Principles of Management

Unit I

Evolution of Management Science

The concept of management has acquired special significance in the present competitive and complex business world. Efficient and purposeful management is absolutely essential for the survival of a business unit. Management concept is comprehensive and covers all aspects of business. In simple words, management means utilising available resources in the best possible manner and also for achieving well defined objectives. It is a distinct and dynamic process involving use of different resources for achieving well defined objectives. The resources are: men, money, materials, machines, methods and markets. These are the six basic inputs in management process (six M's of management) and the output is in the form of achievement of objectives. It is the end result of inputs and is available through efficient management process.

Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively. Management comprises planning, organizing, staffing, leading, coordinating and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the development and manipulation of human resources, financial resources, technological resources and natural resources. Management is essential for the conduct of business activity in an orderly manner. It is a vital function concerned with all aspects of working of an enterprise.

Definition

According to Harold Koontz, "Management is the art of getting things done through and with people in formally organized groups".

According to Henry Fayol, "To manage is to forecast and to plan, to organise, to command, to coordinate and to control".

According to Peter Drucker, "Management is a multi-purpose organ that manages business and manages managers and manages workers and work".

Management is needed for planning business activities, for guiding employees in the right direction and finally for coordinating their efforts for achieving best/most favorable results. Efficient management is needed in order to achieve the objectives of business activity in an orderly and quick manner. Planning, Organising, Coordinating and Controlling are the basic functions of management. Management is needed as these functions are performed through the management process. Management is needed for effective communication within and outside the Organisation. Management is needed for motivating employees and also for coordinating their efforts so as to achieve business objectives quickly.

Efficient management is needed for success, stability and prosperity of a business enterprise. Modem business is highly competitive and needs efficient and capable management for survival and growth.

Management is needed as it occupies a unique position in the smooth functioning of a business unit. This suggests the need of efficient management of business enterprises. Profitable/successful business may not be possible without efficient management. Survival of a business unit in the present competitive world is possible only through efficient and competent management.

Management as both Science and Art

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

Features of Management

- Management is Goal-Oriented
- Management integrates Human, Physical and Financial Resources
- Management is Continuous
- Management is all Pervasive
- Management is a Group Activity

Management Functions

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

Planning

It is the basic function of management. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

Organising

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

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

Staffing

The main purpose of staffing is to put right man on right job. According to Kootz & O’Donell, “Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed un the structure”. Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
- Recruitment, Selection & Placement.
- Training & Development.
- Remuneration.
- Performance Appraisal.
- Promotions & Transfer.

Directing

It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

Controlling

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to Koontz & O’Donell “Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished”. Therefore controlling has following steps:

a. Establishment of standard performance.

b. Measurement of actual performance.
c. Comparison of actual performance with the standards and finding out deviation if any.
d. Corrective action.

Levels of Management

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

1. Top level / Administrative level
2. Middle level / Executory
3. Low level / Supervisory / Operative / First-line managers

1. Top Level of Management
It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions.
The role of the top management can be summarized as follows -
a. Top management lays down the objectives and broad policies of the enterprise.
b. It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
c. It prepares strategic plans & policies for the enterprise.
d. It appoints the executive for middle level i.e. departmental managers.
e. It controls & coordinates the activities of all the departments.
f. It is also responsible for maintaining a contact with the outside world.
g. It provides guidance and direction.
h. The top management is also responsible towards the shareholders for the performance of the enterprise.

2. Middle Level of Management
The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department. They devote more time to organizational and directional functions. In small organization, there is only one layer of middle level of management but in big enterprises, there may be senior and junior middle level management. Their role can be emphasized as -
a. They execute the plans of the organization in accordance with the policies and directives of the top management.
b. They make plans for the sub-units of the organization.

c. They participate in employment & training of lower level management.
d. They interpret and explain policies from top level management to lower level.
e. They are responsible for coordinating the activities within the division or department.
f. It also sends important reports and other important data to top level management.
g. They evaluate performance of junior managers.
h. They are also responsible for inspiring lower level managers towards better performance.

3. Lower Level of Management

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

a. Assigning of jobs and tasks to various workers.
b. They guide and instruct workers for day to day activities.
c. They are responsible for the quality as well as quantity of production.
d. They are also entrusted with the responsibility of maintaining good relation in the organization.
e. They communicate workers problems, suggestions, and recommendatory appeals etc to the higher level and higher level goals and objectives to the workers.
f. They help to solve the grievances of the workers.
g. They supervise & guide the sub-ordinates.
h. They are responsible for providing training to the workers.
i. They arrange necessary materials, machines, tools etc for getting the things done.
j. They prepare periodical reports about the performance of the workers.
k. They ensure discipline in the enterprise.
l. They motivate workers.
m. They are the image builders of the enterprise because they are in direct contact with the workers.

ROLES OF MANAGER

Henry Mintzberg identified ten different roles, separated into three categories. The categories he defined are as follows

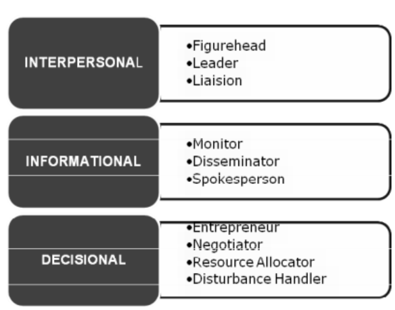
a) Interpersonal Roles

The ones that, like the name suggests, involve people and other ceremonial duties. It can be further classified as follows

- Leader – Responsible for staffing, training, and associated duties.
- Figurehead – The symbolic head of the organization.
- Liaison – Maintains the communication between all contacts and informers that compose the organizational network.

b) Informational Roles

Related to collecting, receiving, and disseminating information.



- Monitor – Personally seek and receive information, to be able to understand the organization.
- Disseminator – Transmits all import information received from outsiders to the members of the organization.
- Spokesperson – On the contrary to the above role, here the manager transmits the organization's plans, policies and actions to outsiders.

c) Decisional Roles

Roles that revolve around making choices.

- Entrepreneur – Seeks opportunities. Basically they search for change, respond to it, and exploit it.
- Negotiator – Represents the organization at major negotiations.
- Resource Allocator – Makes or approves all significant decisions related to the allocation of resources.
- Disturbance Handler – Responsible for corrective action when the organization faces disturbances.

Managerial Skills:

There are four skills of managers are expected to have ability of:

- **Technical skills:**

Technical skills that reflect both an understanding of and a proficiency in a specialized field. For example, a manager may have technical skills in accounting, finance, engineering, manufacturing, or computer science.

- **Human Skills:**

Human skills are skills associated with manager's ability to work well with others, both as a member of a group and as a leader who gets things done through other.

- **Concept Skills:**

Conceptual skills related to the ability to visualize the organization as a whole, discern interrelationships among organizational parts, and understand how the organization fits into the wider context of the industry, community, and world. Conceptual skills, coupled with technical skills, human skills and knowledge base, are important ingredients in organizational performance.

- **Design Skills:**

It is the ability to solve the problems in ways that will benefit the enterprise. Managers must be able to solve the problems.

The Skills vary at different levels:

Top management → Concept and design Skills.
Middle → Human Skills.
Supervisor's → Technical skills.

Skills of management at different levels.

Management and Administration

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

1. Functions
2. Usage / Applicability

On the Basis of Functions: -

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

On the Basis of Usage: -

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

Management theories

Management theories are the set of general rules that guide the managers to manage an organization. Management theories (also known as "Transactional theories") focus on the role of supervision, organization, and group performance. Theories are an explanation to assist employees to effectively relate to the business goals and implement effective means to achieve the same. Early management theories base leadership on a system of reward and punishment. Managerial theories are often used in business; when employees are successful, they are rewarded; when they fail, they are reprimanded or punished.

1.The Classical theory of management

a) Scientific Management
b) Bureaucratic Management
c) Administrative Management

2.Neo-Classical Theory

a) Behavioral Science Approach

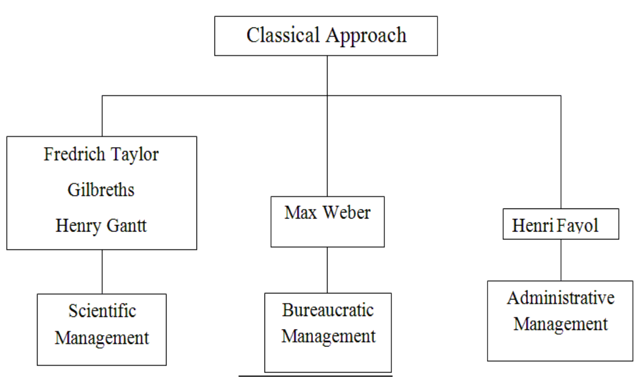
3.The Modern Management Theories

a) Quantitative Approach
b) System Approach
c) Contingency Approach

Difference between Classical and Neoclassical Theory

S.No.	Classical Theory	Neo-classical Theory
(i)	Structure of the organization is impersonal and mechanical.	Organization is a social system.
(ii)	Its main focus is on work and economic requirements of workers.	Its main focus is on small groups and on emotional and human qualities of employees.
(iii)	It emphasizes on order and rationality.	It emphasizes on personal, security, and social requirements of workers while obtaining objectives of the organization.
(iv)	Organizational behaviour is a product of rules and regulations.	Behaviour is a product of feelings, sentiments and attitudes.
(v)	Authoritarian practices, elaborate rules and regulations to achieve results.	Democratic practices. Involvement of employees in decision-making. Identifies the importance of human dignity and values.
(vi)	It results work alienation and dissatisfaction.	It results happy and satisfied employees trying to increase production.

The Classical theory of management



Contribution of F.W.Taylor to Management thought

- Considered as "The Father of Scientific Management".

- Wrote “The Principles of Scientific Management” in 1911.
- Raised from labourer to chief engineer within 6 years.
- Faced soldiering problem – practice of employees deliberately working at pace slower than their capabilities.

Scientific management propounded by Taylor emphasizes:

- Need for developing a scientific way of performing each job.
- Training & preparing workers to perform that particular job.
- Establishing harmonious relations between management & workers so that the job is performed in the desired way.

Two managerial practices from Taylor’s approach are:

- **Piece-Rate Incentive System** – maximum pieces produced incentives received accordingly.
- **Time-and-Motion study** – jobs are broken down into various small tasks or motions & unnecessary motions are removed to find out the best way of doing a job.

Contributions of Frank & Lillian Gilbreth

- Frank Gilbreth (1868-1924) is considered as the “Father of Motion Study”.
- Motion study involves finding out the best sequence & minimum number of motions needed to complete a task.
- Both were mainly involved in exploring new ways for eliminating unnecessary motions & reducing work fatigue.
- Gilbreths devised classification scheme to label 17 basic hand motions of workers such as “search, select, position & hold” called as “therbligs”.
- Frank Gilbreth is best known for his experiment in reducing the number of motions in bricklaying.
- By analyzing brick layers job, he reduced the number of motions in bricklaying from 18.5 to 4.
- Workers increased the number of bricks laid per day from 1000 to 2700 (per hr from 120 to 350 bricks).

Contributions of Henry Laurence Gantt

- He was a close associate of Taylor.
- Remembered for his work on the task-and-bonus system & the Gantt Chart.
- Under this, if worker completed the work fast in less than standard time, he received bonus.
- Introduced incentive plan for foremen, who would be paid bonus for every worker who reached daily standard & would receive extra bonus if all workers reached daily standard.
- Chart compares actual & planned performance.
- Indicates the production in terms of time rather than quantity.
- Horizontal axis – time, work scheduled & work completed.
- Vertical axis – individuals & machines assigned.

Limitations of Scientific Management

- Focuses problems at the operational level but not on the management of the organization from manager’s point of view.

- Taylor & his followers overlooked the social needs of workers & overemphasized their economic & physical needs.
- It ignored the human desire for job satisfaction.

Bureaucratic Management

Weber believed that bureaucracy was the most efficient way to set up and manage an organization, and absolutely necessary for larger companies to achieve maximum productivity with many employees and tasks. Overall, Weber's ideal bureaucracy favors efficiency, uniformity and a clear distribution of power. He argued that bureaucracy constitutes the most efficient and rational way in which human activity can be organized and that systematic processes and organized hierarchies are necessary to maintain order, to maximize efficiency, and to eliminate favoritism. Major characteristics of Weber's Ideal Bureaucracy

- Work specialization & division of labour
- Abstract rules & regulations
- Impersonality of managers
- Hierarchy of organization structure

Administrative Management

This theory focuses on principles that could be used by managers to coordinate the internal activities of organizations. Henry Fayol, also known as the 'father of modern management theory' gave a new perception of the concept of management. He introduced a general theory that can be applied to all levels of management and every department. The Fayol theory is practised by the managers to organize and regulate the internal activities of an organization. He concentrated on accomplishing managerial efficiency.

- Henri Fayol developed theory of management. According to him, the business operations of an organization could be divided into 6 activities.
- **Technical** – producing & manufacturing products.
- **Commercial** – buying, selling & exchange.
- **Financial** – search for & optimal use of capital.
- **Security** – protecting employees & property.
- **Accounting** – recording & taking stack of costs, profits & liabilities, maintaining balance sheets & compiling statistics.
- **Managerial** – planning, organizing, commanding, coordinating & controlling.

Fourteen Principles of Management By Henri Fayol

1. Division of Work-

Henri believed that segregating work in the workforce amongst the worker will enhance the quality of the product. Similarly, he also concluded that the division of work improves the productivity, efficiency, accuracy and speed of the workers. This principle is appropriate for both the managerial as well as a technical work level.

2. Authority and Responsibility-

These are the two key aspects of management. Authority facilitates the management to work efficiently, and responsibility makes them responsible for the work done under their guidance or leadership.

3. Discipline-

Without discipline, nothing can be accomplished. It is the core value for any project or any management. Good performance and sensible interrelation make the management job easy and comprehensive. Employees good behaviour also helps them smoothly build and progress in their professional careers.

4. Unity of Command-

This means an employee should have only one boss and follow his command. If an employee has to follow more than one boss, there begins a conflict of interest and can create confusion.

5. Unity of Direction-

Whoever is engaged in the same activity should have a unified goal. This means all the person working in a company should have one goal and motive which will make the work easier and achieve the set goal easily.

6. Subordination of Individual Interest-

This indicates a company should work unitedly towards the interest of a company rather than personal interest. Be subordinate to the purposes of an organization. This refers to the whole chain of command in a company.

7. Remuneration-

This plays an important role in motivating the workers of a company. Remuneration can be monetary or non-monetary. However, it should be according to an individual's efforts they have made.

8. Centralization-

In any company, the management or any authority responsible for the decision-making process should be neutral. However, this depends on the size of an organization. Henri Fayol stressed on the point that there should be a balance between the hierarchy and division of power.

9. Scalar Chain-

Fayol on this principle highlights that the hierarchy steps should be from the top to the lowest. This is necessary so that every employee knows their immediate senior also they should be able to contact any, if needed.

10. Order-

A company should maintain a well-defined work order to have a favourable work culture. The positive atmosphere in the workplace will boost more positive productivity.

11. Equity-

All employees should be treated equally and respectfully. It's the responsibility of a manager that no employees face discrimination.

12. Stability-

An employee delivers the best if they feel secure in their job. It is the duty of the management to offer job security to their employees.

13. Initiative-

The management should support and encourage the employees to take initiatives in an organization. It will help them to increase their interest and make then worth.

14. Esprit de Corps-

It is the responsibility of the management to motivate their employees and be supportive of each other regularly. Developing trust and mutual understanding will lead to a positive outcome and work environment.

Limitations of Bureaucratic & Administrative Management

- Weber's theory destroyed individual creativity & flexibility to respond to complex changes in the global environment.
- Classical theory ignored important aspects of organizational behaviour.
- Does not deal with problems of leadership, motivation, power or informal relations.
- Failed to consider impact of external & internal environment upon employee behaviour in organizations.

Contribution of Neo-Classical Theory

Neoclassical theory has made significant contribution to an understanding of human behavior at work and in organization. It has generated awareness of the overwhelming role of human factor in industry. This approach has given new ideas and techniques for better understanding of human behavior.

The basic features of neoclassical approach are:

(i) The business organisation is a social system.

(ii) Human factor is the most important element in the social system.

(iii) It revealed the importance of social and psychological factors in determining worker productivity and satisfaction.

Contribution of Elton Mayo to the Development of Management Thought

Elton Mayo (1880-1949) is recommended as the Father of Human Relations School. He introduced human relations approach to management thought. His contribution to the development of management thought is unique and is also treated as human relations approach to management. It was Mayo who led the team for conducting the study at Western Electric's Hawthorne Plant (1927-1932) to evaluate the attributes and psychological reactions of workers in on-the-job situations. His associates included John Dewery, Kurt Lewin and others.

Mayo and his associates came to the following conclusions from their famous Hawthorne experiments:

1. The amount of work to be done by a worker is not determined by his physical capacity but by the social norms.
2. Non-economic rewards play a significant role in influencing the behavior of the workers.
3. Generally the workers de not reacts as individuals, but as members of group.
4. Informal leaders play an important part in setting and enforcing the group norms

Mayo's studies at the Western Electricity Company, Chicago is popularly known as Hawthorne Studies. It was a research programme of National Research Council of the National Academy of Science at the Hawthorne Plant of Western Electricity Company. In the early 20th century, it was realized that –

- There was a clear-cut cause and effect relationship between the physical work, environment, the well-being and productivity of the worker.
- Also, there was relationship between production and given condition of ventilation, temperature, lighting and other physical working conditions and wage incentives.

- It had been believed that – improper job design, fatigue and other conditions of work mainly block efficiency.

So to establish the relationship between man and the structure of formal organization, Hawthorne Studies conducted. The studies were conducted in the following four phases.

1. Illumination Experiment (1924-27)
2. Relay Assembly Test Room Experiment (1927)
3. Mass Interviewing Programme (1928-31)
4. Bank Wiring Experiment (1931-32)

ILLUMINATION EXPERIMENT (1924-27)

It was done to determine the effect of different levels of illumination on workers' productivity.

In this experiment, two group of female workers were located in separate rooms, each group performing the same task. The rooms were equally illuminated with stabilized room temperature, humidity, etc. Slowly the conditions of work were changed to mark change in production. After a period of one-and-a half year, it was concluded that – illumination doesn't affect productivity of workers.

RELAY ASSEMBLY TEST ROOM EXPERIMENT (1927)

This experiment was conducted to observe the effects of various changes in working conditions on the workers' output and morale.

MASS INTERVIEWING PROGRAMME (1928-31)

It was launched to explore the employees' feelings (i.e., human attitudes and sentiments) by the worker's social group (informal organization). The workers were asked to express freely and frankly their likes and dislike on the programmes and policies of the management, working conditions, and behaviour of their boss with workers, etc. After a few days there was a change in the attitude of the workers, however no reforms were introduced. That change was seen because of the following reasons:-

- The workers thought that the working conditions were changed because of their complaints.
- They also felt that the wages were better although the wage scale remained at the same level.

After interviewing 21, 126 workers, and analysing their complaints, it was found that – there was no correlation between the nature of complaints and the facts.

It was concluded that – the experiment succeeded in identifying the following three aspects:-

1. Workers feel elated if they were allowed to express freely. They develop a feeling that the conditions in the environment were changed to the better although no such change took place.
2. Subordinates should be allowed to comment freely about their supervisor.
3. It is difficult to understand the real problems, personal feelings and sentiments of the workers derived from both an employee's personal history and his social situations at work, without appreciating their feelings and sentiments.

BANK WIRING EXPERIMENT (1931-32)

This experiment was done to observe and analyse the group behaviour, workers performing a task in a natural setting. For the experiment, a number of employees consisting of three groups of workmen whose work was inter-related were chosen. Their job was to solder, fix the terminals and finish the wiring. It was known as 'The Bank Wiring Experiment'.

Wages were paid on the basis of a group incentive plan and each member got his share on the basis of the total output of the group. It was found that workers had a fixed clear-cut standard of output, which was lower than management target, however they were capable of increasing their output.

It was also found that the group did not allow its members to increase or decrease the output. They were highly integrated with their social structure, and informal pressure was used to set right the erring members. The following code of conduct was maintained for group solidarity:

- One should not turn out too much work. If one does, he is a 'rat buster'.
- One should not turn out too little work. If one does, he is a 'chesler'.
- One should not tell a supervisor anything detrimental to an associate. If one does, he is a 'squealer'.
- One should not attempt to maintain social distance or act officious. If one is an inspector, for example, he should not act like one.

Conclusions:-

Mayo and the researchers concluded that:-

1. The behaviour of the team had nothing to do with management of general economic conditions of the plant.
2. The workers viewed interference of extra department personnel as disturbance.

- The workers considered supervisors as representative authority to discipline the workers.

1. The logic of efficiency did not go well with the logic of sentiments.
2. One should not miss the human aspects of organization while emphasising technical and economic aspects.
3. In addition to the technical skills, the management should handle human situations, motivate, lead and communicate with the workers.

- The concept of authority should be based on social skills in securing cooperation rather than expertise.

CONCLUSIONS FROM HAWTHORNE STUDIES BRIEFLY

1. The social and psychological factors at the workplace, not the physical conditions of the workplace determine the employees' morale and output.
2. The organization is a social system.
3. Non-economic rewards and sanctions significantly affect the workers' behaviour, morale and output.
4. Workers are not inert or isolated, unrelated individual; they are social animals.
5. Division of labour strictly on specialization is not necessarily the most efficient approach.
6. The workers have a tendency to form small groups (informal organizations). The production norms and behavioural patterns are set by such groups.

7. Leadership, style of supervision, communication and participation play a central role in workers' behaviour, satisfaction and productivity.

Thus, the findings of Hawthorne studies revolutionised the organizational thought, and gave rise to a new theory called Human Relations Theory.

CRITICISMS OF MAYO'S HUMAN RELATION THEORY

1. This theory lacks scientific base.
2. This theory is not based on actual behaviour of workers as they were influenced by their feelings of importance, attention and publicity they received in the research setting. Workers react positively and give their best when they know that they are being observed.
3. It is anti-union and pro-management. Mayo underestimated the role of Unions in a free society as well as never tried to integrate unions into his thinking.
4. This theory neglected the nature of work and instead focused on interpersonal relations.
5. It ignored the environmental factors of workers' attitudes and behaviour.
6. Evidence obtained from the experiments does not support any of the conclusions derived by Mayo and the researchers.
7. It lacks economic dimension.
8. It does not consider effects of 'conflicts' and 'tension' on the workers.
9. This theory give much attention to informal relations among workers and between workers and supervisors, but little to the formal relationships with informal ones.

Contributions of Mary Parker Follett

Mary Parker Follett, writer, social worker, political theorist and organizational consultant, has been called "the woman who invented management." Her early influence on modern management theory has, in fact, been so pervasive that management theorist Warren Bennis has been quoted as saying of her, "Just about everything written today about leadership and organizations comes from Mary Parker Follett's writings and lectures."

