the basis functions, budgets are classified into master budget and subsidiary budget.

Subsidiary budget comprises of sales budget, production budget, cost budget which further includes direct material, direct labour, overheads budget etc. Subsidiary budget also includes financial budget that is further classified into cash budget and capital expenditure budget.

Let us have a detailed explanation of the classification mentioned above :

### **10.8.1 On the basis of time**

Budgets are prepared for various time durations. Following are the types of budgets on the basis of time period.

#### **10.8.1.1 Short term budgets**

A short-term budget is one that is developed for a period of fewer than five years. It is generally framed for a period of one or two years. These budgets work complementary to long term budgets and not against them. The short term goals taken to support the long term ones are reflected in such budgets. Cash budget framed which reflects the working capital needs of the organisation are the most suitable example of short term budgets.

#### **10.8.1.2 Current or Intermediate budgets**

A current budget is a budget designed for the current year. The current conditions are dealt with in these types of budgets. For example, Income and expenditure account prepared by the government serves as a current budget.

### **10.8.1.3 Long term budget**

Budgets framed for a period of 5 to 10 years fall under the category of long-term budgets. The long term goals of the business are fulfilled through this type of budget. Mostly, the long term strategic decisions of expansion, mergers, acquisitions etc, form the major content of long-term budgets.

Caution and care are a prerequisite to frame these kinds of budgets. The budget maker should have a strong vision and due vigilance regarding the future while making such budgets. The future aspects of population growth, demographic structure, market trends, innovation and competition etc should be kept in mind during the preparation of such budgets.

As major decisions are involved in such budgets, these hold a high value.

### **10.8.2 On the basis of usage**

Budgets are classified as Business budgets and individual budgets on the basis of their usage.

#### **10.8.2.1 Business budgets**

The budgets prepared for the purpose so as to be useful to the businesses are known as business budgets. The various kinds of budgets that are formed by the business organisations are form the business budgets.

#### **10.8.2.2 Individual budgets**

The individual budgets prepared so as to serve personal purposes by an individual is termed as individual budget.

The example of individual budget can be the budgets prepared by households.

### **10.8.3 On the basis of flexibility**

Budgets are classified as fixed and flexible budgets on the basis of flexibility.

#### **10.8.3.1 Fixed or Static Budget**

The fixed or static budgets are those that remain constant irrespective of the number of units produced or number of units sold. As the meaning suggests the fixed or static budgets are made for fixed expenses of the organisation as the fixed expenses do not relate to the volume of units sold or produced. Generally, the fixed costs form a part of the uncontrollable costs of a business organisation so this budget remains ineffective in the process of cost control.

Fixed budgets will work with great efficiency in instances when the output shows negligible or no chances of fluctuations or when the outputs can be predicted accurately.

For example, rent payments budget etc.

### 10.8.3.2 **Flexible Budget**

A flexible budget is the one that is designed so as to change with the change in the level of activity performed. Unlike, fixed budgets, flexible budget takes into consideration, the level of activity (units produced or sold) performed. Thus, flexible budgets inherit the feature of dynamism. After the completion of accounting year, estimates of various expenses are calculated as per the outputs produced or sold and then these estimates are compared with the actual costs. This yields to variances and then efforts are made to control costs.

The variances generated after the process of comparison are comparatively more realistic and less as compared to the variances generated with the fixed budgets.

#### **Usage of Flexible Budgets**

The usefulness of flexible budgets can be summarised in the following points:

- **Accurate estimates:** The estimates of costs made under flexible budgets are much accurate as compared to fixed budgets.
- **Realistic variances:** The variances obtained by comparison of actual parameters with that of the flexible budget ones give a more accurate and realistic scenario of the variances obtained.
- **Better Control:** Flexible budgeting serves as a better control measure by giving a truer picture of the deviations happened.
- **Corrective action:** With flexible budgets, it becomes possible to identify the loopholes and take necessary corrective action so as to avoid recurrence of any mishap.

**Correct profit:** Flexible budget aids in the calculation of correct profit.

#### **Limitations of Flexible Budgets**

There are a few limitations of flexible budgets. They are as follows :

- **Skilled workers:** The preparation of flexible budget requires skilled workers.
  - **Tricky process:** To estimate the budgeted costs as per the level of activity performed is a very tricky process.
- However, the advantages of flexible budgeting outweigh its limitations. Hence it holds high significance.