Follett never managed a for-profit enterprise herself, yet her keen insight into the dynamics of organizations and groups gave her theories widespread appeal. She advocated a "pull" rather than "push" approach to employee motivation, differentiated between "power over" and "power with," and postulated insightful ideas on negotiation, conflict resolution and power sharing which helped shape modern management theory. The Mary Parker Follett Theory of Management is marked by such principles as the following:

1. Conflict resolution through Integration (i.e., identifying and meeting each party's underlying and often compatible need, as opposed to attempting to meet the frequently-incompatible expressed desire of each) often results in a win-win situation.
2. In Mary Parker Follett leadership theory, genuine power is not "coercive" ("power over") but "coactive" ("power with").
3. True leaders, according to Follett's theory, "create group power, rather than expressing personal power."

Maslow's hierarchy of needs

Maslow's hierarchy of needs is a motivational theory in psychology comprising a five-tier model of human needs, often depicted as hierarchical levels within a pyramid. From the bottom of the hierarchy upwards, the needs are: physiological, safety, love, esteem, and self-actualization.

The original hierarchy of needs five-stage model includes:

Maslow (1943, 1954) stated that people are motivated to achieve certain needs and that some needs take precedence over others.

Our most basic need is for physical survival, and this will be the first thing that motivates our behavior. Once that level is fulfilled the next level up is what motivates us, and so on.

1. **Physiological needs** - these are biological requirements for human survival, e.g. air, food, drink, shelter, clothing, warmth, sex, sleep.

If these needs are not satisfied the human body cannot function optimally. Maslow considered physiological needs the most important as all the other needs become secondary until these needs are met.

2. **Safety needs** - Once an individual’s physiological needs are satisfied, the needs for security and safety become salient. People want to experience order, predictability and control in their lives. These needs can be fulfilled by the family and society (e.g. police, schools, business and medical care).

For example, emotional security, financial security (e.g. employment, social welfare), law and order, freedom from fear, social stability, property, health and wellbeing (e.g. safety against accidents and injury).

3. **Love and belongingness needs** - after physiological and safety needs have been fulfilled, the third level of human needs is social and involves feelings of belongingness. The need for interpersonal relationships motivates behavior

Examples include friendship, intimacy, trust, and acceptance, receiving and giving affection and love. Affiliating, being part of a group (family, friends, work).

4. **Esteem needs** are the fourth level in Maslow’s hierarchy - which Maslow classified into two categories: (i) esteem for oneself (dignity, achievement, mastery, independence) and (ii) the desire for reputation or respect from others (e.g., status, prestige).

Maslow indicated that the need for respect or reputation is most important for children and adolescents and precedes real self-esteem or dignity.

5. **Self-actualization needs** are the highest level in Maslow's hierarchy, and refer to the realization of a person's potential, self-fulfillment, seeking personal growth and peak experiences. Maslow (1943)

describes this level as the desire to accomplish everything that one can, to become the most that one can be.

McGregor Theory X and Theory Y

McGregor believed that managers' basic beliefs have a dominant influence on the way that organisations are run. Managers' assumptions about the behaviour of people are central to this. McGregor argued that these assumptions fall into two broad categories - Theory X and Theory Y. These findings were detailed in The Human Side of Enterprise, first published in 1960. Theory X and Theory Y describe two views of people at work and may be used to describe two opposing management styles.

Theory X: the traditional view of direction and control Theory X is based on the assumptions that:

1. The average human being has an inherent dislike of work and will avoid it if possible.
2. Because of this human dislike of work, most people must be coerced, controlled, directed, and threatened with punishment to get them to put forth adequate effort toward the achievement of organisational objectives.
3. The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and wants security above all.

A Theory X management style therefore requires close, firm supervision with clearly specified tasks and the threat of punishment or the promise of greater pay as motivating factors. A manager working under these assumptions will employ autocratic controls which can lead to mistrust and resentment from those they manage. McGregor acknowledges that the `carrot and stick' approach can have a place, but will not work when the needs of people are predominantly social and egoistic. Ultimately, the assumption that a manager's All rights reserved. No part of this publication may be reproduced in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher. objective is to persuade people to be docile, to do what they are told in exchange for reward or escape from punishment, is presented as flawed and in need of re-evaluation.

Theory Y: the integration of individual and organisational goals Theory Y is based on the assumptions that:

1. The expenditure of physical and mental effort in work is as natural as play or rest. The average human being does not inherently dislike work. Depending upon controllable conditions, work may be a source of satisfaction, or a source of punishment.
2. External control and the threat of punishment are not the only means for bringing about effort toward organisational objectives. People will exercise self-direction and self-control in the service of objectives to which they are committed.
3. Commitment to objectives is a function of the rewards associated with their achievement. The most significant of such rewards, e.g. the satisfaction of ego and self-actualisation needs, can be direct products of effort directed towards organisational objectives.
4. The average human being learns, under proper conditions, not only to accept but to seek responsibility. Avoidance of responsibility, lack of ambition, and emphasis on security are generally consequences of experience, not inherent human characteristics.
5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population.

6. Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilised. Theory Y assumptions can lead to more cooperative relationships between managers and workers. A Theory Y management style seeks to establish a working environment in which the personal needs and objectives of individuals can relate to, and harmonise with, the objectives of the organisation.

In The Human Side of Enterprise McGregor recognised that Theory Y was not a panacea for all ills. By highlighting Theory Y, he hoped instead to persuade managers to abandon the limiting assumptions of Theory X and consider using the techniques suggested by Theory Y.

Modern Management Theory: Quantitative, System and Contingency Approaches to Management

The Modern Period (1960 to present). After, 1960 management thought has been turning somewhat away from the extreme human relations ideas particularly regarding the direct relation between morale and productivity. Present management thinking wishes equal emphasis on man and machine.

The modern business ideologists have recognized the social responsibilities of business activities and thinking on similar lines. During the period, the principles of management reached a stage of refinement and perfection. The formation of big companies resulted in the separation of ownership and management.

This change in ownership pattern inevitably brought in 'salaried and professional managers' in place of 'owner managers'. The giving of control to the hired management resulted in the wider use of scientific methods of management. But at the same time the professional management has become socially responsible to various sections of society such as customers, shareholders, suppliers, employees, trade unions and other Government agencies.

Under modern management thought three streams of thinking have beers noticed since 1960:

(i) Quantitative or Mathematical Approach

(ii) Systems Approach.

(iii) Contingency Approach.

(I) Quantitative or Mathematical Approach or Management Science Approach:

Mathematics has made inroads into all disciplines. It has been universally recognised as an important tool of analysis and a language for precise expression of concept and relationship.

Evolving from the Decision Theory School, the Mathematical School gives a quantitative basis for decision-making and considers management as a system of mathematical models and processes. This school is also sometimes called, ' Operations Research" or "Management Science School'. The main feature of this school is the use of mixed teams of scientists from several disciplines. It uses scientific techniques for providing quantitative base for managerial decisions. The exponents of this school view management as a system of logical process.

It can be expressed in terms of mathematical symbols and relationships or models. Different mathematical and quantitative techniques or tools, such as linear programming, simulation and queuing, are being increasingly used in almost all the areas of management for studying a wide range of problems.

The exponents of this school believe that all the phases of management can be expressed in quantitative terms for analysis. However, it is to be noted that mathematical models do help in the systematic analysis of problems, but models are no substitute for sound judgement.

Moreover, mathematics quantitative techniques provide tools for analysis but they cannot be treated an independent system of management thought. A lot of mathematics is used in the field of physical sciences and engineering but mathematics has never been considered as separate school even in these fields.

The contributions of mathematicians in the field of management are significant. This has contributed impressively in developing orderly thinking amongst managers. It has given exactness to the management discipline. Its contributions and usefulness could hardly be over-emphasized. However, it can only be treated as a tool in managerial practice.

Limitations:

There is no doubt that this approach helps in defining and solving complex problems resulting in orderly thinking. But the critics of this approach regard it as too narrow since it is concerned merely with the development of mathematical models and solutions for certain managerial problems.

This approach suffers from the following drawbacks:

(i) This approach does not give any weight age to human element which plays a dominant role in all organisations.

(ii) In actual life executives have to take decisions quickly without waiting for full information to develop models.

(iii) The various mathematical tools help in decision making. But decision making is one part of managerial activities. Management has many other functions than decision-making.

(iv) This approach supposes that all variables to decision-making are measurable and inter-dependent. This assumption is not realistic.

(v) Sometimes, the information available in the business for developing mathematical models are not upto date and may lead to wrong decision-making.

Harold Knootz. Also observes that “it is too hard to see mathematics as a separate approach to management theory. Mathematics is a tool rather than a school.”

(ii) Systems Approach:

In the 1960, an approach to management appeared which tried to unify the prior schools of thought. This approach is commonly known as ‘Systems Approach’. Its early contributors include Ludwing Von Bertalanffy, Lawrence J. Henderson, W.G. Scott, Deniel Katz, Robert L. Kahn, W. Buckley and J.D. Thompson.

They viewed organization as an organic and open system, which is composed of interacting and interdependent parts, called subsystems. The system approach is to look upon management as a system or as “an organised whole” made up of subsystems integrated into a unity or orderly totality.

System approach is based on the generalization that everything is inter-related and inter-dependent. A system is composed of related and dependent element which, when in interaction, forms a unitary whole. A system is simply an assemblage or combination of things or parts forming a complex whole.

One of its most important characteristic is that it is composed of hierarchy of sub-systems. That is the parts forming the major systems and so on. For example, the world can be considered to be a system in which various national economies are sub-systems.

In turn, each national economy is composed of its various industries, each industry is composed of firms; and of course, a firm can be considered a system composed of sub-systems such as production, marketing, finance, accounting and so on.

The basic features of systems approach are as under:

(i) A system consists of interacting elements. It is set of inter related and interdependent parts arranged in a manner that produces a unified whole.

(ii) The various sub-systems should be studied in their inter- relationships rather, than in isolation from each other.

(iii) An organisational system has a boundary that determines which parts are internal and which are external.

(iv) A system does not exist in a vaccum. It receives information, material and energy from other systems as inputs. These inputs undergo a transformation process within the system and leave the system as output to other systems.

(v) An organisation is a dynamic system as it is responsive to its environment. It is vulnerable to change in its environment.

In the systems approach, attention is paid towards the overall effectiveness of the system rather than the effectiveness of the sub-systems. The interdependence of the sub-systems is taken into account. The idea of systems can be applied at an organizational level. In applying system concepts, organizations are taken into account and not only the objectives and performances of different departments (sub-systems).

The systems approach is considered both general and specialized systems. The general systems approach to management is mainly concerned with formal organizations and the concepts are relating to technique of sociology, psychology and philosophy. The specific management system includes the analysis of organisational structure, information, planning and control mechanism and job design, etc.

As discussed earlier, system approach has immense possibilities, "A system view point may provide the impetus to unify management theory. By definitions, it could treat the various approaches such as the process of quantitative and behavioural ones as sub-systems in an overall theory of management. Thus, the systems approach may succeed where the process approach has failed to lead management out of the theory of jungle. "

Systems theory is useful to management because it aims at achieving the objectives and it views organization as an open system. Chester Barnard was the first person to utilise the systems approach in the field of management.

He feels that the executive must steer through by keeping a balance between conflicting forces and events. A high order of responsible leadership makes the executives effective. H. Simon viewed organization as a complex system of decision making process.

Evaluation of System Approach:

The systems approach assists in studying the functions of complex organisations and has been utilised as the base for the new kinds of organisations like project management organisation. It is possible to bring out the inter-relations in various functions like planning, organising, directing and controlling. This approach has an edge over the other approaches because it is very close to reality. This approach is called abstract and vague. It cannot be easily applied to large and complex organisations. Moreover, it does not provide any tool and technique for managers.

(iii) Contingency or Situational Approach:

The contingency approach is the latest approach to the existing management approaches. During the 1970's, contingency theory was developed by J.W. Lorsch and P.R. Lawrence, who were critical of other approaches presupposing one best way to manage. Management problems are different under different situations and require to be tackled as per the demand of the situation.

One best way of doing may be useful for repetitive things but not for managerial problems. The contingency theory aims at integrating theory with practice in systems framework. The behaviour of an organisation is said to be contingent on forces of environment. "Hence, a contingency approach is an approach, where behaviour of one sub-unit is dependent on its environment and relationship to other units or sub-units that have some control over the sequences desired by that sub- unit."

Thus behaviour within an organisation is contingent on environment, and if a manager wants to change the behaviour of any part of the organization, he must try to change the situation influencing it. Tosi and Hammer tell that organization system is not a matter of managerial choice, but contingent upon its external environment.

Contingency approach is an improvement over the systems approach. The interactions between the sub-systems of an organisation have long been recognised by the systems approach. Contingency approach also recognises that organisational system is the product of the interaction of the sub systems and the environment. Besides, it seeks to identify exact nature of inter-actions and inter-relationships.

This approach calls for an identification of the internal and external variables that critically influence managerial revolution and organisational performance. According to this, internal and external environment of the organisation is made up of the organisational sub-systems. Thus, the contingency approach provides a pragmatic method of analysing organisational sub-systems and tries to integrate these with the environment.

Contingency views are ultimately directed towards suggesting organisational designs situations. Therefore, this approach is also called situational approach. This approach helps us to evolve practical answers to the problems remanding solutions.

Kast and Rosenzweig give a broader view of the contingency approach. They say, "The contingency view seeks to understand the inter-relationships within and among sub-systems as well as between the organization and its environment and to define patterns of relationships or configurations of variables contingency views are ultimately directed toward suggesting organization designs and managerial actions most appropriate for specific situations.

Features of Contingency Approach:

Firstly, the contingency approach does not accept the universality of management theory. It stresses that there is no one best way of doing things. Management is situation, and managers should explain objectives, design organisations and prepare strategies, policies and plans according to prevailing circumstances. Secondly, managerial policies and practices to be effective, must adjust to changes in environment.

Thirdly, it should improve diagnostic skills so as to anticipate and ready for environmental changes. Fourthly, managers should have sufficient human relations skill to accommodate and stabilise change.

Finally, it should apply the contingency model in designing the organization, developing its information and communication system, following proper leadership styles and preparing suitable objectives, policies, strategies, programmes and practices. Thus, contingency approach looks to hold a great deal of promise for the future development of management theory and practice.

Evaluation:

This approach takes a realistic view in management and organisation. It discards the universal validity of principles. Executives are advised to be situation oriented and not stereo-typed. So executives become innovative and creative.

On the other hands, this approach does not have theoretical base. An executive is expected to know all the alternative courses of action before taking action in a situation which is not always feasible.

Unit II

PLANNING

Planning is the fundamental management function, which involves deciding beforehand, what is to be done, when is it to be done, how it is to be done and who is going to do it. It is an intellectual process which lays down an organisation's objectives and develops various courses of action, by which the organisation can achieve those objectives. It chalks out exactly, how to attain a specific goal.

Planning is nothing but thinking before the action takes place. It helps us to take a peep into the future and decide in advance the way to deal with the situations, which we are going to encounter in future. It involves logical thinking and rational decision making.

According to Koontz and O'Donnel, "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are to where we want to go."

Planning is the continuous managerial process of anticipating and forecasting the future. environment of the business organization, the formulation of the long term and short term goals. to be achieved and selecting the strategies for their realization.

Planning is also a management process, concerned with defining goals for a company's future direction and determining the missions and resources to achieve those targets. To meet objectives, managers may develop plans, such as a business plan or a marketing plan.

The planning process provides the information top management needs to make effective decisions about how to allocate the resources in a way that will enable the organization to reach its objectives. Productivity is maximized and resources are not wasted on projects with little chance of success.

Importance of Planning

- It helps managers to improve future performance, by establishing objectives and selecting a course of action, for the benefit of the organisation.
- It minimises risk and uncertainty, by looking ahead into the future.
- It facilitates the coordination of activities. Thus, reduces overlapping among activities and eliminates unproductive work.
- It states in advance, what should be done in future, so it provides direction for action.
- It uncovers and identifies future opportunities and threats.
- It sets out standards for controlling. It compares actual performance with the standard performance and efforts are made to correct the same.

Planning is present in all types of organisations, households, sectors, economies, etc. We need to plan because the future is highly uncertain and no one can predict the future with 100% accuracy, as the conditions can change anytime. Hence, planning is the basic requirement of any organization for the survival, growth and success.

Characteristics of Planning

1. **Managerial function**: Planning is a first and foremost managerial function provides the base for other functions of the management, i.e. organising, staffing, directing and controlling, as they are performed within the periphery of the plans made.

1.

2. **Goal oriented**: It focuses on defining the goals of the organisation, identifying alternative courses of action and deciding the appropriate action plan, which is to be undertaken for reaching the goals.
3. **Pervasive**: It is pervasive in the sense that it is present in all the segments and is required at all the levels of the organisation. Although the scope of planning varies at different levels and departments.
4. **Continuous Process**: Plans are made for a specific term, say for a month, quarter, year and so on. Once that period is over, new plans are drawn, considering the organisation's present and future requirements and conditions. Therefore, it is an ongoing process, as the plans are framed, executed and followed by another plan.
5. **Intellectual Process**: It is a mental exercise at it involves the application of mind, to think, forecast, imagine intelligently and innovate etc.
6. **Futuristic**: In the process of planning we take a sneak peek of the future. It encompasses looking into the future, to analyse and predict it so that the organisation can face future challenges effectively.
7. **Decision making**: Decisions are made regarding the choice of alternative courses of action that can be undertaken to reach the goal. The alternative chosen should be best among all, with the least number of the negative and highest number of positive outcomes.

Planning is concerned with setting objectives, targets, and formulating plan to accomplish them. The activity helps managers analyse the present condition to identify the ways of attaining the desired position in future. It is both, the need of the organisation and the responsibility of managers.

Steps involved in Planning

By planning process, an organisation not only gets the insights of the future, but it also helps the organisation to shape its future. Effective planning involves simplicity of the plan, i.e. the plan should be clearly stated and easy to understand because if the plan is too much complicated it will create chaos among the members of the organisation. Further, the plan should fulfill all the requirements of the organisation.

Limitations of Planning

(i) Planning leads to rigidity
(ii) Planning may not work in a dynamic environment
(iii) Planning reduces creativity
(iv) Planning involves huge costs
(v) Planning is a time-consuming process
(vi) Planning does not guarantee success

Types of Plans

Single-use and standing plans

An organisation has to prepare a plan before making any decision related to business operation, or undertaking any project. Plans can be classified into several types depending on the use and the length of the planning period. Certain plans have a short term horizon and help to achieve operational goals. These plans can be classified into single-use plans and standing plans.

Single-use Plan:

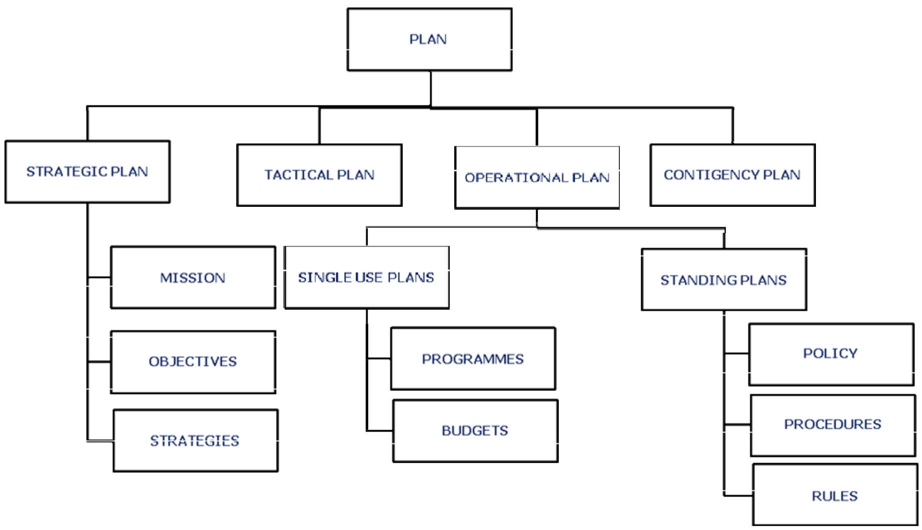
A single-use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in future, i.e., they are for non-recurring situations. The duration of this plan may depend upon the type of the project. It may span a week or a month. A project may sometimes be of only one day, such as, organising an event or a seminar or conference. These plans include budgets, programmes and projects. They consist of details, including the names of employees who are responsible for doing the work and contributing to the single-use plan. For example, a programme may consist of identifying steps, procedures required for opening a new department to deal with other minor work. Projects are similar to programmes but differ in scope and complexity. A budget is a statement of expenses, revenue and income for a specified period.

Standing Plan:

A standing plan is used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organisation run smoothly. Such a plan greatly enhances efficiency in routine decision-making. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include policies, procedures, methods and rules.

Policies are general forms of standing plans that specifies the organisations response to a certain situation like the admission policy of an educational institution. Procedures describe steps to be followed in particular circumstances like the procedure for reporting progress in production. Methods provide the manner in which a task has to be performed. Rules are very clearly stated as to exactly what has to be done like reporting for work at a particular time. Single-use and standing plans are part of the operational planning process.

There are other types of plans which usually are not classified as single use or standing plans. A strategy, for example, is part of strategic planning or management. It is a general plan prepared by top management outlining resource allocation, priorities and takes into consideration the business environment and competition. Objectives are usually set by the top management and serve as a guide for overall planning. Each unit then formulates their own objectives keeping in view the overall organisational goals. Based on what the plans seek to achieve, plans can be classified as Objectives, Strategy, Policy, Procedure, Method, Rule, Programme, Budget.



Objectives

The first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organisation and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve, i.e., the end result of activities.

Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieved within a given time period.

Strategy

A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run. Thus, we can say a strategy is a comprehensive plan for accomplishing an organisation objectives. This comprehensive plan will include three dimensions, (i) determining long term objectives, (ii) adopting a particular course of action, and (iii) allocating resources necessary to achieve the objective.

Whenever a strategy is formulated, the business environment needs to be taken into consideration. The changes in the economic, political, social, legal and technological environment will affect an organisation's strategy. Strategies usually take the course of forming the organisation's identity in the business environment. Major strategic decisions will include decisions like whether the organisation will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market.

Policy

Policies are general statements that guide thinking or channelise energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. There are policies for all levels and departments in the organisation ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor polices are applicable to insiders and contain minute details of information vital to the employees of an organisation.

Procedure

Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are specified in a chronological order. Procedures are specified steps to be followed in particular circumstances. They are generally meant for insiders to follow. The sequence of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.

Method

Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The method may vary from task to task. Selection of proper method saves time, money and effort and increases efficiency.

Rule

Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.

Programme

Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan.

Budget

A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. Since budget represents all items in numbers, it becomes easier to compare actual figures with expected figures and take corrective action subsequently. Thus, a budget is also a control device from which deviations can be taken care of. But making a budget involves forecasting, therefore, it clearly comes under planning. It is a fundamental planning instrument in many organisations.

DECISION MAKING

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions. Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives.

Decision-making is perhaps the most important component of a manager's activities. It plays the most important role in the planning process. When the managers plan, they decide on many matters as what goals their organisation will pursue, what resources they will use, and who will perform each required task.
According to Andrew Smilagyi, “Decision making is a process involving information, choice of alternative actions, implementations, and evaluation that is directed to the achievement of certain stated goals.”

Decision making is described as the essence of a manager's job because it is utilized in all four managerial functions of planning, organizing, leading and controlling. Decisions, both large and small, are made every day by managers and they have the potential to affect others.

Characteristics of Decision Making

The following are the characteristics of decision making:

- Decision making is a selection process.
- Decision making is the end process. It is preceded by detailed discussion and selection of alternatives.
- Decision making is the application of intellectual abilities to a great extent.
- Decision making is a dynamic process.
- Decision making is situational.
- A decision may be either negative or positive.
- Decision making involves the evaluation of available alternatives through critical appraisal methods.
- Decision is taken to achieve the objectives of an organisation.

Type of Decisions

Decisions taken by organization may be classified under various categories depending upon the scope, importance and the impact that they create in the organization. The following are the different types of decisions:

a. Programmed and Non-programmed Decisions

Programmed decisions are normally repetitive in nature. They are the easiest to make. For example: making purchase orders, sanctioning of different types of leave, increments in salary, settlement of normal disputes, etc. Managers in dealing with such issues of routine nature usually follow the established procedures. On the other hand, nonprogrammed decisions are different in that they are non-routine in nature. They are related to some exceptional situations for which there are no established methods of handling such things. For example: Issues related to handling a serious industrial relations problem, declining market share, increasing competition, problems with the collaborator, growing public hostility towards the organization fall in this category.

b. Operational and Strategic Decisions

Operational or tactical decisions relate to the present. The primary purpose is to achieve high degree of efficiency in the company‘s ongoing operations. Better working conditions, effective supervision, prudent use of existing resources, better maintenance of the equipment, etc., fall in this category. One the other hand, expanding the scale of operations, entering new markets, changing the product mix, shifting the manufacturing facility from one place to the other, striking alliances with other companies, etc., are strategic in nature. Such decisions will have far reaching impact on the organization.

c. Organizational and Personal Decisions

Decisions taken by managers in the ordinary course of business in their capacity as managers relating to the organizational issues are organizational decisions. For example: decisions regarding introducing a new incentive system, transferring an employee, reallocation or redeployment of employees etc. are taken by managers to achieve certain objectives. As against such decisions, managers do take some decisions which are purely personal in nature. However, their impact may not exactly confine to their selves and they may affect the organization also. For example: the manager‘s decision to quit the organization, though personal in nature, may impact for the organization.

d. Individual and Group Decisions

It is quite common that some decisions are taken by a manager individually while some decisions are taken collectively by a group of managers. Individual decisions are taken where the problem is of routine nature, whereas important and strategic decisions which have a bearing on many aspects of the organization are generally taken by a group. Group decision making is preferred these days because it contributes for better coordination among the people concerned with the implementation of the decision

The decision-making process in 7 steps

The decision-making process is spreads out in three stages: identifying phase (opportunities, problem, and crises are recognized and relevant information is collected and problems are more clearly identified), development phase (alternative solutions to problems are generated and modified) and selection phase (alternative solutions to problems are generated and modified) and seven steps. The seven steps followed by the author (Litherland, N., 2013) are: defining the problem, identifying and limiting the factors, development of potential solutions, analysis of the alternatives, selecting the best alternative, implementing the decision and establishing a control and evaluation system.

I. **Identify the problem**

The first step in the decision-making process is identifying the problem. To make a decision, you must first identify the problem you need to solve. The manager should consider critical or strategic factors in defining the problem. These factors are, in fact, obstacles in the way of finding proper solution. These are also known as limiting factors. This process must, as a minimum, identify root causes, limiting assumptions, system and organizational boundaries and interfaces. First of all, managers must identify the problem. The problem has to be found and defined. Symptoms are identified and problems should be judged, symptoms are not problems. They are warning signs of problems. So, managers should search for symptoms for identification of problems. The first step needed in taking a decision is to have detected a difference between the current situation and the desired situation. This discrepancy, or problem, exerts pressure on the managing director, forcing him/her to take action, whether it is in such fields as company policy, deadlines, financial recession, or concerning future job evaluations, among other possibilities.

II. **Collect relevant information**

Once you have identified your decision, it‘s time to gather the information relevant to that choice. After defining and analyzing the problem, the next step is to develop alternative solutions. The main aim of developing alternative solutions is to have the best possible decision out of the available alternative courses of action. In developing alternative solutions the manager comes across creative or original solutions to the problems.

III. **Identify the alternatives**

With relevant information now at your fingertips, identify possible solutions to your problem. There is usually more than one option to consider when trying meeting a goal—for example, if your company is trying to gain more engagement on social media, your alternatives could include paid social advertisements, a change in your organic social media strategy, or a combination of the two.

IV. **Developing alternative solutions**

After defining and analyzing the problem, the next step is to develop alternative solutions. The main aim of developing alternative solutions is to have the best possible decision out of the available alternative courses of action. In developing alternative solutions the manager comes across creative or original solutions to the problems. In modern times, the techniques of operations research and computer applications are immensely helpful in the development of alternative courses of action. Once you have identified multiple alternatives, weigh the evidence for or against said alternatives. See what companies have done in the past to succeed in these areas, and take a good hard look at your own organization's wins and losses. Identify potential pitfalls for each of your alternatives, and weigh those against the possible rewards.

V. **Implementation of the decision**

To gathered all relevant information, and developed and considered the potential paths to take. You are perfectly prepared to choose. After you've ranked your options, you must choose the one that you think has the strongest chance of achieving your goal. In some instances, you can combine several options, but in most cases, there will be a clear-cut direction you want to take.

VI. **Take action**

Once you've made your decision, act on it! Develop a plan to make your decision tangible and achievable. Use Lucidchart diagrams to plan the projects related to your decision, and then set the team loose on their tasks once the plan is in place.

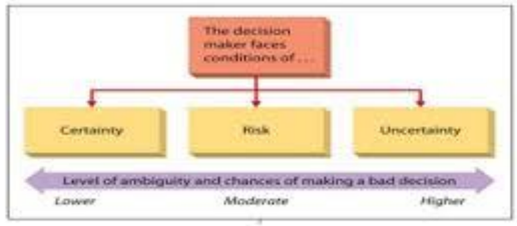
VII. **Review decision**

Last and important step in the decision making process is evaluating your decision for effectiveness. Follow- up enables to identify the shortcoming or negatives consequences of the decision. It provides valuable feed- back on which the decision may be reviewed or reconsidered.

Decision Making under various conditions

Generally, the decision maker makes decision under the condition of certainty, risk and uncertainty. There are three conditions that managers may face as they make decisions. They are (1) Certainty, (2) Risk, and (3) Uncertainty. These conditions determine the probability of an error in decision making.

Decision-Making Conditions



All managers make decisions under each condition, but risk and uncertainty are common to the more complex and unstructured problems faced by top managers. Decisions are made under the condition of certainty when the manager has perfect knowledge of all the information needed to make a decision. This condition is ideal for problem solving. The challenge is simply to study the alternatives and choose the best solution.

When problems tend to arise on a regular basis, a manager may address them through standard or prepared responses called programmed decisions. These solutions are already available from past experiences and are appropriate for the problem at hand. A good example is the decision to reorder inventory automatically when stock falls below a determined level. Today, an increasing number of programmed decisions are being assisted or handled by computers using decision-support software.

Structured problems are familiar, straightforward, and clear with respect to the information needed to resolve them. A manager can often anticipate these problems and plan to prevent or solve them. For example, personnel problems are common in regard to pay raises, promotions, vacation requests, and committee assignments, as examples. Proactive managers can plan processes for handling these complaints effectively before they even occur.

Risk

In a risk environment, the manager lacks complete information. This condition is more difficult. A manager may understand the problem and the alternatives, but has no guarantee how each solution will work. Risk is a fairly common decision condition for managers.

When new and unfamiliar problems arise, nonprogrammed decisions are specifically tailored to the situations at hand. The information requirements for defining and resolving nonroutine problems are typically high. Although computer support may assist in information processing, the decision will most likely involve human judgment. Most problems faced by higher-level managers demand nonprogrammed decisions. This fact explains why the demands on a manager's conceptual skills increase as he or she moves into higher levels of managerial responsibility.

A **crisis problem** is an unexpected problem that can lead to disaster if it's not resolved quickly and appropriately. No organization can avoid crises, and the public is well aware of the immensity of corporate crises in the modern world. The Chernobyl nuclear plant explosion in the former Soviet Union and the *Exxon Valdez* spill of years past are a couple of sensational examples. Managers in more progressive organizations now anticipate that crises, unfortunately, will occur. These managers are installing early-warning crisis information systems and developing crisis management plans to deal with these situations in the best possible ways.

Uncertainty

When information is so poor that managers can't even assign probabilities to the likely outcomes of alternatives, the manager is making a decision in an uncertain environment. This condition is the most difficult for a manager. Decision making under conditions of uncertainty is like being a pioneer entering unexplored territory. Uncertainty forces managers to rely heavily on creativity in solving problems: It requires unique and often totally innovative alternatives to existing processes. Groups are frequently used for problem solving in such situations. In all cases, the responses to uncertainty depend greatly on intuition, educated guesses, and hunches — all of which leave considerable room for error.

These unstructured problems involve ambiguities and information deficiencies and often occur as new or unexpected situations. These problems are most often unanticipated and are addressed reactively as they occur. Unstructured problems require novel solutions. Proactive managers are sometimes able to get a jump on unstructured problems by realizing that a situation is susceptible to problems and then making contingency plans. For example, at the Vanguard Group, executives are tireless in their preparations for a variety of events that could disrupt their mutual fund business. Their biggest fear is an investor panic that overloads their customer service system during a major plunge in the bond or stock markets. In anticipation of this occurrence, the firm has trained accountants, lawyers, and fund managers to staff the telephones if needed.

Modern Approaches to Decision-making under Uncertainty:

There are several modern techniques to improve the quality of decision-making under conditions of uncertainty.

The most important among these are:

(1) Risk analysis,

(2) Decision trees and

(3) preference theory.

Risk Analysis:

Managers who follow this approach analyze the size and nature of the risk involved in choosing a particular course of action.

For instance, while launching a new product, a manager has to carefully analyze each of the following variables the cost of launching the product, its production cost, the capital investment required, the price that can be set for the product, the potential market size and what percent of the total market it will represent.

Risk analysis involves quantitative and qualitative risk assessment, risk management and risk communication and provides managers with a better understanding of the risk and the benefits associated with a proposed course of action. The decision represents a trade-off between the risks and the benefits associated with a particular course of action under conditions of uncertainty.

Decision Trees:

These are considered to be one of the best ways to analyze a decision. A decision-tree approach involves a graphic representation of alternative courses of action and the possible outcomes and risks associated with each action.

By means of a **“tree”** diagram depicting the decision points, chance events and probabilities involved in various courses of action, this technique of decision-making allows the decision-maker to trace the optimum path or course of action.

Preference or Utility Theory:

This is another approach to decision-making under conditions of uncertainty. This approach is based on the notion that individual attitudes towards risk vary. Some individuals are willing to take only smaller risks (“risk averters”), while others are willing to take greater risks (“gamblers”). Statistical probabilities associated with the various courses of action are based on the assumption that decision-makers will follow them.

For instance, if there were a 60 percent chance of a decision being right, it might seem reasonable that a person would take the risk. This may not be necessarily true as the individual might not wish to take the risk, since the chances of the decision being wrong are 40 percent. The attitudes towards risk vary with events, with people and positions.

Top-level managers usually take the largest amount of risk. However, the same managers who make a decision that risks millions of rupees of the company in a given program with a 75 percent chance of success are not likely to do the same with their own money.

Moreover, a manager willing to take a 75 percent risk in one situation may not be willing to do so in another. Similarly, a top executive might launch an advertising campaign having a 70 percent chance of success but might decide against investing in plant and machinery unless it involves a higher probability of success.

Though personal attitudes towards risk vary, two things are certain.

Firstly, attitudes towards risk vary with situations, i.e. some people are risk averters in some situations and gamblers in others.

Secondly, some people have a high aversion to risk, while others have a low aversion.

Most managers prefer to be risk averters to a certain extent, and may thus also forego opportunities. When the stakes are high, most managers tend to be risk averters; when the stakes are small, they tend to be gamblers.

Group Decision Making

Group decision making is a type of participatory process in which multiple individuals acting collectively, analyze problems or situations, consider and evaluate alternative courses of action, and select from among the alternatives a solution or solutions. Several factors are associated in group decision making with increased conformity, including larger group size, unanimity, high group cohesion, and perceived higher status of the group. Other factors associated with conformity are culture, gender, age, and importance of stimuli.

Group decision making provides two advantages over decisions made by individuals: synergy and sharing of information. Synergy is the idea that the whole is greater than the sum of its parts. When a group makes a decision collectively, its judgment can be keener than that of any of its members.

Techniques for Group Decision Making Process

Some of the techniques employed to make the group decision making process more effective and decision making more efficient in which creativity is encouraged, are as follows:

i. Brainstorming:

This technique involves a group of people, usually between five and ten, sitting around a table, generating ideas in the form of free association. The primary focus is on generation of ideas rather them on evaluation of ideas.

If a large number of ideas can be generated, then it is likely that there will be a unique and creative idea among them. All these ideas are written on the black board with a piece of chalk so that everybody can see every idea and try to improve upon such ideas.

Brainstorming technique is very effective when the problem is comparatively specific and can be simply defined. A complex problem can be broken up into parts and each part can be taken separately at a time.

ii. Nominal Group Technique (NGT):

Nominal group technique is similar to brainstorming except that the approach is more structured. Members form the group in name only and operate independently, generating ideas for solving the problem on their own, in silence and in writing. Members do not interact with each other so that strong personality domination is avoided. It encourages individual creativity.

The group coordinator either collects these written ideas or writes then on a large black board for everyone to see or he asks each member to speak out and then he writes it on the black board as he receives it.

These ideas are then discussed one by one in turn and each participant is encouraged to comment on these ideas for the purpose of clarification and improvement. After all ideas are discussed, they are evaluated for their merits and drawbacks and each participating member is required to vote on each idea and assign it a rank on the basis of priority of each alternative solution. The idea with the highest aggregate ranking is selected as the final solution to the problem.

iii. Delphi Technique:

This technique is the modification of the nominal group technique, except that it involves obtaining the opinions of experts physically separated from each other and unknown to each other. This insulates group members from the undue influence of others. Generally, the types of problems handled by this technique are not specific in nature or related to a particular situation at a given time. For example, the technique could be used to understand the problems that could be created in the event of a war. The steps in the Delphi technique are:

1. The problem is identified and a sample of experts is selected. These experts are asked to provide potential solutions through a series of carefully designed questionnaires.
2. Each expert completes and returns the initial questionnaire.
3. The results of the questionnaire are compiled at a central location and the central coordinator prepares a second questionnaire based on the previous answers.
4. Each member receives a copy of the results along with the second questionnaire.
5. Members are asked to review the results and respond to the second questionnaire. The results typically trigger new solutions or cause changes in the original position.
6. The process is repeated until a consensus is reached.

The process is very time consuming and is primarily useful in illuminating broad range, long term complex issues such as future effects of energy shortages that might occur.

iv. Didactic interaction:

This technique is applicable only in certain situations, but is an excellent method when such a situation exists. The type of problem should be such that it results in a yes-no solution. For example, the decision may be to buy or not to buy, to merge or not to merge, to expand or not to expand and so on. Such a decision requires an extensive and exhaustive discussion and investigation since a wrong decision can have serious consequences.

Since, in such a situation, there must be advantages as well as disadvantages of either of the two alternatives, the group required to make the decision is split into two sub-groups, one favouring the "go" decision and the other favouring the "no go" decision.

The first group lists all the "pros" of the problem solution and the second group lists all the "cons". These groups meet and discuss their findings and their reasons. After the exhaustive discussions, the groups switch sides and try to find weaknesses in their own original viewpoints. This interchange of ideas and understanding of opposing viewpoints results in mutual acceptance of the facts as they exist so that a solution can be built around these facts and opinions relating to these facts and thus a final decision is reached.

Techniques of Decision-Making

1. Marginal Analysis:

This technique is used in decision-making to figure out how much extra output will result if one more variable (e.g. raw material, machine, and worker) is added. In his book, 'Economics', Paul Samuelson defines marginal analysis as the extra output that will result by adding one extra unit of any input variable, other factors being held constant. Marginal analysis is particularly useful for evaluating alternatives in the decision-making process.

2. Financial Analysis:

This decision-making tool is used to estimate the profitability of an investment, to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyze cash inflows and cash outflows.

Investment alternatives can be evaluated by discounting the cash inflows and cash outflows (discounting is the process of determining the present value of a future amount, assuming that the decision-maker has an opportunity to earn a certain return on his money).

3. Break-Even Analysis:

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined.

Using this technique, the decision-maker can determine the break-even point for the company as a whole, or for any of its products. At the break-even point, total revenue equals total cost and the profit is nil.

4. Ratio Analysis:

It is an accounting tool for interpreting accounting information. Ratios define the relationship between two variables. The basic financial ratios compare costs and revenue for a particular period. The purpose of conducting a ratio analysis is to interpret financial statements to determine the strengths and weaknesses of a firm, as well as its historical performance and current financial condition.

5. Operations Research Techniques:

One of the most significant sets of tools available for decision-makers is operations research. An operation research (OR) involves the practical application of quantitative methods in the process of decision-making. When using these techniques, the decision-maker makes use of scientific, logical or mathematical means to achieve realistic solutions to problems. Several OR techniques have been developed over the years.

6. Linear Programming:

Linear programming is a quantitative technique used in decision-making. It involves making an optimum allocation of scarce or limited resources of an organization to achieve a particular objective. The word 'linear' implies that the relationship among different variables is proportionate.

The term 'programming' implies developing a specific mathematical model to optimize outputs when the resources are scarce. In order to apply this technique, the situation must involve two or more activities competing for limited resources and all relationships in the situation must be linear.

Some of the areas of managerial decision-making where linear programming technique can be applied are:

i. Product mix decisions

ii. Determining the optimal scale of operations

iii. Inventory management problems

iv. Allocation of scarce resources under conditions of uncertain demand

v. Scheduling production facilities and maintenance.

7. Waiting-line Method:

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines (or queuing) occur whenever the demand for the service exceeds the service facilities.

Since a perfect balance between demand and supply cannot be achieved, either customers will have to wait for the service (excess demand) or there may be no customers for the organization to serve (excess supply).

When the queue is long and the customers have to wait for a long duration, they may get frustrated. This may cost the firm its customers. On the other hand, it may not be feasible for the firm to maintain facilities to provide quick service all the time since the cost of idle service facilities have to be borne by the company.

The firm, therefore, has to strike a balance between the two. The queuing technique helps to optimize customer service on the basis of quantitative criteria. However, it only provides vital information for decision-making and does not by itself solve the problem. Developing queuing models often requires advanced mathematical and statistical knowledge.

8. Game Theory:

This is a systematic and sophisticated technique that enables competitors to select rational strategies for attainment of goals. Game theory provides many useful insights into situations involving competition. This decision-making technique involves selecting the best strategy, taking into consideration one's own actions and those of one's competitors.

The primary aim of game theory is to develop rational criteria for selecting a strategy. It is based on the assumption that every player (a competitor) in the game (decision situation) is perfectly rational and seeks to win the game.

In other words, the theory assumes that the opponent will carefully consider what the decision-maker may do before he selects his own strategy. Minimizing the maximum loss (minimax) and maximizing the minimum gain (maximin) are the two concepts used in game theory.

9. Simulation:

This technique involves building a model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their inter-relationships are put into the model.

When the model is programmed through the computer, a set of outputs is obtained. Simulation techniques are useful in evaluating various alternatives and selecting the best one. Simulation can be used to develop price strategies, distribution strategies, determining resource allocation, logistics, etc.

10. Decision Tree:

This is an interesting technique used for analysis of a decision. A decision tree is a sophisticated mathematical tool that enables a decision-maker to consider various alternative courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action.

In this technique, the decision-maker traces the optimum path through the tree diagram. In the tree diagram the base, known as the 'decision point,' is represented by a square. Two or more chance events follow from the decision point. A chance event is represented by a circle and constitutes a branch of the decision tree. Every chance event produces two or more possible outcomes leading to subsequent decision points.

STRATEGY

Strategy can often be confused with tactics, goals and even actions. The Oxford Dictionary defines **strategy** as: "A plan of action designed to achieve a long-term or overall aim" "The art of planning and directing overall military operations and movements in a war or battle". **Strategies** are the broad action-oriented items that we implement to achieve the objectives.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

Strategy is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between "where we are" and "where we want to be".

The Three Levels of Strategy

The Three Levels of Strategy, developed by Gerry Johnson and Kevan Scholes along with other major managerial thinkers, are a way of defining the different layers of strategy which, in tandem, orient the direction of the organisation and define its success.

The Three Levels are:

1. **Corporate**
2. **Business**
3. **Functional**

When synchronised and coordinated, successful strategies at each of these levels will contribute to successful overall organisational strategy.

1. Corporate

This is the top layer of strategic planning, and is often associated with the organisation's **mission** and **values**, though it is developed in much more significant depth. Corporate strategy is defined by those at the very top of the organisation - managing directors and executive boards - and is an outline of the overall direction and course of the business. In effect, it defines:

- General, overall strategy and direction
- Which markets the organisation will operate in
- How the markets will be entered and the general activities of the organisation

Strategy is generally defined at key points in an organisation's lifetime. The most important time for this to occur is at the organisation's inception; however, it is often neglected in favour of a reliance on a specific service or product.

Corporate strategy is crucial as it will define all other decisions that are made within the organisation along the line.

Smaller, newer organisations which are targeting a very specific niche market, or operate with a small set of unique products/services, will find it far easier to develop a corporate strategy as there are fewer variables to consider.

However, larger and more developed organisations will find the process much simpler, as they may need to diverge from activities and behaviours which define who they are in order to reach out into new markets and to take new opportunities.

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it's portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year leading competitors sales this year.
Market Growth Rate = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance.