### 10.8.4 **On the basis of function**

On the basis of their functions, budgets can be classified as Master budget and subsidiary budget.

#### 10.8.4.1 **Master budget**

A Master Budget is a summary of all the functional budgets prepared. It is a combination of all the budgets like production budget, cost budget, sales budget, various expenses budget etc. It is made to present a comprehensive picture of the organisation plan. A master budget is a

useful tool for the business to decide a road map to get the desired goals accomplished.

Master budget needs to be approved by the top level management of an organization.

#### **10.8.4.2 Subsidiary budget**

The subsidiary budget includes various budgets made by the business enterprise.

It consists of Sales Budget, Cost Budget, Production budget, Financial Budget etc. It also consists of direct material cost budget, direct labour cost budget, administrative cost budget, selling and distribution cost budget, production overheads budget, cash budget, capital expenditure budget etc.

Let us have an insight into details of all the above mentioned budgets.

**10.8.4.2.1 Sales budget:** Sales budget is an estimate of total sales that can be expressed in monetary terms. It is often the foundation on which all other budgets are formed. The estimated quantity of sales as well as the amount of goods to be sold is estimated in the sales budget. This budget is prepared with the guidance of salesman, market assistants, sales manager etc. Historical data about sales, information and reports from salesman, market conditions, production capacity sales policy etc. are the factors to be taken into consideration while preparing the sales budget. Due diligence and care should be adopted while preparing the sales budget as it forms the foundation stone for preparing all the other budgets of the business organization.

**10.8.4.2.2 Production budget:** The production budget contains a forecast regarding the quantity of units to be produced in the budgeted period. This budget is prepared after preparing the sales budget. This budget gives an idea about the needs of storage, insurance, maintenance etc. services required in order to maintain the quantity of goods produced. It should be kept in mind that the production budget should be designed in accordance with the sales budget so as to avoid any shortage or wastage of the goods produced. After the preparation of production budget only, the other budgets of raw material requisition, material and labour cost, overhead cost budget etc. can be prepared.

**10.8.4.2.3 Cost budget:** The cost budget is further classified into production cost budget and other cost budget. When the preparation of production budget is completed, an estimate is made regarding the various costs associated with the goods produced and the process of preparation of production cost budget is started. There are numerous costs associated with production and separate budgets are prepared for each type of cost. Moreover, there are costs in the organisation that are not affiliated with production, say, administrative costs. Budgets are also prepared for administrative costs.



**10.8.4.2.3.1 Direct material cost:** The direct material cost is prepared with the help of the production manager. Firstly it is estimated how much raw material will be required for the desired level of production and consequently its cost is estimated in the direct material cost budget. For estimating the material required, quantity of opening and closing stock, history of purchases made, economic order quantity etc. factors are to be taken into consideration

**10.8.4.2.3.2 Direct labour cost budget:** Direct labour budget contains an estimate of the labour required to carry out the necessary production. It discloses the number of workers required, their remuneration rates, level of skills, their training period, incentives to be given etc.

**10.8.4.2.3.3 Selling and distribution expenses budget:** The units produced need to be marketed and distributed before the actual sales is done. It consists of salaries and commissions to salesman, their travelling expenses, discounts allowed to customers, expenses of advertising the goods, expenses on warehouses, insurance of goods etc.

**10.8.4.2.3.4 Administration cost budget:** There are numerous administrative costs affiliated with the production. These include salaries, electricity bills, rents etc.

**10.8.4.2.3.5 Production overheads budget:** This budget consists of estimates of indirect material and labour. Indirect expenses like depreciation on plant are also estimated under production overhead cost budget.

#### **10.8.4.2.4 Financial budget**

Financial budget holds utmost importance for a business enterprise. Under this budget, the inflows and outflows of cash is estimated for the budgeted period. It is ensured that enough working capital is available in the entity and no issues of liquidity arise in the said period. Financial budgeting also ensures that the available finance is utilised in the most effective manner. Financial budget also makes an estimate about the amount of profits to be distributed among the stakeholders and the amount of profits to be ploughed back in the business.