The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU’s are in same industry, the average growth rate of the industry is used. While, if all the SBU’s are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

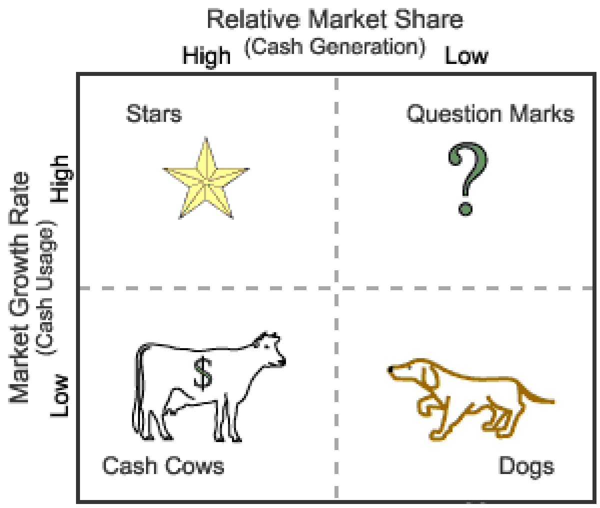


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Figure: BCG Matrix

1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU’s located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.
2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU’s are the corporation’s key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to

enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

2. Business

Business strategy generally emerges and evolves from the overarching corporate strategy which has been set by those at the helm. They are usually far more specific than corporate strategy and will likely be unique to different departments or subdivisions within the broader organisation.

In general, they use corporate strategy as an outline to:

- Define specific tactics and strategies for each market the organisation is involved in
- Define how each business unit will deliver the planned tactics

Due to their nature, they are more common in larger firms that engage in multiple activities, than they are in small businesses. However, they can still be engaged in by smaller organisations who wish to define how they go about each different subsection of their operations, by breaking down the overall scope of the corporate strategy.

3. Functional

This (also known as Market-Level Strategy) refers to the day-to-day operation of the company, which will keep it functioning and moving in the correct direction. Whilst many organisations fail because they do not have an overarching corporate strategy, others fail because they have not developed plans for how to engage in everyday activities. Even with an overall direction you wish to head in, without a plan for how to successfully operate, an organisation will be unable to progress. These will be numerous and will define very specific aspects and operations within smaller departments, teams, groups and activities.

Overall, they define:

- Day-to-day actions which are required to deliver corporate and business strategies
- Relationships needed between units, departments and teams
- How operational goals will be met, and how they will be monitored

It is at this level, the lowest in strategic development, that leaders should define how different departments and functions will work together to achieve higher goals. There will be managers that will oversee departments (e.g. manufacturing and HR) that do not perform the same functions, but need to be synchronised in order to achieve the goals set out by the corporate and business strategies.

Though corporate strategy will get all of the attention, it is success at the bottom of the hierarchy - through day-to-day functions - which will truly define where the organisation as a whole will succeed. You need to build from the ground up, in small steps, in order to keep moving forward. If operations break down, so does the organisation.

STRATEGIC PLANNING

Strategic planning is the process of documenting and establishing a direction of your small business—by assessing both where you are and where you're going. The strategic plan gives you a place to record your mission, vision, and values, as well as your long-term goals and the action plans you'll use to reach them.

Strategic planning is a systematic process that helps you set an ambition for your business' future and determine how best to achieve it. Its primary purpose is to connect three key areas: your mission - defining your business' purpose.

Strategic planning is important because it influences the attractiveness of the business to investors. The attractiveness of the business to potential investors means the ability of the organization to access financial resources that it could use for its continued growth and development.

Strategic planning is the art of creating specific business strategies, implementing them, and evaluating the results of executing the plan, in regard to a company's overall long-term goals or desires. It is a concept that focuses on integrating various departments (such as accounting and finance, marketing, and human resources) within a company to accomplish its strategic goals. The term strategic planning is essentially synonymous with strategic management.

The concept of strategic planning originally became popular in the 1950s and 1960s, and enjoyed favor in the corporate world up until the 1980s, when it somewhat fell out of favor. However, enthusiasm for strategic business planning was revived in the 1990s and strategic planning remains relevant in modern business.

Characteristics of Strategic Planning

- Strategic Planning is an **analytical process** which formulates strategic and operational plans for the organization. The implementation of strategic plans is possible through projects, whereas various units or divisions of the firm implement operational plans.
- It performs **SWOT Analysis**, i.e. during the planning process, the firm's strengths, weaknesses, opportunities and threats are taken into consideration.
- It is a **forward-looking activity** wherein the future opportunities and threats are ascertained while considering its profitability, market share, product and competition.
- It presupposes that a **firm should always be ready** to adapt itself according to the dynamic business environment. For this purpose alternative strategies are developed for different circumstances, i.e. from best to worst, for the future
- It can be **done for the entire organization or to a specific business unit**.
- It is helpful in **selecting the best strategy**, among the various strategies taking into account the firm's interest, personal values and corporate social responsibility.
- It acts as a **guide to the executive** to reduce the risk involved in the business and also to take the best possible advantage of the opportunities. So, in this way, it contributes to the success of the enterprise.

Strategic Planning is a logical effort, that envisions the desired future, by producing various alternative actions and decisions, to formulate an effective strategy, that brings success to the organisation. It helps in analysing and adjusting the organisation's efforts as a whole, according to the changing business environment.

Strategic Planning Stages

1. **Generation of Strategic Alternatives**: In this step, the firm seeks a number of strategic alternatives in the light of the firm's business, industry and competition. These strategies may be acquisition and expansion, focusing on core competencies, increase in the market share, etc.
2. **Assessment of Strategic Alternatives**: At this stage, the firm observes various strategies, on the basis of the benefits. It questions:

- Will it improve the firm's position or market share?
- Will it increase existing strengths?
- Will it bring new opportunities?
- Will it maximise shareholder's wealth?

3. **Selection of Strategy**: The optimum strategy is selected at this stage, among various alternative strategies.

Both internal and external analysis of the firm is performed during the exercise; wherein **internal analysis** entails an evaluation of financial performance, operational limitations, current market position/share corporate culture, strengths and weaknesses.

On the other hand, **external analysis** concentrates on the analysis of competition, trends, changing business environment, opportunities and threats, latest technology and so forth.

MBO (MANAGEMENT BY OBJECTIVES)

Every institution or organisation is established for the purpose of achieving some objectives. An individual who starts a business has the objective of earning profits. The objective may differ from one organisation to another organisation.

MBO (Management by Objectives) is a management system in which each member of the organisation effectively participates and involves oneself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation's goal. It creates self-control and motivates the manager into action before somebody tells him/her to do something. It is a strategic approach to enhance the performance of an organization. It is a process where the goals of the organization are defined and conveyed by the management to the members of the organization.

Meaning and Definition of Objectives and MBO

Objectives are the expectation of end results for which an organisation is established and which it tries to achieve. According to Koontz and O'Donnel, "Objective is a term commonly used to indicate the endpoint of a management programme."

According to George R. Terry, "A managerial objective is the intended goal which prescribes definite scope andsuggests direction to the efforts of a manager."

Prof. Reddin defines MBO as, "The establishment of effective standards for managerial positions and the periodic conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning."

Features of Objectives

The following are the features of objectives:

- each individual has own objectives
- the objectives of any organisation are specially mentioned
- the objectives may be short-term or long-term
- the objectives of an organisation should be clearly defined
- at top level, the organisation has broad objectives i.e. to earn certain rate of return on investments
- the whole organisation is divided into several sections
- each section has specific objectives
- the objectives of the organisation must conform to the general needs of the public
- all the organisations have several objectives at a time because the objectives are necessary in various areas of business
- the objectives of the organisation may be changed in due course
- the objectives are expressed in numerical terms
- this helps in measuring the actual performance done to realise the objectives
- the framed objectives should be achievable and reasonable ones

Features of MBO

The following are the features of MBO:

- Integrates the goals of an organisation and individuals, leading to an effective management system.
- Emphasises on the effective performance.
- Combines the long term and the short term goals.
- Constant attention to refine, modify and improve the goals with changing times.
- Recognises participation of employees in goal setting process.

- A high degree of motivation and satisfaction is available to employees through MBO.
- Tries to relate the organisation goals with society goals.

The mnemonic S.M.A.R.T. is associated with the process of setting objectives in this paradigm. "SMART" objectives are:

- Specific - Target a specific area for improvement.
- Measurable - Quantify or suggest an indicator of progress.
- Assignable - Specify who will do it.
- Realistic - State what results can realistically be achieved, given available resources.
- Time-bound - Specify when the result(s) can be achieved.

Benefits of MBO

The benefits of MBO are as given below:

- Provides a foundation of participative management.
- Gives the criteria of evaluation.
- Delegation of authority is easily done.
- Systematic evaluation of the performance.
- Managers are involved in setting objectives at various levels of management.
- Motivates employees by job enrichment.
- The responsibility of a worker is fixed through MBO.

Provides a foundation for participative management and goal setting.

Process of MBO

The process of MBO constitutes of the following steps:

- defining organisational objectives
- goals of each section
- fixing key result areas
- setting subordinate objectives or targets
- matching resources with objectives
- periodical review meetings
- appraisal of activities
- reappraisal of objectives

Advantages of Objectives

The following are the advantages of objectives:

- unified planning
- individual motivation
- coordination
- control
- basis for decentralization

Limitations of MBO

The limitations of MBO are as given below:

- it is a time consuming process

- MBO fails to explain the philosophy
- emphasises on short term objectives rather than the long term
- the status of subordinates is necessary for proper objectives setting which is not possible in MBO process
- MBO's are rigid in nature
- the objectives are set without considering the available resources

Guidelines for Setting Effective Objectives

The limitations of MBO can be reduced to some extent if the organisation follows certain guidelines. These guidelines should be followed while setting objectives. These guidelines are as follows:

- Objectives are framed only by the participants who are responsible for implementing them.
- All the objectives should support the overall objectives of the organisation.
- Objectives should be attainable ones.
- Objectives should result in the motivation of workers.
- A periodical review of objectives is necessary for proper implementation.
- Objectives should have the characteristics of innovation.
- The number of objectives for each management member should be a reasonable one.
- Objectives should be ranked on the basis of their importance.
- Objectives should be in balance within a given organisation or enterprise.
- Objectives should be simple and clearly defined.
- Objectives should be specific and time bound.

MANAGEMENT BY EXCEPTION (**MBE**)

Management by exception (MBE) is a management strategy in which managers will only step in when there are significant deviations from planned outcomes. It involves focusing only on those items for which there was actually a variance. Materiality criteria can be used in determining whether the variance represents an exception for which corrective action is necessary.

Management by Exception (MBE) is a "policy by which management devotes its time to investigating only those situations in which actual results differ significantly from planned results. '' The concept of MBE was propounded by: Frederick Winslow Taylor.

when applied to business, it is a style of management that gives employees the responsibility to make decisions and fulfill their work or projects by themselves. It consists of focus and analysis of statistically relevant anomalies in the data.

It is a system of identification and communication that signals the manager as to when and where his attention is needed. The main object of this system is to enable the manager to identify and isolate the problems that call for decision and action, and avoid or ignore or pay less attention to less critical problems which better be handled by his subordinates.

Under this system the manager should receive only condensed, summarised and invariable comparative reports covering all the elements, and he should have all the exceptions to the past averages or standards pointed out, both the specially good and the specially bad exceptions.

This gives him a full view of the progress in a few minutes of time. Thus by using the experience in a systematic way (i.e., having the knowledge of past attainments), a careful analysis is made with reference to existing records and standards of performances.

Advantages of Management by Exception*:*

1. It saves time. Manager attends to real problems at a particular point of time.
2. Concentrated efforts are possible, as this system enables the manager to decide when and where he should pay his attention. It identifies crisis and critical problems.
3. Lesser number of decisions is required to be taken, which enables the manager to go into detail.

Unit III

ORGANISING

Organizing is the function of **management** that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated.

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

Organising is that managerial process which seeks to define the role of each individual (manager and operator) towards the attainment of enterprise objectives

Organising is that managerial process which seeks to define the role of each individual (manager and operator) towards the attainment of enterprise objectives; with due regard to establishing authority-responsibility relationships among all; and providing for co-ordination in the enterprise-as an in-built device for obtaining harmonious groups action.

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

Definition

"Organising is the establishment of authority relationships with provisions for co-ordination between them, both vertically and horizontally in the enterprise structure". -Koontz and O 'Donnell

"Organising is the process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority and establishing a pattern of relationship for the purpose of enabling people work most effectively to accomplish the objective". – Louis A. Allen.

According to *Chester Barnard*, "Organizing is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organize in order to get results.

Importance of Organizing Function

1. **Specialization -** Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
2. **Well defined jobs -** Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
3. **Clarifies authority -** Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.

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

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

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

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

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

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

Principles of Organizing

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

1. Principle of Specialization

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

2. Principle of Functional Definition

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

3. Principles of Span of Control/Supervision

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

a. **Wide span of control-** It is one in which a manager can supervise and control effectively a large group of persons at one time. The features of this span are:-

i. Less overhead cost of supervision
ii. Prompt response from the employees
iii. Better communication
iv. Better supervision
v. Better co-ordination
vi. Suitable for repetitive jobs

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

b. **Narrow span of control-** According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervises and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time. The features are:-

i. Work which requires tight control and supervision, for example, handicrafts, ivory work, etc. which requires craftsmanship, there narrow span is more helpful.
ii. Co-ordination is difficult to be achieved.
iii. Communication gaps can come.
iv. Messages can be distorted.
v. Specialization work can be achieved.

Factors influencing Span of Control

1. **Managerial abilities-** In the concerns where managers are capable, qualified and experienced, wide span of control is always helpful.
2. **Competence of subordinates-** Where the subordinates are capable and competent and their understanding levels are proper, the subordinates tend to very frequently visit the superiors for solving their problems. In such cases, the manager can handle large number of employees. Hence wide span is suitable.
3. **Nature of work-** If the work is of repetitive nature, wide span of supervision is more helpful. On the other hand, if work requires mental skill or craftsmanship, tight control and supervision is required in which narrow span is more helpful.
4. **Delegation of authority-** When the work is delegated to lower levels in an efficient and proper way, confusions are less and congeniality of the environment can be maintained. In such cases, wide span of

control is suitable and the supervisors can manage and control large number of sub- ordinates at one time.

5. **Degree of decentralization-** Decentralization is done in order to achieve specialization in which authority is shared by many people and managers at different levels. In such cases, a tall structure is helpful. There are certain concerns where decentralization is done in very effective way which results in direct and personal communication between superiors and sub- ordinates and there the superiors can manage large number of subordinates very easily. In such cases, wide span again helps.

4. Principle of Scalar Chain

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

5. Principle of Unity of Command

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

Authority Flows from Top to Bottom

Managing Director

↓

Marketing Manager

↓

Sales/ Media Manager

↓

Salesmen

According to the above diagram, the Managing Director has got the highest level of authority. This authority is shared by the Marketing Manager who shares his authority with the Sales Manager. From this chain of hierarchy, the official chain of communication becomes clear which is helpful in achievement of results and which provides stability to a concern. This scalar chain of command always flow from top to bottom and it defines the authority positions of different managers at different levels.

The Organization Process Chart

Following is a representation of organization process chart.

A well-defined organizing process leads to improved communication, transparency and efficiency in the organization.

Classification of Organizations

Organizations are basically classified on the basis of relationships. There are two types of organizations formed on the basis of relationships in an organization

1. **Formal Organization -** This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organization is an arbitrary set up in which each person is responsible for his performance. Formal organization has a formal set up to achieve pre- determined goals.
2. **Informal Organization -** It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organizations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organizations. There is no conscious effort made to have informal organization. It emerges from the formal organization and it is not based on any rules and regulations as in case of formal organization.

Relationship between Formal and Informal Organizations

For a concerns working both formal and informal organization are important. Formal organization originates from the set organizational structure and informal organization originates from formal organization. For an efficient organization, both formal and informal organizations are required. They are the two phase of a same concern.

Formal organization can work independently. But informal organization depends totally upon the formal organization.

Formal and informal organization helps in bringing efficient working organization and smoothness in a concern. Within the formal organization, the members undertake the assigned duties in co-operation with each other. They interact and communicate amongst themselves. Therefore, both formal and informal organizations are important. When several people work together for achievement of organizational goals, social tie ups tends to built and therefore informal organization helps to secure co-operation by which goals can be achieved smooth. Therefore, we can say that informal organization emerges from formal organization.

LINE ORGANIZATION

Line organization is the most oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization. In this type of organization, the line of command flows on an even basis without any gaps in communication and co-ordination taking place.

Features of Line Organization

1. It is the most simplest form of organization.
2. Line of authority flows from top to bottom.
3. Specialized and supportive services do not take place in these organization.
4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
5. This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.

Merits of Line Organization

1. **Simplest-** It is the most simple and oldest method of administration.
2. **Unity of Command-** In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. **Better discipline-** The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. **Fixed responsibility-** In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. **Flexibility-** There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. **Prompt decision-** Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

Demerits of Line Organization

1. **Over reliance-** The line executive's decisions are implemented to the bottom. This results in over-relying on the line officials.
2. **Lack of specialization-** A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.
3. **Inadequate communication-** The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.

4. **Lack of Co-ordination-** Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co-ordination is less.
5. **Authority leadership-** The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives. Personal Secretary to the Managing Director is a staff official.

MANAGING DIRECTOR

↓	↓	↓
Production Manager	Marketing Manager	Finance Manager
↓	↓	↓
Plant Supervisor	Market Supervisor	Chief Assisstant
↓	↓	↓
Foreman	Salesman	Accountant

Features of Line and Staff Organization

1. There are two types of staff :
a. Staff Assistants- P.A. to Managing Director, Secretary to Marketing Manager.
b. Staff Supervisor- Operation Control Manager, Quality Controller, PRO
2. Line and Staff Organization is a compromise of line organization. It is more complex than line concern.
3. Division of work and specialization takes place in line and staff organization.
4. The whole organization is divided into different functional areas to which staff specialists are attached.
5. Efficiency can be achieved through the features of specialization.
6. There are two lines of authority which flow at one time in a concern :
a. Line Authority
b. Staff Authority
7. Power of command remains with the line executive and staff serves only as counselors.

Merits of Line and Staff Organization

1. **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.

2. **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.

3. **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.

4. **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co-ordination in work as every official is concentrating in their own area.

5. **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.

6. **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.

7. **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co-ordination. This relationship automatically ends up the line official to take better and balanced decision.

8. **Unity of action-** Unity of action is a result of unified control. Control and its effectivity take place when co-ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

Demerits of Line and Staff Organization

1. **Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.

2. **Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.

3. **Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co-ordination which hampers a concern's working.

4. **Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.

5. **Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.

6. **Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.

DELEGATION OF AUTHORITY

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

Delegation is the assignment of authority to another person (normally from a manager to a subordinate) to carry out specific activities. It is the process of distributing and entrusting work to another person. **Delegation** is one of the core concepts of **management** leadership.

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

Delegation consists of granting authority or the right to decision-making in certain defined areas and charging the subordinate with responsibility for carrying through the assigned tasks.

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

Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc. Through delegating powers, the subordinates get a feeling of importance.

Elements of Delegation

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

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

2. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn't accomplish tasks assigned as expected, then also he is answerable for that.

3. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability cannot be delegated. For example, if 'A' is given a task with sufficient authority, and 'A' delegates this task to B and asks him to ensure that task is done well, responsibility

rest with 'B', but accountability still rest with 'A'. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can't be escaped. It arises from responsibility.

Relationship between Authority and Responsibility

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

Differences between Authority and Responsibility

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

Barriers to Delegation

Delegation appears to be a simple process, but in practice, many difficulties come in the way of effective delegation.

These difficulties may be grouped into three categories which are discussed below:

1. On the Part of the Superior:

Managerial failure in delegation may result because of the following limitations:
(i) Resistance – A manger may think that he can do the job better himself and so he will be reluctant to delegate authority. "I can do it better myself" fallacy obstructs delegation of authority. Such executives often oppose the idea of sharing authority with the others.
(ii) Lack of ability to plan and direct – Lack of ability of the manager to correctly plan and issue suitable instructions in guiding the subordinates, though he is willing to delegate, creates hurdles in the way of effective delegation.
(iii) Lack of willingness to let go – The desire of dominance over the work of subordinates at each step hampers the delegation. Moreover, a manager may be afraid that if he lets the subordinate make decisions, he may outshine him.
(iv) Lack of willingness to trust subordinates – Delegation implies a trustful attitude between the superior and the subordinate. Lack of confidence in the capacity, ability and dependability of the subordinate obstructs the superior to delegate authority. Since a manager lacks confidence in the subordinate, he will not delegate authority to give him any chance to make mistakes and learn how to take correct decisions.
(v) Lack of controls – While delegating authority, the superior must find means of assuring himself that the authority is being used to accomplish the given assignments. Where the manager does not set up adequate controls or has no means of knowing the use of authority, he may hesitate to delegate the authority.

2. On the Part of the Subordinates:

The subordinates may avoid shouldering responsibilities even though there is no fault of the part of the superior.

They may be reluctant to accept authority because of the following reasons:
(i) Subordinates may lack self-confidence because of incompetence or fear of failure.
(ii) Subordinates may fear criticism or may have been victims of undue criticism for committing mistakes in the past.
(iii) Some people prefer to depend upon the boss for decision making.
(iv) Subordinates may be unwilling to accept delegation where required information and facilities are not available or when effective communication is lacking.
(v) There may not be sufficient incentives for accepting additional responsibility.
(vi) Subordinates will not accept delegation when they are already over-worked or when they feel that delegation will merely increase burden on them.

3. On the Part of the Organisation:

The faults contributing to the weakness of delegation in practice may also lie with the organisation.

They may include the following:
(i) Defective organisation structure and non-clarity of authority responsibility relationships.
(ii) Inadequate planning.
(iii) Splintered authority.
(iv) Infringement of the principle of unity of command.
(v) Lack of effective control.

Overcoming the Barriers:

Several of the barriers to delegation mostly relate to the behavioural aspects of individuals. Insecurity, aversion to risk, lack of self-confidence, inability to trust- another to perform a task are all different dimensions of human behavior. Among the various barriers, psychological barriers are the most difficult ones to overcome. To overcome many of these barriers, both superiors and subordinates must take a hard look at them, recognize their own fears and try to come out of the inhibitions.

ORGANISATION STRUCTURE

An organization that is well structured achieves effective coordination, as the structure delineates formal communication channels, and describes how separate actions of individuals are linked together.

Organizational structure defines the manner in which the roles, power, authority, and responsibilities are assigned and governed, and depicts how information flows between the different levels of hierarchy in an organization.

The structure an organization designs depends greatly on its objectives and the strategy it adopts in achieving those objectives.

An **organizational chart** is the visual representation of this vertical structure. It is therefore very important for an organization to take utmost care while creating the organizational structure. The structure should clearly determine the reporting relationships and the flow of authority as this will support good communication – resulting in efficient and effective work process flow.

An **organizational structure** is a system that outlines how certain activities are directed in order to achieve the goals of an **organization**. These activities can include rules, roles, and responsibilities. The **organizational structure** also determines how information flows between levels within the company.