Financial budget consists of Cash budget and Capital Expenditure budget.

**10.8.4.2.4.1.1 Cash Budget:** A cash budget represents an estimate of cash inflows and cash outflows for the budgeted period. It estimates the future requirements of cash and the sources of acquiring the same. Cash budget is prepared on weekly, monthly, quarterly, half yearly or yearly basis, as per the requirements of the entity. Cash budget is very important as it makes sure that the entity never runs out of liquidity in the entire

budgeted period. Cash budget is an important controlling tool also in the sense it makes sure that the available cash is used most optimally without any wastage.

**10.8.4.2.4.1.2 Capital expenditure budget:** The capital expenditure budget estimates the capital projects in which the firms will invest. The various capital projects proposed are evaluated on various parameters and then the final selection of the most profitable project is made.

The various methods of evaluating capital projects are internal rate of return method, pay back period method, net present value method, profitability index method etc. Capital expenditure budget is prepared with due diligence as these involve huge amount money and any incorrect decision would bring set back to the business. With capital expenditure budget, the huge capital expenditures of the businesses can be brought under control.

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## **10.9 WHAT IS BUDGETARY CONTROL?**

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Budgetary control is the process of controlling costs of an entity by the formulation of budgets. Thus, budgetary control is a wider concept, preparation of budgets is only a part of it.

Budgetary control is a strategy used to measure the actual incomes, expenditures, quantity etc. to the budgeted ones, and to find and correct any deviations.

A budget is a tool, and budgetary control is the final result.

According to CIMA, “Budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action, the objective of the policy or to provide a basis for its revision.”

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## **10.10 WHY BUDGETARY CONTROL?**

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- To plan appropriately for the future.
- To establish coordination among various activities of the organisation.
- To boost the morale of the employees.
- To correct on time, any deviations.
- To communicate effectively.
- To control the working of an enterprise

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## **10.11 TECHNIQUES OF BUDGETARY CONTROL**

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**10.11.1 Variance Analysis:** The variance analysis is an effective tool of control. Variances are calculated for actual costs and the budgeted ones. The variances found are classified as favourable or unfavourable and accordingly the areas of control and action are identified. Variance

analysis is one of the most common and effective tools used widely so as to identify the areas of control.

**10.11.2 Responsibility Accounting:** Responsibility Accounting is an important technique of budgetary control. Centres such as cost centre, profit centre, investment centre etc are created. The entire organisation is divided as per these centres. They are assigned with the respective responsibilities of costs and investments. The deviations in the said parameters are directly linked with the performance of the employees of the centres. So, this technique serves as a tool to fix promotion, demotion etc. of the employees.

**10.11.3 Zero based budgeting:** “ZBB is a management tool, which provides a systematic method for evaluating all operations and programmes, current or new, allows for budget reductions and expansions in a rational manner and allows re- allocation of sources from low to high priority programmes.”

**David Lieninger**

“Zero-base budgeting can be identified as a method of budgeting whereby all activities are revalued each time a budget is set. Discrete levels of each activity are valued and a combination chosen to match funds available.

**-CIMA England**

Zero based budgeting is a popular technique of budgetary control. It involves preparing budgets from scratch i.e., level zero. Each item of the cashflow is evaluated under zero based budgeting. The head of each cost centre is required to perform cost benefit analysis before doing any expenditure. Thus, this budgetary control technique ensures analysis of not only new projects but also existing projects. Zero based budgeting brings more efficiency and accuracy in the working of an enterprise.

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## **10.12 ADVANTAGES OF BUDGETARY CONTROL**

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- **Cost control**  
Budgetary control serves as an effective tool for cost control by cutting down the unnecessary expenditures.
- **Increased profitability**  
Budgetary control increases the profitability of an organisation by controlling the costs.
- **Base for policy makers**  
It serves as the base for framing the future policies of the business by indicating the areas of high deviation.

- **Reduced wastage**  
Budgetary control brings efficiency in the production by reducing wastage.
- **Areas of action**  
Budgetary control points the areas of unnecessary high deviations, about which action should be taken immediately so as to avoid any risky situations.
- **Assists managerial functions**  
Helps the managers performing managerial functions of planning, controlling and coordination.
- **Framing policies**  
It helps in framing the most suitable policies for the business organization.