The key principle of an organizational structure is how **authority** is passed down and around the company. Understanding what everyone's roles and responsibilities are helps to create **accountability** for individuals, teams and departments.

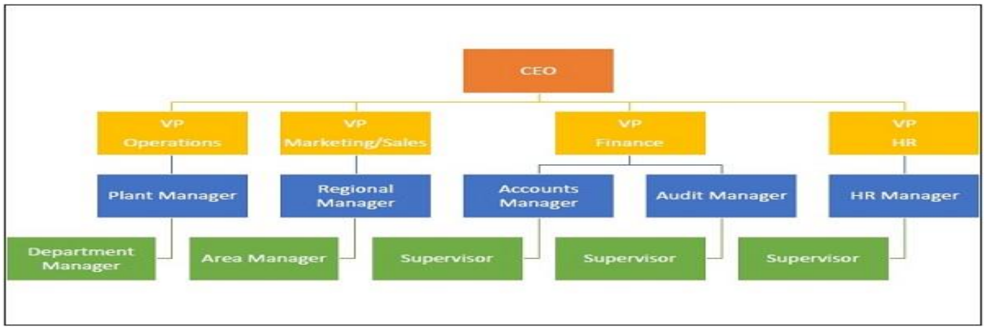
Common Organization Structures

Managements need to seriously consider how they wish to structure the organization. Some of the critical factors that need to be considered are −

- The size of the organization
- Nature of the business
- The objectives and the business strategy to achieve them
- The organization environment

Functional Organization Structure

The functional structure is the most common model found in most organizations. Organizations with such a structure are divided into smaller groups based on specialized functional areas, such as operations, finance, marketing, Human Resources, IT, etc.



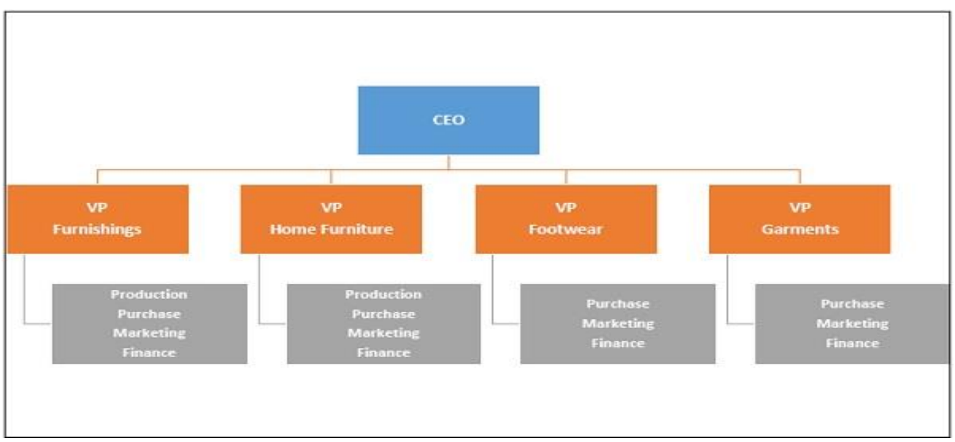
The organization's top management team consists of several functional heads (such as the VP Operations, VP Sales/Marketing). Communication generally occurs within each functional department and is communicated across departments through the department heads.

This structure provides greater operational efficiency as employees are functionally grouped based on expertise and shared functions performed. It allows increased specialization as each group of specialists can operate independently.

In spite of the above benefits there are some issues that arise with this structure. When different functional areas turn into silos they focus only on their area of responsibility and do not support other functional departments. Also expertise is limited to a single functional area allowing limited scope for learning and growth.

Product Organizational Structure

This is another commonly used structure, where organizations are organized by a specific product type. Each product category is considered a separate unit and falls within the reporting structure of an executive who oversees everything related to that particular product line. For example, in a retail business the structure would be grouped according to product lines.

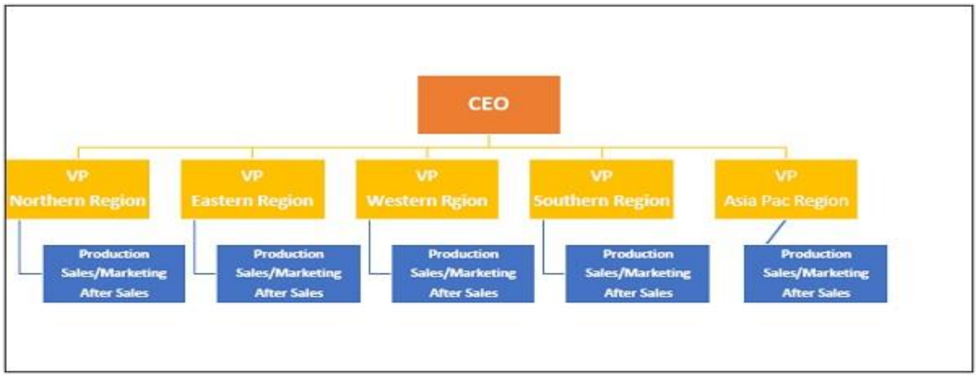


Organization structured by product category facilitates autonomy by creating completely separate processes from other product lines within the organization. It promotes depth of understanding within a particular product area and also promotes innovation. It enables clear focus with accountability for program results.

As with every model, this model also has a few downsides like requirement of strong skills specializing in the particular product. It could lead to functional duplication and potential loss of control; each product group becomes a heterogeneous unit in itself.

Geographic Organizational Structure

Organizations that cover a span of geographic regions structure the company according to the geographic regions they operate in. This is typically found in organizations that go beyond a city or state limit and may have customers all across the country or across the world.

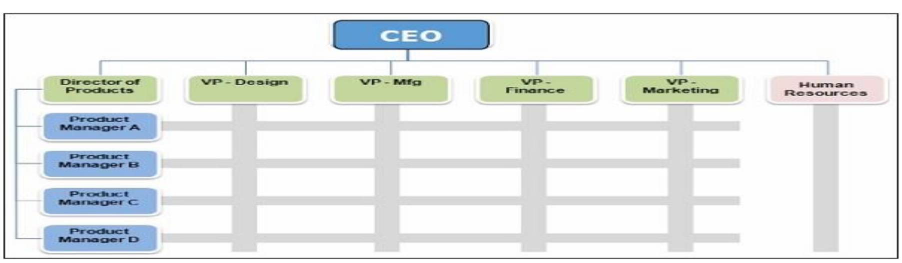


It brings together employees from different functional specialties and allows geographical division. The organization responds more quickly and efficiently to market needs, and focuses efforts solely on the objectives of each business unit, increasing results.

Though this structure increases efficiency within each business unit, it reduces the overall efficiency of the organization, since geographical divisions duplicate both activities and infrastructure. Another main challenge with this model is that it tends to be resource intensive as it is spread across and also leads to duplication of processes and efforts.

Matrix Organizational Structure

A matrix structure is organized to manage multiple dimensions. It provides for reporting levels both horizontally as well as vertically and uses cross-functional teams to contribute to functional expertise. As such employees may belong to a particular functional group but may contribute to a team that supports another program.



This type of structure brings together employees and managers across departments to work toward accomplishing common organizational objectives. It leads to efficient information exchange and flow as departments work closely together and communicate with each other frequently to solve issues.

This structure promotes motivation among employees and encourages a democratic management style where inputs from team members are sought before managers make decisions.
However, the matrix structure often increases the internal complexity in organizations. As reporting is not limited to a single supervisor, employees tend to get confused as to who their direct supervisor is and whose direction to follow. Such dual authority and communication leads to communication gaps, and division among employees and managers.

ORGANIZATION CHARTS

Organization chart is a diagrammatical presentation of relationships in an enterprise. The functions and their relationships, the channels of authority and relative authority of different **managers** etc. are depicted in an **organizational chart**. An **organization chart** is a **managerial** tool. It helps in specifying authority and responsibility of every position. As **organization chart** specifically defines authority and responsibility of people in the enterprise there will be no duplication and overlapping of duties etc.

George Terry defines an organization chart as "a diagrammatical form which shows important aspects of an organization, including the major functions and their respective relationships, the channel of supervision and the relative authority of each employer who is in-charge of each respective function."
So a chart is a pictorial and indicating functions and their relationship, clear lines of authority and responsibility, channels of communication and span of control and supervision.

Org charts help to demonstrate clear reporting structures for all the employees in the **organization**. It creates a road-map for how the work is to be done and the process **required** to ensure this information is shared throughout the company, to the right individuals. Its purpose is to illustrate the reporting relationships and chains of command within the **organization**.

Organization charts can be divided into:

(i) Master charts and
(ii) Supplementary charts.

The master chart shows the whole formal organizational structure while supplementary chart shows details of relationships, authority and duties within the prescribed area of a department.

Types of Organization Charts:

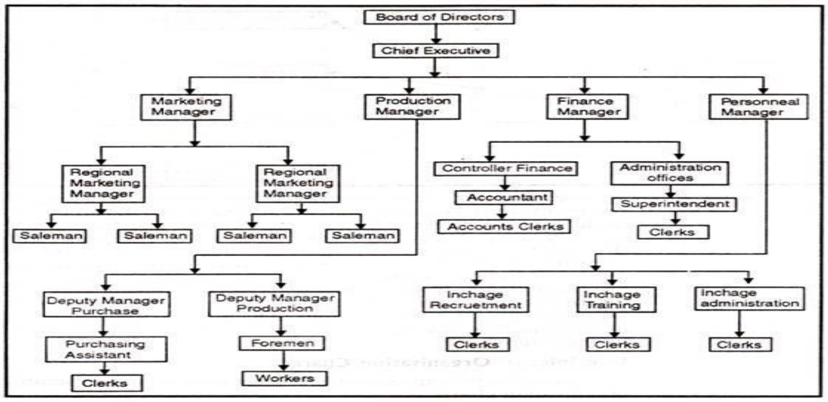
There are three ways in which organization charts can be shown:

(i) Vertical
(ii) Horizontal
(iii) Circular

(i) Vertical or Top to Bottom:

In this chart major functions are shown at the top and subordinate functions in successive lower positions. In this chart scalar levels run horizontally and functions run vertically. The supreme authority is shown at the top while lowest authority at the bottom.

The vertical chart is shown in the following diagram. In this diagram Board of Directors is at the top of the organization. The chief executive controls various functional managers, who in turn have downward staff as the requirement of respective departments.

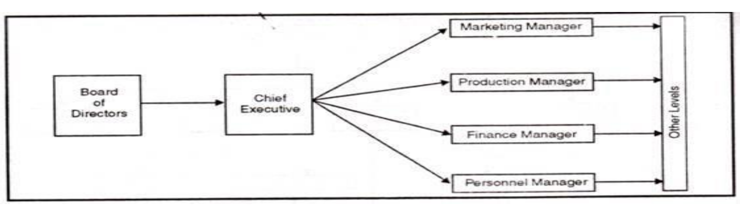


(ii) Horizontal or Left to Right:

In this chart highest positions are put on the left side and those with diminishing authority move towards the right. The organizational levels are represented by vertical columns, the flow of authority from higher to lower levels being represented by movement from left to right. In other words it presents scalar levels in a vertical position and functions horizontally.

The same levels of authority as shown in vertical chart can be depicted in a left to right chart as follows:

In horizontal chart the supreme authority Le. Board of Directors is shown on the left and chief executive and functional managers and other levels move towards right.



(iii) Circular:

In circular chart the centre of the circle represents the position of supreme authority and the functions radiate in all directions from the centre. The higher the positions of authority, the nearer they are to the centre and the lesser the positions of authority, more distant they are from the centre. The positions of relative equal importance are located at the same distance from the centre. The lines forming different blocks of functions or positions indicate the channels of formal authority, the same as in other arrangements. The circular chart depicts the actual condition of outward flow of formal authority from the Chief Executive in many directions.

Principles of Organization Charts:

(i) The top management should faithfully follow the line of authority while dealing with subordinates. Any attempt to buy pass the organization chart will make it meaningless.
(ii) The chart should define lines of position. The lines of different individuals should be so defined so that there is no overlapping and no two persons should be given the same position.
(iii) The undue concentration of duty at any point should be avoided.
(iii) The organization chart should not be influenced by personalities. Balance of organization should be given more importance than the individuals.
(v) The organization chart should be simple and flexible.

Advantages of Organization Charts:
1. An organization chart is a managerial tool. It helps in specifying authority and responsibility of every position.
The relationships among different persons are also established for smooth working of the organization.
2. As organization chart specifically defines authority and responsibility of people in the enterprise there will be no duplication and overlapping of duties etc. Even if it happens in a particular instance it can be rectified immediately.
3. The organization chart will help in pointing out the faults, deficiencies, dual command etc. in the organization. The management will be able to take prompt remedial action in case of certain lacuna.
4. The organization chart acts as an information centre to the new entrants and they can easily understand different levels of authority and responsibility.
5. The charts are also helpful in decision-making process. They act as a guide to the decision makers.

Limitations of Organization Charts:
1. The organization charts show the relationship of different positions and not the degree of authority and responsibility. The size of boxes or circles in the chart cannot show the level of authority, etc.
2. A chart only depicts formal organizational relationship whereas informal organization is ignored. Practically informal organization is as useful as formal organization. Informal organization greatly helps management in knowing the reactions of the people and is an important channel of communication.
3. A chart shows organizational position and status at different levels. It gives rise to superior-inferior feeling among people and it retards the feeling of team work.

ORGANISATION MANUAL
Organisation manual is a **handbook** maintained in hard cover, in loose-leaf form containing information about policies, operations, rules and regulations, objectives, procedures, departmental details etc.
An **organizational manual** provides and supplements additional details to the information supplied by **organization** chart. It provides information on pertinent matters about each position. It provides uniformity and consistency in the procedures and practices. It also provides **written** record of every important policy, decision and procedure. There will be no confusion about authority and responsibility. There will not be any scope for misunderstanding about anything.
The office manuals **purpose** is to save time, create standard guidelines for everyone, and provide a solid foundation of knowledge. Manuals can be used for policies, organizational means, departments, procedures, or any combination of the above.

Manuals are kept ready for reference by every functional head and his employees so that they do not have to approach their superiors to obtain information for decision-making.

Contents of Organization Manual:

It is particularly important to include all pertinent material related directly to the company organization in the manual, so that managers at all levels can use it as a convenient source of reference.

The manual should contain the following data:

1. Statement of Company Objectives and Policies:

Organization objectives and policies, in particular, should be spelled out. These state, the Company organization aims and specify those management decisions related to organization which are binding on all managers in the Company.

The Company organization objectives may be as follows:

(a) To arrange functions so that personnel can perform their job most effectively.

(b) To create an organization which will offer the greatest opportunity for individual development.

(c) To organize each unit so that the corporation may take full advantage of growth and expansion opportunities.

2. Glossary of Terms:

To establish a common nomenclature for administrative terms used in the manual, it is advisable to establish a glossary of management terms such as Accountability, Executive, Supervise, Work etc.

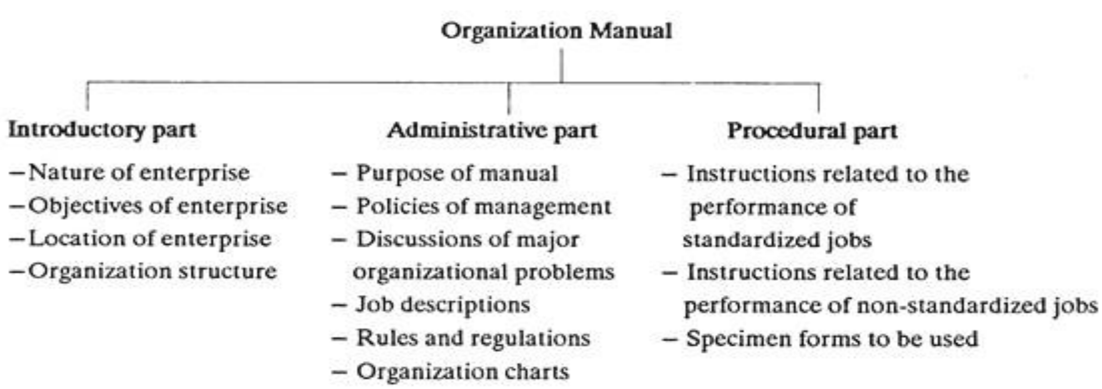
3. Organization Procedures:

What standard methods will the Company require of all managers in organization matters? What organization work must be done the same in all units so that it will fit the pattern of overall company organization activity? Organization procedures prescribe such uniformity. They may be prepared to include such matters as reporting organization changes and similar matters.

Reporting Organization Changes:

If effective organization control is 10 be maintained, there should be clear channels for reporting organization changes.

In most cases, changes should be approved by the accountable manager but cleared through the organization planning specialized staff.



Types of Organization Manual:

(i) Policy manual states the policies of the enterprise. It describes the overall limitations within which activities are to take place.

(ii) Operations manual informs employees of established methods, procedures and standards of doing work.

(iii) Organization manual explains the duties and responsibilities of various departments and their respective sub-divisions, responsibilities and authorities of different employees, etc.

(iv) Rules and regulations manual informs about the operating rules and employment regulations such as hours of work, procedure for taking leave etc.

(v) Departmental practice manual deals in detail with the internal policies, organization and procedures of a particular department.

Advantages of Organization Manual:

(i) Since it contains rules, regulations and various instructions, it enables the employees to learn the various procedures and practices in short time.

(ii) Since instructions and policies are clearly stated, it is easy and quick to take decisions.

Drawbacks of Organization Manual:

(i) Manual preparation is costly and time-consuming.

(ii) Since rules, regulations etc., are all pre-decided, it leaves little scope for individual's initiative and discretion.

DEPARTMENTATION

Departmentation or Departmentalisation is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels. It also provides a basis on which the top **managers** can co-ordinate and control the activities of the departmental units.

Departmentation can provide a necessary degree of specialisation of executive activity for efficient performance. It can simplify the tasks of management within a workable span. It also provides a basis on which the top managers can co-ordinate and control the activities of the departmental units.

Departmentation is a part of the organisation process. It involves the grouping of common activities under a single person's control. The activities are grouped on the basis of a function of the organisation. This work is done by a chief executive of the concerned organisation.

Departmentation means the process by which similar activities of the business are grouped into units for the purpose of facilitating smooth administration at all levels. It implies the division of total work of an organisation into individual functions and sub functions. It is the process of division of organisation into different parts known as departments.

According to L. A. Allen – "Departmentation is the means of dividing a large and monolithic functional organisation into smaller, flexible, administrative units."

Need for and Importance of Departmentation:

The basic need for departmentation is to make the size of each departmental unit manageable and secure the advantages of specialisation. Grouping of activities and, consequently, of personnel, into departments makes it possible to expand an enterprise to any extent.

Departmentation is necessary on account of the following reasons:

1. Advantages of Specialisation:

Departmentation enables an enterprise to avail of the benefits of specialisation. When every department looks after one major function, the enterprise is developed and efficiency of operations is increased.

2. Feeling of Autonomy:

Normally departments are created in the enterprise with certain degree of autonomy and freedom. The manager in charge of a department can take independent decisions within the overall framework of the organisation. The feeling of autonomy provides job satisfaction and motivation which lead to higher efficiency of operations.

3. Expansion:

One manager can supervise and direct only a few subordinates. Grouping of activities and personnel into departmentation makes it possible for the enterprise to expand and grow.

4. Fixation of Responsibility:

Departmentation enables each person to know the specific role he is to play in the total organisation. The responsibility for results can be defined more clearly, precisely and accurately and an individual can be held accountable for the performance of his responsibility.

5. Upliftment of Managerial Skill:

Departmentation helps in the development of managerial skill. Development is possible due to two factors. Firstly, the managers focus their attention on some specific problems which provide them effective on-the-job training. Secondly, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialisation.

6. Facility in Appraisal:

Appraisal of managerial performance becomes easier when specific tasks are assigned to departmental personnel. Managerial performance can be measured when the areas of activities are specified and the standards of performance are fixed. Departmentation provides help in both these areas.

When a broader function is divided into small segments and a particular segment is assigned to each manager, the area to be appraised is clearly known; and the factors affecting the performance can be pointed out more easily. Similarly, the standards for performance can be fixed easily because the factors influencing the work performance can be known clearly. Thus, performance appraisal becomes more effective.

7. Administrative Control:

Departmentation is a means of dividing the large and complex organisation into small administrative units. Grouping of activities and personnel into manageable units facilitates administrative control. Standards of performance for each and every department can be precisely determined.

Types of Departmentation:

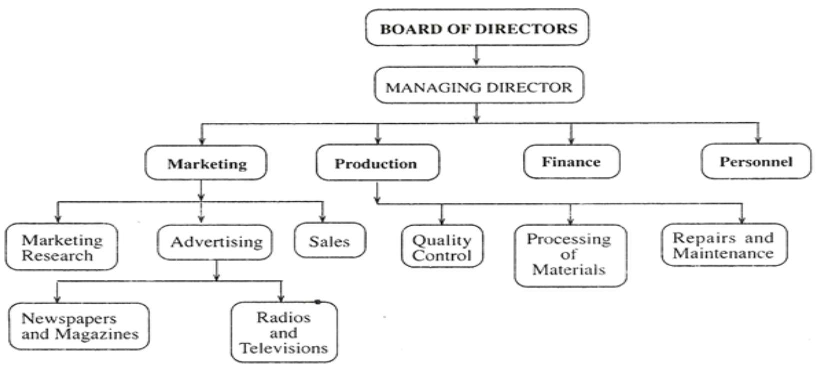
There are several bases of Departmentation. The more commonly used bases are—function, product, territory, process, customer, time etc.

These are explained below:

(A) Departmentation by Functions:

The enterprise may be divided into departments on the basis of functions like production, purchasing, sales, financing, personnel etc. This is the most popular basis of departmentation. If necessary, a major function may be divided into sub-functions. For example, the activities in the production department may be classified into quality control, processing of materials, and repairs and maintenance.

The organisation chart of functional departmentation may take the following form:



Advantages:

The advantages of functional departmentation include the following:

(a) It is the most logical and natural form of departmentation.

(b) It ensures the performance of all activities necessary for achieving the organisational objectives.

(c) It provides occupational specialisation which makes optimum utilization of man-power.

(d) It facilitates delegation of authority.

(e) It enables the top managers to exercise effective control over a limited number of functions.

(f) It eliminates duplication of activities.

(g) It simplifies training because the managers are to be experts only in a narrow range of skills.

Disadvantages:

There are some problems associated with functional departmentation. These are mentioned below:

(a) There may be conflicts between departments.

(b) The scope for management development is limited. Functional managers do not get training for top management positions. The responsibility for results cannot be fixed on any one functional head.

(c) There is too much emphasis on specialisation.

(d) There may be difficulties in coordinating the activities of different departments.

(e) There may be inflexibility and complexity of operations.