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### 10.13 KEYTERMS

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<b>BUDGET</b>	A budget is a comprehensive framework of financial activities for a specific particular period of time.
<b>BUDGETING</b>	The process of planning for the future activities through budgets is known as budgeting.
<b>BUDGETARY CONTROL</b>	Budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action, the objective of the policy or to provide a basis for its revision.
<b>MASTER BUDGET</b>	A master budget is a summary of all functional budgets.
<b>ZERO BASED BUDGETING</b>	“Zero-base budgeting can be identified as a method of budgeting whereby all activities are revalued each time a budget is set. Discrete levels of each activity are valued and a combination chosen to match funds available.”

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### 10.14 EXERCISE

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#### ANSWER IN DETAIL

1. What is a budget? State its characteristics and advantages.
2. Explain the concept of budgeting along with its benefits and limitations.
3. Give a detailed description of the various techniques of budgetary control.
4. Draw a chart showing different types of budgets prepared by a business enterprise.
5. Describe the types of budgets on the basis of functions.

6. Differentiate between budget and budgeting.  
Give classification of budgets on the basis of flexibility and usage.

### **ANSWER IN BRIEF**

1. Define budgetary control.
2. What is a flexible budget?
3. Explain zero based budgeting.
4. What are the various techniques of evaluating a capital project?
5. Define master budget.
6. What is a cash budget?
7. Define static budget.
8. Explain current budget.
9. Explain responsibility accounting.

### **MCQs**

1. Budgeting is an important tool of .....
  - a. Control
  - b. Management
  - c. Both a and b
  - d. None of the above
2. Budgets can be classified as short term, intermediate and long term budget on the basis of .....
  - a. Usage
  - b. Flexibility
  - c. Time
  - d. None of the above
3. Which of the following is not a technique of evaluating capital projects?
  - a. Internal rate of return
  - b. Net present value
  - c. Profitability index
  - d. None of the above
4. Which of the following is a limitation of budgeting?
  - a. Mere estimates
  - b. Ignorance of time value
  - c. Both a and b
  - d. None of the above
5. „A budget is a plan of action to achieve stated objectives based on predetermined series of related assumptions.“ Which author gave this definition of budget?
  - a. George R. Terry
  - b. Keller & Ferrara
  - c. Dimock and Dimock
  - d. G.A. Welsh
6. Which among the following is not a type of direct material cost budget?
  - a. Direct labour cost budget

- b. Selling and distribution cost budget
  - c. Administrative cost budget
  - d. Cash budget
7. What serves as a barometer for organisation's success?
- a. Budgeting
  - b. Planning
  - c. Staffing
  - d. All of the above
8. \_\_\_\_\_ means preparing budgets from zero level.
- a. Zero based budgeting
  - b. Zero based controlling
  - c. Both a and b
  - d. None of the above
9. Budgetary control is a wider concept, budgeting is only a part of it. True or False
- a. True
  - b. False
  - c. None
10. Which among the following kinds of budget inhibits dynamism?
- a. Fixed budget
  - b. Flexible budget
  - c. Capital expenditure budget
  - d. None

**Answers:**

- 1. a**
- 2. c**
- 3. d**
- 4. c**
- 5. b**
- 6. d**
- 7. a**
- 8. a**
- 9. a**
- 10. b.**

## યુનિવર્સિટી ગીત

સ્વાધ્યાય: પરમં તપ:

સ્વાધ્યાય: પરમં તપ:

સ્વાધ્યાય: પરમં તપ:

શિક્ષણ, સંસ્કૃતિ, સદ્ભાવ, દિવ્યબોધનું ધામ  
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;  
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,  
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?  
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;  
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ  
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે  
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેકે;  
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર  
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેકે, મન મંદિરને ધામે  
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;  
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,  
આવો કરીયે આપણ સૌ  
ભવ્ય રાષ્ટ્ર નિર્માણ...  
દિવ્ય રાષ્ટ્ર નિર્માણ...  
ભવ્ય રાષ્ટ્ર નિર્માણ