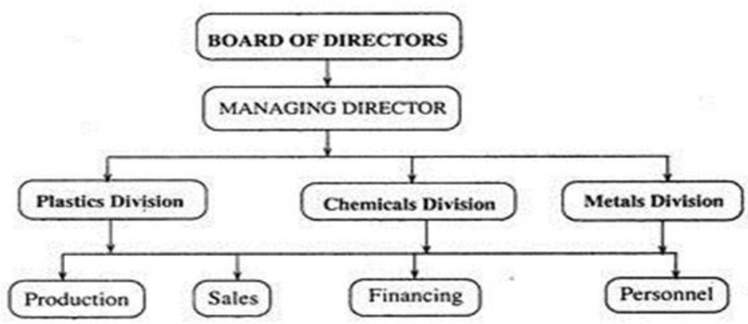
(B) Departmentation by Products:

In product departmentation, every major product is organised as a separate department. Each department looks after the production, sales and financing of one product. Product departmentation is useful when the expansion, diversification, manufacturing and marketing characteristics of each product are primarily significant.

It is generally used when the production line is complex and diverse requiring specialised knowledge and huge capital is required for plant, equipment and other facilities such as in automobile and electronic industries.

In fact, many large companies are diversifying in different fields and they prefer product departmentation. For example, a big company with a diversified product line may have three product divisions, one each for plastics, chemicals, and metals. Each division may be sub-divided into production, sales, financing, and personnel activities.

The organisation chart of product departmentation may take the following form:



Advantages:

Product departmentation provides several advantages which may be stated as follows:

(a) Product departmentation focuses individual attention to each product line which facilitates the expansion and diversification of the products.

(b) It ensures full use of specialised production facilities. Personal skill and specialised knowledge of the production managers can be fully utilised.

(c) The production managers can be held accountable for the profitability of each product. Each product division is semi-autonomous and contains different functions. So, product departmentation provides an excellent training facility for the top managers.

(d) The performance of each product division and its contribution to total results can be easily evaluated.

(e) It is more flexible and adaptable to change.

Disadvantages:

Product departmentation presents some problems as follows:

(a) It creates the problem of effective control over the product divisions by the top managers.

(b) Each production manager asserts his autonomy disregarding the interests of the organisation.

(c) The advantages of centralisation of certain activities like financing, and accounting are not available.

(d) There is duplication of physical facilities and functions. Each product division maintains its own specialised personnel due to which operating costs may be high.

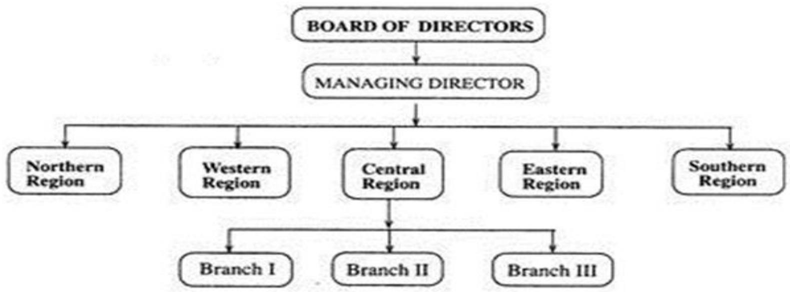
(e) There may be under-utilisation of plant capacity when the demand for a particular product is not adequate.

(C) Departmentation by Territory:

Territorial or geographical departmentation is specially useful to large-scale enterprises whose activities are widely dispersed. Banks, insurance companies, transport companies, distribution agencies etc. are some examples of such enterprises, where all the activities of a given area of operations are grouped into zones, branches, divisions etc.

It is obviously not possible for one functional manager to manage efficiently such widely spread activities. This makes it necessary to appoint regional managers for different regions.

The organisation chart of territorial departmentation may take the following form:



Advantages:

Territorial departmentation offers certain facilities in operation. These are pointed out below:

(a) Every regional manager can specialise himself in the peculiar problems of his region.

(b) It facilitates the expansion of business to various regions.

(c) It helps in achieving the benefits of local operations. The local managers are more familiar with the local customs, preferences, styles, fashion, etc. The enterprise can gain intimate knowledge of the conditions in the local markets.

(d) It results in savings in freight, rents, and labour costs. It also saves time.

(e) There is better co-ordination of activities in a locality through setting up regional divisions.

(f) It provides adequate autonomy to each regional manager and opportunity to train him as he looks after the entire operation of a unit.

Disadvantages:

Territorial departmentation have the following problems:

(a) There is the problem of communication.

(b) It requires more managers with general managerial abilities. Such managers may not be always available.

(c) There may be conflict between the regional managers.

(d) Co-ordination and control of different branches from the head office become less effective.

(e) Owing to duplication of physical facilities, costs of operation are usually high.

(f) There is multiplication of personnel, accounting and other services at the regional level.

(D) Departmentation by Customers:

In such method of departmentation, the activities are grouped according to the type of customers. For example, a large cloth store may be divided into wholesale, retail, and export divisions. This type of departmentation is useful for the enterprises which sell a product or service to a number of clearly defined customer groups. For instance, a large readymade garment store may have a separate department each for men, women, and children. A bank may have separate loan departments for large-scale and small- scale businessmen.

The organisation chart of customer-oriented departmentation may appear as follows:

Advantages:

The important advantages of customer departmentation are the following:

(a) Special attention can be given to the particular tastes and preferences of each type of customer.

(b) Different types of customers can be satisfied, easily through specialised staff. Customers' satisfaction enhances the goodwill and sale of the enterprise.

(c) The benefits of specialisation can be gained.

(d) The enterprise may acquire intimate knowledge of the needs of each category of customers.

Disadvantages:

This method of departmentation may have certain disadvantages, specially when it is followed very rigidly. These are as follows:

(a) Co-ordination between sales and other functions becomes difficult because this method can be followed only in marketing division.

(b) There may be under-utilisation of facilities and manpower in some departments, particularly during the period of low demand.

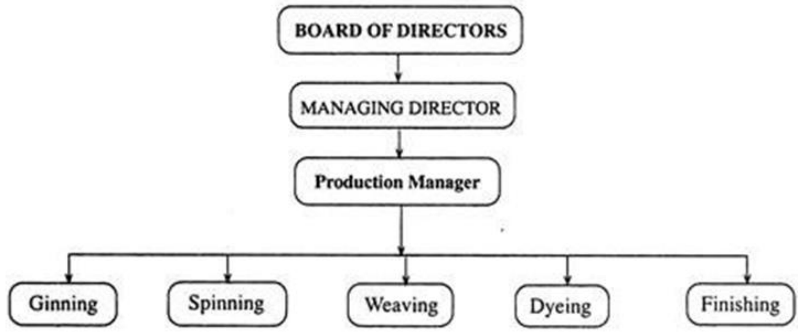
(c) It may lead to duplication of activities and heavy overheads,

(d) The managers of customer departments may put pressures for special benefits and facilities.

(E) Departmentation by Process or Equipment:

In such type or departmentation the activities are grouped on the basis of production processes involved or equipment used. This is generally used in manufacturing and distribution enterprises and at lower levels of organisation. For instance, a textile mill may be organised into ginning, spinning, weaving, dyeing and finishing departments. Similarly, a printing press may have composing, proof reading, printing and binding departments. Such departmentation may also be employed in engineering and oil industries.

The organisation chart of process or equipment departmentation may appear as follows:



Advantages:

The basic object of such departmentation is to achieve efficiency and economy of operations. The processes are set in such a way that a series of operations is feasible making operations economic. Efficiency can be achieved if departments are created for each process as each one has its peculiarities.

It provides the advantages of specialisation required at each level of the total processes. The maintenance of plant can be done in better way and manpower can be utilised effectively.

Disadvantages:

In such departmentation, there may be difficulty in coordinating the different process-departments, because the work of each process depends fully on the preceding process. So, there are chances of conflicts among the managers looking after the different processes. It cannot be used where manufacturing activity does not involve distinct processes.

(F) Departmentation by Time and Numbers:

Under this method of departmentation the activities are grouped on the basis of the time of their performance. For instance, a factory operating 24 hours may have three departments for three shifts—one for the morning, the second for the day, and the third for the night.

In the case of departmentation by numbers, the activities are grouped on the basis of their performance by a certain number of persons. For instance, in the army, the soldiers are grouped into squads, companies, battalions, regiments and brigades on the basis of the number prescribed for each unit.

Such type of departmentation is useful where the work is repetitive, manpower is an important factor, group efforts are more significant than individual efforts, and group performance can be measured. It is used at the lowest level of organisation.

Factors to be Considered in Departmentation:

A suitable basis of departmentation is one which facilitates the performance of organisational functions efficiently and effectively so that the objectives of the organisation are achieved. Since each basis is suitable to a particular type of organisation, often a combination of various basis is adopted.

So, the determination of suitability of departmentation basis should be considered in the light of various principles or factors affecting the functioning of an organisation.

These factors or principles are described below:

1. Specialisation:

The activities of an organisation should be grouped in such a way that it leads to specialisation of work. Specialisation helps to improve efficiency and ensure economy of operations. It enables the personnel to become experts.

2. Co-ordination:

Quite different activities may be grouped together under one executive because they need to be co-ordinated. So, the basis of departmentation should ensure that the dissimilar activities are put together in one department.

3. Control:

Departmentation should be such that it facilitates the measurement of performance and adoption of timely corrective action. It should enable the managers to hold the employees accountable for results. Effective control helps to achieve organisational objectives economically and efficiently.

4. Proper Attention:

All the activities which contribute to the achievement of subordinate results should be given adequate attention. This will ensure that all necessary activities are performed and there is no unnecessary duplication of activities. Key areas should be given special attention.

5. Economy:

Creation of departments involves extra cost of additional space, equipment and personnel. So, the pattern and number of departments should be so decided that maximum possible economy is achieved in the utilisation of physical facilities and personnel.

6. Local Condition:

While forming departments adequate attention to the local conditions should be given. This is more important to the organisation which operates in different geographical areas. Departmentation should be adjusted according to the available resources. It should aim at full utilisation of resources.

7. Human Consideration:

Departmentation should also consider the human aspect in the organisation. So, along with the technical factors discussed above, departments should be created on the basis of availability of personnel, their attitude, aspiration and value systems, informal work groups, cultural patterns, etc. Due attention to the human factors will make departmentation more effective and more efficient.

CENTRALIZATION

Centralization refers to the process in which activities involving planning and decision-making within an organization. In a centralized organization, the decision-making powers are retained in the head office, and all other offices receive commands from the main office.

Centralization refers to that organizational structure where decision-making power is confined to the top management, and the subordinates need to follow the instructions of their seniors. Centralization of authority is essential for the small-scale organizations which lack resources and finance.

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management.

According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization.

Centralization allows on the one hand an unified decision "from the center" on the other hand, limits the autonomy of organizational units and may reduce flexibility of the decision. **Centralization** may concern all decisions and powers, or may be centralized only selected **managerial** functions.

When an organization follows a centralized management structure, it can focus on the fulfillment of its vision with ease. There are clear lines of communication and the senior executive can communicate the organization's vision to employees and guide them toward the achievement of the vision.

In a **centralized** organization, decisions are made by a small group of people and then communicated to the lower-level managers. If lower-level managers are involved in the decision-making process, the process will take longer and conflicts will arise.

Factors Determining Centralization of Authority

In small organizations, the owner or the top management is responsible for making all the business decision solely. Whereas, the delegation of work among the subordinates takes place; therefore, centralization persists in these business units.

The following factors result in the centralization of the organization:

- **Nature of Organization**: When the organization is generally a sole proprietorship or partnership entity with less number of employees to be managed, it can have a centralized system.
- **Size of the Organization**: The organization which are small in size and operating on a small scale can be efficiently managed by the top management hence following a centralized system.
- **Nature of Task**: The organizations engaged in business operations which does not require much expertise or specialization, can be managed through centralization.
- **Delegation Ability**: The capability of the management to delegate the responsibilities to the subordinates while keeping the charge in their hand is another factor determining the organizational structure.

- **Employee's Efficiency**: If the employees lack skills and efficiency to take up the responsibility and accountability of the work to be performed, the management will go for centralization of the organization.

Advantages of Centralization

Centralization and decentralization are equally crucial for a business. The reasons for which some organizations mainly centralizes its structure are as follows:

Cost Efficient: The management need not spend much on the office and administrative expenses in a centralized organization. Even the cost of hiring experts and highly experienced personnel at each level is saved due to the centralized decision-making process.

Better Command: The management can hold a better command over the subordinates and the subordinates also clearly know whom to follow. There is proper control over the subordinate actions, and the management is well aware of the strengths and weaknesses of the subordinates.

Enhances Work Quality: The subordinates are answerable directly to the top management, and therefore they continuously aim at improving the work quality. It also leads to standardization of the process and reduces the wastage.

Uniformity in Action: When the control lies in the hands of few, the methods and techniques used are usually the same throughout all the levels and departments, thus encouraging the subordinates to perform uniformly.

Focus on Vision: The top management clearly defines and better understand the organizational vision. Therefore, it aligns all the resources, subordinates, activities and strategies towards the achievement of the vision.

Proper Coordination: The top management frames a uniform policy for subordinates at different levels, integrate their course of action and ensures coordination among all the subordinates.

Disadvantages of Centralization

Centralization is not suitable for all type of business organizations.

Slows Down Operations: The top management directs the day to day operations, and the subordinates have to report directly to the senior management. At times when there is no managerial staff, the subordinates are unable to take immediate decisions. Thus, resulting in slowing down of business operations.

Delays Decision Making: In centralization, the decision-making process slows down since all the decisions are to be taken by the top management. It is not suitable for handling emergencies or unexpected circumstances.

Reduces Scope for Specialization: A person cannot specialize in all the activities alone. Therefore, in a centralized structure where all decisions are taken by the top management, the organization lacks specialized supervision and management.

Discourages Initiative: The subordinates are given instructions which they need to follow without questioning the decisions of the top management. In centralization, the subordinates are intimidated from giving their input or suggestions.

Lacks Adaptability to Change: The centralized organization runs in a conventional manner where the top management is somewhat rigid with its policies, methods and techniques. Thus, it creates a barrier to adopting modern and improved practices for organizational growth.

Overburden on Top Management: All the planning and decision-making work is done at the topmost level of management, they control even the day to day operations. Due to this reason, management becomes overburdened and is unable to concentrate on business expansion and growth.

Bureaucratic Leadership: Centralization can be seen as a dictatorship by some, where the top management plans every course of action and the subordinates follow the instructions. Problem-solving becomes quite difficult in such circumstances since the decision-maker, and the implementer is two different individuals.

Poor Upward Communication: The subordinates are supposed to follow instructions while the least attention is paid towards their suggestions and feedback. All this hinders the upward communication in the organization.

DECENTRALIZATION

Decentralization refers to a specific form of organizational structure where the top **management** delegates decision-making responsibilities and daily operations to middle and lower subordinates. The top **management** can thus concentrate on taking major decisions with greater time abundance.

In a **decentralized** organization, lower level managers are given decision-making authority and the power to run their own departments. **Decentralization** include better, more timely decisions and increased motivation.

Decentralisation implies the dispersal of **decision**-making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralisation.

The following are the **main objectives** which a **decentralized** system of organization seeks to achieve: To relieve the burden of work on the chief executive. To develop the managerial faculties. To motivate the lower level of workers.

Decentralisation is referred to as a form of an organisational structure where there is the delegation of authority by the top management to the middle and lower levels of management in an organisation.

In this type of organisation structure, the duty of daily operations and minor decision-making capabilities are transferred to the middle and lower levels which allow top-level management to focus more on major decisions like business expansion, diversification etc.

Delegation refers to the assigning a portion of work and the associated responsibility by a superior to a subordinate. In simple words, when delegation is expanded on an organisational level, it is called decentralisation.

"Decentralisation refers to tire systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points." —Louis A. Allen

"Decentralisation means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegate to time of cacti unit.'—Earl. P. Strong

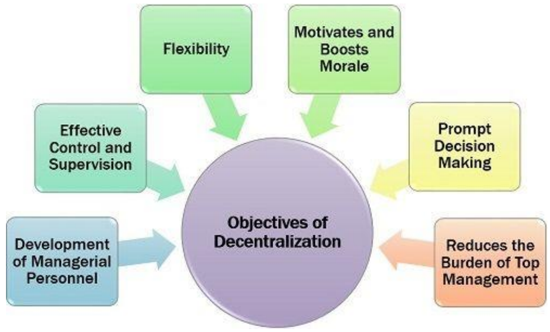
Importance of Decentralisation

1. **Rapid decision making –** Most of the decisions are taken on the spot, and approval from the higher authority is not required. The ability to make a prompt decision allows an organisation to function its operation quickly and effectively.
2. **Administrative development –** The decentralisation process questions the manager's judgement and techniques, when responsibility and challenges to develop solutions are given to them. This questioning method grows confidence, encourages self-reliance, and make them a good decision-maker resulting in the development of the organisation.
3. **Development of executive skills –** It allows the employee to perform task individually, giving them invaluable exposure. This individual performance creates an environment where an individual can enhance their expertise, take ownership & more significant responsibilities, and be suitable for promotion.
4. **Promotes growth –** Decentralisation also allows the heads of the department to work independently. This independence helps the department to grow, have a healthy competition between other departments. Ultimately, the competition will lead to an improvement and enhancement in productivity.
5. **Higher control –** It also evaluates and reviews the performances of each department and gives them a comprehensive perspective of their work. However, controlling is the biggest challenge of decentralisation and stabilised management and scorecard are being developed.

Objectives of Decentralization

Decentralization is an important strategical decision. It changes the whole organizational structure right from the top management to the bottom level. Like other business strategies, decentralization is also purposeful.

Let us understand the various objectives for which organizations decentralize their operations :



Development of Managerial Personnel

Decentralization provides for self-learning of the managers by facing the problem, finding the solutions themselves and taking the correct decisions. It adds on to the skills, experience and expertise of the managers in their respective departments.

Effective Control and Supervision

The managers exercise better control over the operations of the subordinates by taking disciplinary actions. They can make decisions related to production schedules, promotions and leaves taken by the subordinates.

Flexibility

Decentralization leads to flexibility in business operations. It also provides authority to the managers to handle unexpected situations independently. It allows them to manage their respective departments in the way they want to.

Motivates and Boosts Morale

It creates self-dependant managers and drives them to enhance their performance, take the initiative and develop a problem-solving attitude. Decision making also boosts their morale and confidence.

Prompt Decision Making

There are times when the managers have to take immediate and unplanned decisions at operational levels; it is only possible in decentralized organizations.

On the contrary, in a centralized organization, the decision-making process is quite lengthy and complicated, which is ineffective for handling unforeseen operational problems and issues.

Reduces the Burden of Top Management

The management has to take certain crucial strategical decisions which require a lot of analysis and planning. Decentralization releases the management from operational decision making, facilitating them to engage themselves in future strategic planning.

Advantages of Decentralisation

1. Reduces the burden on top executives
2. Facilitates diversification
3. Executive Development

4. It promotes motivation
5. Better control and supervision

Disadvantages of Decentralisation
1. Uniform policies not Followed
2. Problem of Co-Ordination

Unit IV

LEADERSHIP

Leaders help themselves and others to do the right things. They set direction, build an inspiring vision, and create something new. As well as providing direction, inspiration, and guidance, good **leaders** exhibit courage, passion, confidence, commitment, and ambition. They nurture the strengths and talents of their people and build teams committed to achieving common goals.

A **leader's** most important **role** is to provide clear and compelling direction. **Leaders** ensure that all followers understand, embrace, and work toward achieving those objectives. And they provide momentum, sharing and celebrating progress toward achieving company goals, setting new targets, and providing needed resources.

Five Qualities of Effective Leaders

- They are self-aware and prioritize personal development.
- They focus on developing others.
- They encourage strategic thinking, innovation, and action.
- They are ethical and civic-minded.
- They practice effective cross-cultural **communication**.

Leadership is about mapping out where you need to go to "win" as a team or an organization; and it is dynamic, exciting, and inspiring.

Leadership is the art of motivating a group of people to act toward achieving a common goal. In a business setting, this can mean directing workers and colleagues with a strategy to meet the company's needs.

Leadership is a process of social influence, which maximizes the efforts of others, towards the achievement of a goal. **Leadership** stems from social influence, not authority or power. **Leadership** is the process of persuasion or example by which an individual (or **leadership** team) induces a group to pursue objectives held by the leader or shared by the leader and his or her followers."

Leadership means creating and planning, securing resources, and looking out for and improving errors. **Leadership** is about motivating people to work together and cooperate with themselves and in some cases, other teams, to achieve a certain goal.

Leadership motivates the people to a higher level of performance through their strong human relations. It is an **important** function of management which helps to maximize efficiency and to achieve organizational goals, so managers must have traits of a **leader**.

Leadership is an important element of the directing function of management. Wherever, there is an organized group of people working towards a common goal, some type of leadership becomes essential. “The power of leadership is the power of integrating. The leader stimulates what is best in us he unites and concentrates what we feel only gropingly and shatteringly. He is a person who gives form to the uncoarctate energy in every man. The person who influences me most is not he who does great Deeds, but he who makes me feel that I can do great deeds.” Marry Parker Follet.

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

According to Koontz and O'Donnell, Leadership is the ability of a manager to induce subordinates to work with confidence and zeal.

Nature and Characteristics of Leadership:

1. Leadership is a personal quality.
2. It exists only with followers. If there are no followers, there is no leadership.
3. It is the willingness of people to follow that makes person a leader.
4. Leadership is a process of influence. A leader must be able to influence the behaviour, attitude and beliefs of his subordinates.
5. It exists only for the realization of common goals.
6. It involves readiness to accept complete responsibility in all situations.
7. Leadership is the function of stimulating the followers to strive willingly to attain organizational objectives.
8. Leadership styles do change under different circumstances.
9. Leadership is neither bossism nor synonymous with; management.

Formal and informal Leaders:

From the view point of official recognition from top management, leaders may be classified as formal and informal leaders. A formal leader is one who is formally appointed or elected to direct and control the activities of the subordinates. He is a person created by the formal structure, enjoys organizational authority and is accountable to those who have elected him in a formal way. The formal leader has a two-fold responsibility. On the one hand, he has to fulfill the demands of the organization, while on the other he is also supposed to help, guide and direct his subordinates in satisfying their needs and aspirations.

Informal leaders are not formally recognized. They derive authority from the people who are under their influence. In any organization we can always find some persons who command respect and who are approached to help, guide and protect the informal leaders have only one task to perform, i.e., to help their followers in achieving their individual and group goals. Informal leaders are created to satisfy those needs which are not satisfied by the formal leaders. An organization can make effective use of informal leaders to strengthen the formal leadership.

Leadership Functions:

Following are the important functions of a leader:

1. Setting Goals:

A leader is expected to perform creative function of laying out goals and policies to persuade the subordinates to work with zeal and confidence.

2. Organizing:

The second function of a leader is to create and shape the organization on scientific lines by assigning roles appropriate to individual abilities with the view to make its various components to operate sensitively towards the achievement of enterprise goals.

3. Initiating Action:

The next function of a leader is to take the initiative in all matters of interest to the group. He should not depend upon others for decision and judgment. He should float new ideas and his decisions should reflect original thinking.

4. Co-Ordination:

A leader has to reconcile the interests of the individual members of the group with that of the organization. He has to ensure voluntary co-operation from the group in realizing the common objectives.

5. Direction and Motivation:

It is the primary function of a leader to guide and direct his group and motivate people to do their best in the achievement of desired goals, he should build up confidence and zeal in the work group.

6. Link between Management and Workers:

A leader works as a necessary link between the management and the workers. He interprets the policies and programmes of the management to his subordinates and represents the subordinates' interests before the management. He can prove effective only when he can act as the true guardian of the interests of his subordinates.

Importance of Leadership

1. It Improves Motivation and Morale:

Through dynamic leadership managers can improve motivation and morale of their subordinates. A good leader influences the behaviour of an individual in such a manner that he voluntarily works towards the achievement of enterprise goals.

2. It Acts as a Motive Power to Group Efforts:

Leadership serves as a motive power to group efforts. It leads the group to a higher level of performance through its persistent efforts and impact on human relations.

3. It Acts as an Aid to Authority:

The use of authority alone cannot always bring the desired results. Leadership acts as an aid to authority by influencing, inspiring and initiating action.

4. It is Needed at All Levels of Management:

Leadership plays a pivotal role at all levels of management because in the absence of effective leadership no management can achieve the desired results.

5. It Rectifies the Imperfectness of the Formal Organisational Relationships:

No organizational structure can provide all types of relationships and people with common interest may work beyond the confines of formal relationships. Such informal relationships are more effective in controlling and regulating the behaviour of the subordinates. Effective leadership uses there informal relationships to accomplish the enterprise goals.

6. It Provides the Basis for Co-operation:

Effective leadership increases the understanding between the subordinates and the management and promotes co-operation among them.

Process or Techniques of Effective Leadership:

1. The leader should consult the group in framing the policies and lines of action and in initiating any radical change therein.

2. He should attempt to develop voluntary co-operation from his subordinates in realizing common objectives.
3. He should exercise authority whenever necessary to implement the policies. He should give clear, complete and intelligible instructions to his subordinates.
4. He should build-up confidence and zeal in his followers.
5. He should listen to his subordinates properly and appreciate their feelings.
6. He should communicate effectively.
7. He should follow the principle of motivation.

Leaders and Managers can be compared on the following basis:

Basis	**Manager**	**Leader**
Origin	A person becomes a manager by virtue of his position.	A person becomes a leader on basis of his personal qualities.
Formal Rights	Manager has got formal rights in an organization because of his status.	Rights are not available to a leader.
Followers	The subordinates are the followers of managers.	The group of employees whom the leaders leads are his followers.
Functions	A manager performs all five functions of management.	Leader influences people to work willingly for group objectives.
Necessity	A manager is very essential to a concern.	A leader is required to create cordial relation between person working in and for organization.
Stability	It is more stable.	Leadership is temporary.
Mutual Relationship	All managers are leaders.	All leaders are not managers.
Accountability	Manager is accountable for self and subordinates behaviour and performance.	Leaders have no well defined accountability.
Concern	A manager's concern is organizational goals.	A leader's concern is group goals and member's satisfaction.
Followers	People follow manager by virtue of job description.	People follow them on voluntary basis.

Role continuation	A manager can continue in office till he performs his duties satisfactorily in congruence with organizational goals.	A leader can maintain his position only through day to day wishes of followers.
Sanctions	Manager has command over allocation and distribution of sanctions.	A leader has command over different sanctions and related task records. These sanctions are essentially of informal nature.

LEADERSHIP STYLES

Autocratic leadership style: In this style of leadership, a leader has complete command and hold over their employees/team. The team cannot put forward their views even if they are best for the team's or organizational interests. They cannot criticize or question the leader's way of getting things done. The leader himself gets the things done. The advantage of this style is that it leads to speedy decision-making and greater productivity under leader's supervision. Drawbacks of this leadership style are that it leads to greater employee absenteeism and turnover. This leadership style works only when the leader is the best in performing or when the job is monotonous, unskilled and routine in nature or where the project is short-term and risky.

The Laissez Faire Leadership Style: Here, the leader totally trusts their employees/team to perform the job themselves. He just concentrates on the intellectual/rational aspect of his work and does not focus on the management aspect of his work. The team/employees are welcomed to share their views and provide suggestions which are best for organizational interests. This leadership style works only when the employees are skilled, loyal, experienced and intellectual.

Democrative/Participative leadership style: The leaders invite and encourage the team members to play an important role in decision-making process, though the ultimate decision-making power rests with the leader. The leader guides the employees on what to perform and how to perform, while the employees communicate to the leader their experience and the suggestions if any. The advantages of this leadership style are that it leads to satisfied, motivated and more skilled employees. It leads to an optimistic work environment and also encourages creativity. This leadership style has the only drawback that it is time-consuming.

Bureaucratic leadership: Here the leaders strictly adhere to the organizational rules and policies. Also, they make sure that the employees/team also strictly follows the rules and procedures. Promotions take place on the basis of employees' ability to adhere to organizational rules. This leadership style gradually develops over time. This leadership style is more suitable when safe work conditions and quality are required. But this leadership style discourages creativity and does not make employees self-contented.

the behavioural theories of leadership focused on discovering the constant relationship between leadership behaviours and the group performance, the contemporary theories emphasized the significance of situational factors (such as stress level, job structure, leader's intelligence, followers' traits, etc.) as well.

LEADERSHIP THEORIES

Some of the **important leadership theories** are as follows:

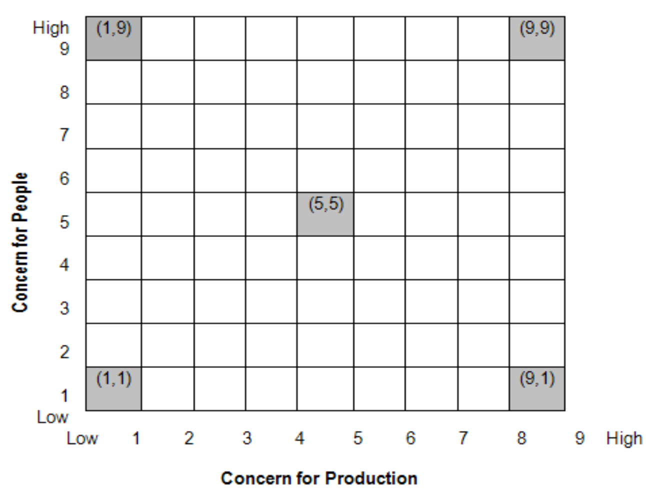
- Blake and Mouton’s Managerial Grid
- House’s Path Goal Theory
- Great Man Theory
- Trait Theory
- Leadership-Member Exchange (LMX) Theory
- Transformational Leadership
- Transactional Leadership
- Continuum of Leadership Behaviour
- Likert’s Management System
- Hersey Blanchard Model
- Fiedler’s Contingency Model

BLAKE AND MOUTON’S MANAGERIAL GRID

The treatment of task orientation and people orientation as two independent dimensions was a major step in leadership studies. Many of the leadership studies conducted in the 1950s at the University of Michigan and the Ohio State University focused on these two dimensions.

Building on the work of the researchers at these Universities, Robert Blake and Jane Mouton (1960s) proposed a graphic portrayal of leadership styles through a **managerial grid** (sometimes called *leadership grid*). The grid depicted two dimensions of leader behavior, **concern for people** (accommodating people’s needs and giving them priority) on y-axis and **concern for production** (keeping tight schedules) on x-axis, with each dimension ranging from low (1) to high (9), thus creating 81 different positions in which the leader’s style may fall.

Figure 1: Managerial Grid



The five resulting leadership styles are as follows:

1. **Impoverished Management (1, 1):** Managers with this approach are low on both the dimensions and exercise minimum effort to get the work done from subordinates. The leader has low concern for employee satisfaction and work deadlines and as a result disharmony and disorganization prevail within

the organization. The leaders are termed ineffective wherein their action is merely aimed at preserving job and seniority.

2. **Task management (9, 1):** Also called dictatorial or perish style. Here leaders are more concerned about production and have less concern for people. The style is based on theory X of McGregor. The employees' needs are not taken care of and they are simply a means to an end. The leader believes that efficiency can result only through proper organization of work systems and through elimination of people wherever possible. Such a style can definitely increase the output of organization in short run but due to the strict policies and procedures, high labour turnover is inevitable.

3. **Middle-of-the-Road (5, 5):** This is basically a compromising style wherein the leader tries to maintain a balance between goals of company and the needs of people. The leader does not push the boundaries of achievement resulting in average performance for organization. Here neither employee nor production needs are fully met.

4. **Country Club (1, 9):** This is a collegial style characterized by low task and high people orientation where the leader gives thoughtful attention to the needs of people thus providing them with a friendly and comfortable environment. The leader feels that such a treatment with employees will lead to self-motivation and will find people working hard on their own. However, a low focus on tasks can hamper production and lead to questionable results.

5. **Team Management (9, 9):** Characterized by high people and task focus, the style is based on the theory Y of McGregor and has been termed as most effective style according to Blake and Mouton. The leader feels that empowerment, commitment, trust, and respect are the key elements in creating a team atmosphere which will automatically result in high employee satisfaction and production.

Advantages of Blake and Mouton's Managerial Grid

The Managerial or Leadership Grid is used to help managers analyze their own leadership styles through a technique known as grid training. This is done by administering a questionnaire that helps managers identify how they stand with respect to their concern for production and people. The training is aimed at basically helping leaders reach to the ideal state of 9, 9.

Limitations of Blake and Mouton's Managerial Grid

The model ignores the importance of internal and external limits, matter and scenario. Also, there are some more aspects of leadership that can be covered but are not.

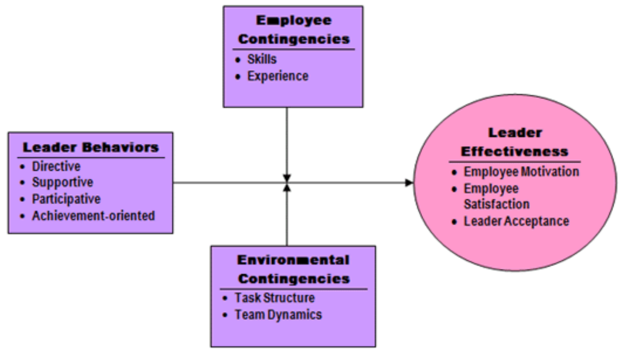
HOUSE'S PATH GOAL THEORY

The theory was developed by Robert House and has its roots in the expectancy theory of motivation. The theory is based on the premise that an employee's perception of expectancies between his effort and performance is greatly affected by a leader's behavior. The leaders help group members in attaining rewards by clarifying the paths to goals and removing obstacles to performance. They do so by providing the information, support, and other resources which are required by employees to complete the task.

House's theory advocates *servant leadership*. As per servant leadership theory, leadership is not viewed as a position of power. Rather, leaders act as coaches and facilitators to their subordinates. According to

House's path-goal theory, a leader's effectiveness depends on several employee and environmental contingent factors and certain leadership styles.

Path-Goal Leadership Theory



Leadership Styles

The four leadership styles are:

- **Directive:** Here the leader provides guidelines, lets subordinates know what is expected of them, sets performance standards for them, and controls behavior when performance standards are not met. He makes judicious use of rewards and disciplinary action. The style is the same as task-oriented one.
- **Supportive:** The leader is friendly towards subordinates and displays personal concern for their needs, welfare, and well-being. This style is the same as people-oriented leadership.
- **Participative:** The leader believes in group decision-making and shares information with subordinates. He consults his subordinates on important decisions related to work, task goals, and paths to resolve goals.
- **Achievement-oriented:** The leader sets challenging goals and encourages employees to reach their peak performance. The leader believes that employees are responsible enough to accomplish challenging goals. This is the same as goal-setting theory.

According to the theory, these leadership styles are not mutually excusive and leaders are capable of selecting more than one kind of a style suited for a particular situation.

CONTINGENCIES

The theory states that each of these styles will be effective in some situations but not in others. It further states that the relationship between a leader's style and effectiveness is dependent on the following variables:

- Employee characteristics: These include factors such as employees' needs, locus of control, experience, perceived ability, satisfaction, willingness to leave the organization, and anxiety. For example, if followers are high inability, a directive style of leadership may be unnecessary; instead a supportive approach may be preferable.
- Characteristics of work environment: These include factors such as task structure and team dynamics that are outside the control of the employee. For example, for employees performing simple and routine tasks, a supportive style is much effective than a directive one. Similarly, the participative style works much better for non-routine tasks than routine ones.

When team cohesiveness is low, a supportive leadership style must be used whereas in a situation where performance-oriented team norms exist, a directive style or possibly an achievement-oriented style works better. Leaders should apply directive style to counteract team norms that oppose the team's formal objectives.

TRAIT THEORY OF LEADERSHIP

The trait model of leadership is based on the characteristics of many leaders - both successful and unsuccessful - and is used to predict leadership effectiveness. The resulting lists of traits are then compared to those of potential leaders to assess their likelihood of success or failure.

Scholars taking the trait approach attempted to identify physiological (appearance, height, and weight), demographic (age, education and socioeconomic background), personality, self-confidence, and aggressiveness), intellective (intelligence, decisiveness, judgment, and knowledge), task-related (achievement drive, initiative, and persistence), and social characteristics (sociability and cooperativeness) with leader emergence and leader effectiveness.

Successful leaders definitely have interests, abilities, and personality traits that are different from those of the less effective leaders. Through many researches conducted in the last three decades of the 20th century, a set of core traits of successful leaders have been identified. These traits are not responsible solely to identify whether a person will be a successful leader or not, but they are essentially seen as preconditions that endow people with leadership potential.

Among the core traits identified are:

- *Achievement drive:* High level of effort, high levels of ambition, energy and initiative
- *Leadership motivation:* an intense desire to lead others to reach shared goals
- *Honesty and integrity:* trustworthy, reliable, and open
- *Self-confidence:* Belief in one's self, ideas, and ability
- *Cognitive ability:* Capable of exercising good judgment, strong analytical abilities, and conceptually skilled
- *Knowledge of business:* Knowledge of industry and other technical matters
- *Emotional Maturity:* well adjusted, does not suffer from severe psychological disorders.
- *Others:* charisma, creativity and flexibility

Strengths/Advantages of Trait Theory

- It is naturally pleasing theory.
- It is valid as lot of research has validated the foundation and basis of the theory.
- It serves as a yardstick against which the leadership traits of an individual can be assessed.
- It gives a detailed knowledge and understanding of the leader element in the leadership process.

Limitations of The Trait Theory

- There is bound to be some subjective judgment in determining who is regarded as a 'good' or 'successful' leader
- The list of possible traits tends to be very long. More than 100 different traits of successful leaders in various leadership positions have been identified. These descriptions are simply generalities.

- There is also a disagreement over which traits are the most important for an effective leader
- The model attempts to relate physical traits such as, height and weight, to effective leadership. Most of these factors relate to situational factors. For example, a minimum weight and height might be necessary to perform the tasks efficiently in a military leadership position. In business organizations, these are not the requirements to be an effective leader.
- The theory is very complex

Implications of Trait Theory

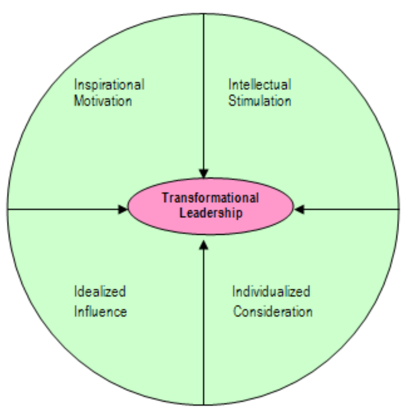
The trait theory gives constructive information about leadership. It can be applied by people at all levels in all types of organizations. Managers can utilize the information from the theory to evaluate their position in the organization and to assess how their position can be made stronger in the organization. They can get an in-depth understanding of their identity and the way they will affect others in the organization. This theory makes the manager aware of their strengths and weaknesses and thus they get an understanding of how they can develop their leadership qualities.

TRANSFORMATIONAL LEADERSHIP THEORY

Creating high-performance workforce has become increasingly important and to do so business leaders must be able to inspire organizational members to go beyond their task requirements. As a result, new concepts of leadership have emerged - transformational leadership being one of them.

Transformational leadership may be found at all levels of the organization: teams, departments, divisions, and organization as a whole. Such leaders are visionary, inspiring, daring, risk-takers, and thoughtful thinkers. They have a charismatic appeal. But charisma alone is insufficient for changing the way an organization operates. For bringing major changes, transformational leaders must exhibit the following four factors:

Model of Transformational Leadership



Inspirational Motivation: The foundation of transformational leadership is the promotion of consistent vision, mission, and a set of values to the members. Their vision is so compelling that they know what they want from every interaction. Transformational leaders guide followers by providing them with a sense of meaning and challenge. They work enthusiastically and optimistically to foster the spirit of teamwork and commitment.

Intellectual Stimulation: Such leaders encourage their followers to be innovative and creative. They encourage new ideas from their followers and never criticize them publicly for the mistakes committed by them. The leaders focus on the "what" in problems and do not focus on the blaming part of it. They have no hesitation in discarding an old practice set by them if it is found ineffective.

Idealized Influence: They believe in the philosophy that a leader can influence followers only when he practices what he preaches. The leaders act as role models that followers seek to emulate. Such leaders always win the trust and respect of their followers through their action. They typically place their followers needs over their own, sacrifice their personal gains for them, ad demonstrate high standards of ethical conduct. The use of power by such leaders is aimed at influencing them to strive for the common goals of the organization.

Individualized Consideration: Leaders act as mentors to their followers and reward them for creativity and innovation. The followers are treated differently according to their talents and knowledge. They are empowered to make decisions and are always provided with the needed support to implement their decisions.

The common examples of transformational leaders are Mahatma Gandhi and Obama.

Criticisms of Transformational Leadership Theory

- Transformational leadership makes use of impression management and therefore lends itself to amoral self promotion by leaders
- The theory is very difficult to e trained or taught because it is a combination of many leadership theories.
- Followers might be manipulated by leaders and there are chances that they lose more than they gain.

Implications of Transformational Leadership Theory

The current environment characterized by uncertainty, global turbulence, and organizational instability calls for transformational leadership to prevail at all levels of the organization. The followers of such leaders demonstrate high levels of job satisfaction and organizational commitment, and engage in organizational citizenship behaviors. With such a devoted workforce, it will definitely be useful to consider making efforts towards developing ways of transforming organization through leadership.

TRANSACTIONAL LEADERSHIP THEORY

The transactional style of leadership was first described by Max Weber in 1947 and then by Bernard Bass in 1981. This style is most often used by the managers. It focuses on the basic management process of controlling, organizing, and short-term planning. The famous examples of leaders who have used transactional technique include McCarthy and de Gaulle.

Transactional leadership involves motivating and directing followers primarily through appealing to their own self-interest. The power of transactional leaders comes from their formal authority and responsibility in the organization. The main goal of the follower is to obey the instructions of the leader. The style can also be mentioned as a 'telling style'.

The leader believes in motivating through a system of rewards and punishment. If a subordinate does what is desired, a reward will follow, and if he does not go as per the wishes of the leader, a punishment will follow. Here, the exchange between leader and follower takes place to achieve routine performance goals.

These exchanges involve four dimensions:

Contingent Rewards: Transactional leaders link the goal to rewards, clarify expectations, provide necessary resources, set mutually agreed upon goals, and provide various kinds of rewards for successful performance. They set SMART (specific, measurable, attainable, realistic, and timely) goals for their subordinates.

Active Management by Exception: Transactional leaders actively monitor the work of their subordinates, watch for deviations from rules and standards and taking corrective action to prevent mistakes.

Passive Management by Exception: Transactional leaders intervene only when standards are not met or when the performance is not as per the expectations. They may even use punishment as a response to unacceptable performance.

Laissez-faire: The leader provides an environment where the subordinates get many opportunities to make decisions. The leader himself abdicates responsibilities and avoids making decisions and therefore the group often lacks direction.

Assumptions of Transactional Theory

- Employees are motivated by reward and punishment.
- The subordinates have to obey the orders of the superior.
- The subordinates are not self-motivated. They have to be closely monitored and controlled to get the work done from them.

Implications of Transactional Theory

The transactional leaders overemphasize detailed and short-term goals, and standard rules and procedures. They do not make an effort to enhance followers' creativity and generation of new ideas. This kind of a leadership style may work well where the organizational problems are simple and clearly defined. Such leaders tend to not reward or ignore ideas that do not fit with existing plans and goals.

The transactional leaders are found to be quite effective in guiding efficiency decisions which are aimed at cutting costs and improving productivity. The transactional leaders tend to be highly directive and action oriented and their relationship with the followers tends to be transitory and not based on emotional bonds.

The theory assumes that subordinates can be motivated by simple rewards. The only 'transaction' between the leader and the followers is the money which the followers receive for their compliance and effort.

Difference between Transactional and Transformational Leaders

Transactional leadership	**Transformational Leadership**
Leadership is responsive	Leadership is proactive
Works within the organizational culture	Work to change the organizational culture by implementing new ideas
Transactional leaders make employees	Transformational leaders motivate and empower

achieve organizational objectives through rewards and punishment	employees to achieve company's objectives by appealing to higher ideals and moral values
Motivates followers by appealing to their own self-interest	Motivates followers by encouraging them to transcend their own interests for those of the group or unit

IOWA AND MICHIGAN STUDIES:

Kurt Lewin, a researcher at the University of Iowa, and his colleagues, made some of the earliest attempts to scientifically determine effective leader behaviors. They concentrated on three leadership styles: autocratic, democratic, and laissez-faire.

The autocratic leader tends to make decisions without involving subordinates, spells out work methods, provides workers with very limited knowledge of goals, and sometimes gives negative feedback.

The democratic or participative leader includes the group in decision-making; he consults the subordinates on proposed actions and encourages participation from them. Democratic leaders let the group determine work methods, make overall goals known, and use feedback to help subordinates. Laissez-faire leaders use their power very rarely.

They give the group complete freedom. Such leaders depend largely on subordinates to set their own goals and the means of achieving them. They see their role as one of aiding the operations of followers by furnishing them with information and acting primarily as a contact with the group's external environment. They too avoid giving feedback.

To determine which leadership style is most effective, Lewin and his colleagues trained some persons to exhibit each of the styles. They were then placed in charge of various groups in a preadolescent boys' club. They found that on every criterion in the study, groups with laissez-faire leaders under performed in comparison with both the autocratic and democratic groups.

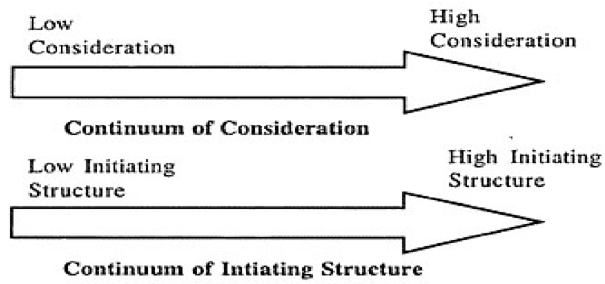
While the amount of work done was equal in the groups with autocratic and democratic leaders; work quality and group satisfaction was higher in the democratic groups. Thus, democratic leadership appeared to result in both good quantity and quality of work, as well as satisfied workers.

OHIO STATE STUDIES:

In 1945, a group of researchers at Ohio University began extensive investigations on leadership. They initiated the process by identifying a number of important leader behaviors. The researchers then designed a questionnaire to measure the behaviors of different leaders and track factors such as group performance and satisfaction to see which behaviors were most effective.

The most publicized aspect of the studies was the identification of two dimensions of leadership behavior: 'initiating structure' and 'consideration.' Initiating structure is the extent to which a leader defines his or her own role and those of subordinates so as to achieve organizational goals.

Ohio State Model of Leader Behaviour



It is similar to the job-centered leader behavior of the Michigan studies, but includes a broader range of managerial functions such as planning, organizing, and directing. It focuses primarily on task-related issues. Consideration is the degree of mutual trust between leader and his subordinates; how much the leader respects subordinates' ideas and shows concerns for their feelings.

Consideration is similar to the employee-centered leader behavior of the Michigan studies. It emphasizes people-related issues. A consideration-oriented leader is more likely to be friendly towards subordinates, encourages participation in decision-making, and maintains good two-way communication.

As opposed to the Iowa and Michigan studies, which considered leadership dimensions, i.e. employee-centered approach and job-centered approach, as the two opposite ends of the same continuum, the Ohio State studies considered initiating structure and consideration as two independent behaviors. Therefore, the leadership behaviors operated on separate continuums.

A leader could thus be high on both the dimensions, or high on one dimension and low on the other, or could display gradations in between. This two-dimensional mode of leader's behavior made sense as many leaders display both initiating structure and consideration dimensions.

The two-dimensional approach led to the interesting probability that a leader might be able to place emphasis on both task and people-related issues. They may be able to produce high levels of subordinate satisfaction by being considerate, and at the same time can be specific about the results expected, thereby focusing on task issues too.

However, this theory was too simplistic. It later became apparent that situational factors like the nature of the task and the expectations of subordinates affected the success of leadership behavior.

LIKERT'S MANAGEMENT SYSTEM

Rensis Likert and his associates studied the patterns and styles of managers for three decades at the University of Michigan, USA, and identified a four-fold model of management systems. The model was developed on the basis of a questionnaire administered to managers in over 200 organizations and research into the performance characteristics of different types of organizations. The four systems of management system or the four leadership styles identified by Likert are:

- **System 1 - Exploitative Authoritative:** Responsibility lies in the hands of the people at the upper echelons of the hierarchy. The superior has no trust and confidence in subordinates. The decisions are imposed on subordinates and they do not feel free at all to discuss things about the job with their superior. The teamwork or communication is very little and the motivation is based on threats.
- **System 2 - Benevolent Authoritative:** The responsibility lies at the managerial levels but not at the lower levels of the organizational hierarchy. The superior has condescending confidence and trust in subordinates (master-servant relationship). Here again, the subordinates do not feel free to discuss things about the job with their superior. The teamwork or communication is very little and motivation is based on a system of rewards.
- **System 3 - Consultative:** Responsibility is spread widely through the organizational hierarchy. The superior has substantial but not complete confidence in subordinates. Some amount of discussion about job related things takes place between the superior and subordinates. There is a fair amount of teamwork, and communication takes place vertically and horizontally. The motivation is based on rewards and involvement in the job.
- **System 4 - Participative:** Responsibility for achieving the organizational goals is widespread throughout the organizational hierarchy. There is a high level of confidence that the superior has in his subordinates. There is a high level of teamwork, communication, and participation.

The nature of these four management systems has been described by Likert through a profile of organizational characteristics.

In this profile, the four management systems have been compared with one another on the basis of certain organizational variables which are:

- Leadership processes
- Motivational forces
- Communication process
- Interaction-influence process
- Decision-making process
- Goal-setting or ordering
- Control processes

On the basis of this profile, Likert administered a questionnaire to several employees belonging to different organizations and from different managerial positions (both line and staff). His studies confirmed that the departments or units employing management practices within Systems 1 and 2 were the lease productive, and the departments or units employing management practices within Systems 3 and 4 were the most productive.

Advantages

With the help of the profile developed by Likert, it became possible to quantify the results of the work done in the field of group dynamics. Likert theory also facilitated the measurement of the “soft” areas of management, such as trust and communication.

HERSEY BLANCHARD MODEL

According to this model, the leader has to match the leadership style according to the readiness of subordinates which moves in stage and has a cycle. Therefore, this theory is also known as the life-cycle theory of leadership.

The theory, developed by Paul Hersey and Kenneth Blanchard, is based on the 'readiness' level of the people the leader is attempting to influence. Readiness is the extent to which followers have the ability and willingness to accomplish a specific task. Ability is the knowledge, experience, and skill that an individual possesses to do the job and is called job readiness. Willingness is the motivation and commitment required to accomplish a given task. The style of leadership depends on the level of readiness of the followers.

The readiness(R) is divided into a continuum of four levels which are:

R1 - low follower readiness - refers to low ability and low willingness of followers i.e. those who are unable and insecure

R2 - low to moderate follower readiness - refers to low ability and high willingness of followers i.e. those who are unable but confident

R3 - moderate to high follower readiness - refers to high ability and low willingness of followers i.e. those who are able but insecure

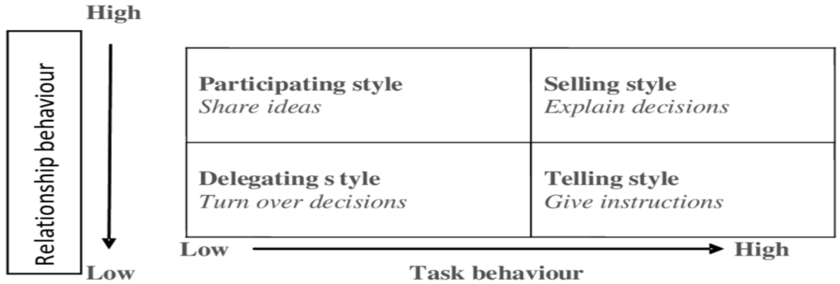
R4 - high follower readiness - refers to high ability and high willingness of followers i.e. those who are both able and confident

The direction is provided by the leader at the lower levels of readiness. Therefore, the decisions are leader directed. On the other hand, the direction is provided by the followers at the higher levels of readiness. Therefore, the decisions in this case are follower directed. When the followers move from low levels to high levels of readiness, the combinations of task and relationship behaviors appropriate to the situation begin to change.

For each of the four levels of readiness, the leadership style used may be a combination of task and relationship behavior.

- **Task behavior:** Extent to which the leader spells out the duties and responsibilities of a follower which includes providing them direction, setting goals, and defining roles for them. Usually a one-way communication exists which is meant to provide the direction to the followers.
- **Relationship behavior:** Extent to which the leader listens to the followers, and provides encouragement to them. Here, a two-way communication exists between the leader and the follower.

By combining the task and the relationship behavior, we arrive at the following four different styles of leadership which correspond with the different levels of readiness.



S1 - Telling: This style is most appropriate for low follower readiness (R1). It emphasizes high task behavior and limited relationship behavior.

S2 - Selling: This style is most appropriate for low to moderate follower readiness (R2). It emphasizes high amounts of both task and relationship behavior.

S3 - Participating: This style is most appropriate for moderate to high follower readiness (R3). It emphasizes high amount of relationship behavior but low amount of task behavior.

S4 - Delegating: This style is most appropriate for high follower readiness (R4). It emphasizes low levels of both task and relationship behavior.

FIEDLER'S CONTINGENCY MODEL

Fred E. Fiedler's contingency theory of leadership effectiveness was based on studies of a wide range of group effectiveness, and concentrated on the relationship between leadership and organizational performance. This is one of the earliest situation-contingent leadership theories given by Fiedler. According to him, if an organization attempts to achieve group effectiveness through leadership, then there is a need to assess the leader according to an underlying trait, assess the situation faced by the leader, and construct a proper match between the two.

Leader's trait

In order to assess the attitudes of the leader, Fiedler developed the 'least preferred co-worker' (LPC) scale in which the leaders are asked about the person with whom they least like to work. The scale is a questionnaire consisting of 16 items used to reflect a leader's underlying disposition toward others. The items in the LPC scale are pleasant / unpleasant, friendly / unfriendly, rejecting / accepting, unenthusiastic / enthusiastic, tense / relaxed, cold / warm, helpful / frustrating, cooperative / uncooperative, supportive / hostile, quarrelsome / harmonious, efficient / inefficient, gloomy / cheerful, distant / close, boring / interesting, self-assured / hesitant, open / guarded. Each item in the scale is given a single ranking of between one and eight points, with eight points indicating the most favorable rating.

Friendly	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**Unfriendly**

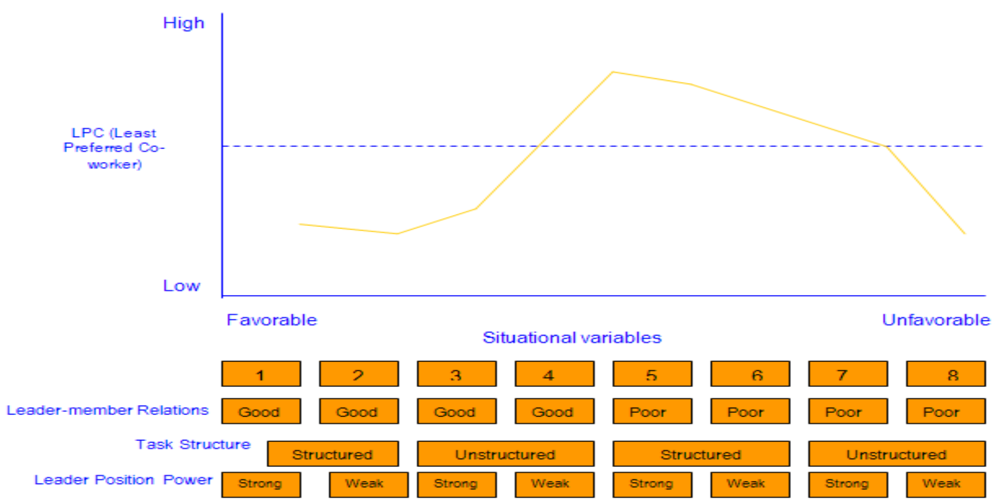
Fiedler states that leaders with high LPC scores are relationship-oriented and the ones with low scores are task-oriented. The high LPC score leaders derived most satisfaction from interpersonal relationships and therefore evaluate their least preferred co-workers in fairly favorable terms. These leaders think about the task accomplishment only after the relationship need is well satisfied. On the other hand, the low LPC score leaders derived satisfaction from performance of the task and attainment of objectives and only after tasks have been accomplished, these leaders work on establishing good social and interpersonal relationships.

Situational factor

According to Fiedler, a leader's behavior is dependent upon the favorability of the leadership situation. Three factors work together to determine how favorable a situation is to a leader. These are:

- **Leader-member relations -** The degree to which the leaders is trusted and liked by the group members, and the willingness of the group members to follow the leader's guidance
- **Task structure -** The degree to which the group's task has been described as structured or unstructured, has been clearly defined and the extent to which it can be carried out by detailed instructions
- **Position power -** The power of the leader by virtue of the organizational position and the degree to which the leader can exercise authority on group members in order to comply with and accept his direction and leadership

With the help of these three variables, eight combinations of group-task situations were constructed by Fiedler. These combinations were used to identify the style of the leader.



Correlation between leader's LPC scores and group effectiveness

Leadership Effectiveness

The leader's effectiveness is determined by the interaction of the leader's style of behavior and the favorableness of the situational characteristics. The most favorable situation is when leader-member relations are good, the task is highly structured, and the leader has a strong position power.

Research on the contingency model has shown that task-oriented leaders are more effective in highly favorable (1, 2, 3) and highly unfavorable situation (7, 8), whereas relationship-oriented leaders are more effective in situations of intermediate favorableness (4, 5, 6).

Fiedler also suggested that leaders may act differently in different situations. Relationship-oriented leaders generally display task-oriented behaviors under highly favorable situations and display relationship-oriented behaviors under unfavorable intermediate favorable situations. Similarly, task-oriented leaders frequently display task-oriented in unfavorable or intermediate favorable situations but display relationship-oriented behaviors in favorable situations.

Vroom-Yetton Model:

Another important issue in the study of leadership is the degree of participation of subordinates in the decision-making process. Two researchers, Victor Vroom and Philip Yetton, developed a model of situational leadership to help managers to decide when and to what extent they should involve employees in solving a particular problem.

The Yroom-Yetton model identifies five styles of leadership based on the degree to which subordinates participate in the decision-making process. The five leadership styles are as follows:

Situational Characteristic	Diagnostic Question
Quality of the decision	How important is the technical quality of the decision?
Availability of information deci. : n?	Do you have enough information to be able to take a high quality decision.
Structure of the issue	Is the problem well-structured?
Necessity of commitment of subordinates	How important is the subordinates' commitment in putting the decision into practice?
Probability of commitment	If you took the decision by yourself are you certain the subordinates will commit themselves to putting it into practice?
Congruency of objectives	Do your subordinates share the organizational objectives that will be reached by solving the issue?
Conflicts among subordinates	Can conflicts among subordinates come up because of their preferences for certain solutions?

Autocratic I (AI):
Managers solve the problem or make the decision themselves, using information available at that time.

Autocratic II (All):
Managers obtain the necessary information from subordinates, then make the decision themselves.

Consultative I (CI):
Managers discuss the problem with relevant subordinates individually, getting their ideas and suggestions without bringing them together as a group. Then the managers make the decision, which may or may not reflect subordinates' influence.

Consultative II (CII):
Managers share the problem with subordinates as a group, collectively obtaining their ideas and suggestions. Then they make the decision, which may or may not reflect subordinates' influence.

Group II (GII):
Managers share a problem with subordinates as a group. Managers and subordinates together generate and analyze alternatives and attempt to reach a consensus on the solution. Managers do not try to get the group to adopt the managers' own preferred solution; they accept and implement any solution that has the support of the entire group.

Vroom and Yetton prepared a list of seven 'yes-no' questions that managers can ask themselves to determine which leadership style to use for the particular problem they are facing (see Table 12.1).

Vroom and Yetton developed a decision model by matching the decision styles to the situation according to the answers given to the seven questions. The managers can identify the most suitable leadership style for each type of problem by answering these questions.

Depending on the nature of the problem, more than one leadership style might be suitable. Research conducted by Vroom and other management scholars has demonstrated that decisions consistent with the model have been successful.

DIFFERENT TYPES OF POWER

Power has been an important aspect of human civilization since time immemorial. Power might be physical, political or social. In the context of business as well, power dynamics tend to influence decisions and people transactions heavily. So defining power can be difficult as it is understood and interpreted in several ways however power can definitely not be called a force which gets you what you want. Power basically emanates from position or authority which can influence people both positively and negatively.

For simplicity and understanding purposes power is usually classified into following categories:

1. **Coercive Power-** This kind of power involves the usage of threat to make people do what one desires. In the organizational set up, it translates into threatening someone with transfer, firing, demotions etc. it basically forces people to submit to one's demand for the fear of losing something.
2. **Reward Power-** As the name suggests, this type of power uses rewards, perks, new projects or training opportunities, better roles and monetary benefits to influence people. However an interesting aspect of this type of power is that, it is not powerful enough in itself, as decisions related to rewards do not rest solely with the person promising them, because in organizations, a lot of other people come into play like senior managers and board.
3. **Legitimate Power-** This power emanates from an official position held by someone, be it in an organization, bureaucracy or government etc. The duration of this power is short lived as a person can use it only till the time he/she holds that position, as well as, the scope of the power is small as it is strictly defined by the position held.
4. **Expert Power-** This is a personal kind of power which owes its genesis to the skills and expertise possessed by an individual, which is of higher quality and not easily available. In such a situation, the person can exercise the power of knowledge to influence people. Since, it is very person specific and skills can be enhanced with time; it has more credibility and respect.
5. **Referent Power-** This is a power wielded by celebrities and film stars as they have huge following amongst masses who like them, identify with them and follow them. Hence, they exert lasting influence on a large number of people for a large number of decisions; like from what car to buy to which candidate to choose for a higher office in the country.

So, power can be defined in a number of ways however what is important is the usage of the power by people who possess it. Within the organizational context the power dynamics and equations need to be carefully managed as they have a huge impact on the motivation and engagement level of employees. It also defines the organization's culture in general and people transactions within the organization in particular. A very hierarchy and power driven organization finds it difficult to accommodate new and innovative ideas, any change is vehemently refused, egos clash and lesser opportunities are made available for the high performers, thus delaying organizational growth. On the other hand, in an organization which is flat in structure, people are encouraged to innovate and explore, thus bringing in new concepts and ideas to accelerate organizational growth and expansion.

MOTIVATION

Motivation is the process that initiates, guides, and maintains goal-oriented behaviors. It involves the biological, emotional, social, and cognitive forces that activate behavior. In everyday usage, the term "**motivation**" is frequently used to describe why a person does something.

Motivation reflects something unique about each one of us and allows us to gain valued outcomes like improved performance, enhanced well-being, personal growth, or a sense of purpose. It is a pathway to change our way of thinking, feeling, and behaving.

Motivation is defined as the reasons why you are doing something, or the level of desire you have to do something. Desire or enthusiasm to accomplish or achieve something. People who are **motivated** desire to do things, they desire to make a difference rather than sit and wait for things to happen. Without **motivation**, you can't achieve anything.

Motivation is an **important** life skill. The reason it's **important** is because every person on this earth is unique and has a purpose. To steward your purpose well, you have to be **motivated** to work towards your goals which helps your dreams become a reality.

Motivation is essential in order to achieve any goal, whether it is in health and fitness, starting a new business or project, or simply keeping up with daily operations. A loss of **motivation** can be very damaging to one's self-confidence, and can make achieving success much less likely.

Motivation is a psychological phenomenon which generates within an individual. A person feels the lack of certain needs, to satisfy which he feels working more. The need satisfying ego motivates a person to do better than he normally does.

Main basic objective of motivation is to create conditions in which people are willing to work with zeal, initiative, interest and enthusiasm with a high moral satisfaction personal as well as group. **Motivation**, as well creates feeling or responsibility and loyalty.

Motivation is important to an individual as it will help him achieve his personal goals. If an individual is **motivated**, he will have job satisfaction. **Motivation** will help in self-development of individual. An individual would always gain by working with a dynamic team.

Motivation refers to how driven and happy an **employee** is in their role. If an **employee** is **motivated**, they are more likely to do a good job and work hard. **Motivation** is very **important** for attracting **employees**, retaining **employees** and general levels of productivity in a business.

Importance of Motivation

Motivation is important to both the **organ**ization and the individual. To achieve **organ**izational goals, motivation has become very effective tools and a manager has to use this tool to motivate or inspire the staff member in their respective job in such a manner that they could **work** effectively and efficiently.

From the viewpoint of **organ**ization and individuals, motivation is important and plays a significant role and is also considered as an important determinant of performance. Following are some of the importance of motivation:

1. **Improvement in Cooperation:** Due to effective motivation, the employees will be ready to cooperate in the succession of the **organ**ization. By extending positive cooperation, employees help the **organ**ization to achieve the goals in one hand and they also solve their problem/ get satisfaction on the other. Thus, prosperity on both sides can be observed well if the motivation is implemented within the **organ**ization in the true sense.

2. **Higher Morale of Personnel:** Motivation increases the **work** morale of the **work**ers. The **work**ers having higher morale are asserted as the assets of the **organ**ization. A motivated employee can contribute to the **organ**ization by lowering the turnover rate and absenteeism. Higher turnover and absenteeism create many problems in the **organ**ization and affect their reputation **adverse**ly. Motivation helps to bring these rates lower.

3. **Utilization of Factor of Production:** Human resources are one of the important resources and if this resource is utilized properly then only other factors can be utilized properly. Motivation makes the human resource employees) **work** sincerely and performing/completing the task efficiently. If employees **work** efficiently then only there will be a possibility of utilizing other factors of production properly and that too in maximum. Hence, motivation helps to utilize the factor of production in a managerial way.

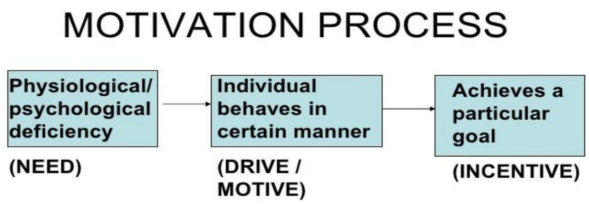
4. **Higher Productivity:** With the help of motivation, an **organ**ization can attain a higher level of **productivity** because by motivating the subordinates, a manager can induce them to **work** efficiently, it will help the **organ**ization to increase total production and **productivity**. If the **work**ers are induced with a variety of motivating techniques, the inherent qualities can be developed and thus be used for the prosperity of the **organ**ization and subordinates as well.

5. **Best Remedy for Resistance to Change:** The sign of development changes in **work** and **work** techniques. The changes in **organ**ization and it's **work**ing styles are the usual phenomenon because of **organ**izational changes in its production technology, marketing process and even due to environmental changes, many changes occur in the **organ**ization. When any changes occur in the **organ**ization, the **work**ers may not be happy, feel discomfort, assume insecurity and show their disagreement and protest against such change. But if they are properly, timely and tactfully motivated and managers give knowledge and inspiration, they will accept the change even more enthusiastic**ally**.

6. **Healthy Industrial Relation:** Motivation creates healthy industrial relations within the **organ**ization. The relation between management and trade unions will be very friendly. There will not be any conflict between the management and trade unions with the help of motivation. So, motivation provides a healthy relationship in the industrial field too.

7. **Realizing Organizational Goals:** Motivated employees develop a feeling of total involvement in the task of **organ**ization and **work** wholeheartedly for the realization of **organ**izational goals. The employees should give more focus on the **organ**izational goals while motivating them. So, motivation helps to realize the **organ**izational goals of the employees.

Process of Motivation



1. **Need:**

The motivation process starts with needs or expectations. If employees have no need or expectation they cannot be motivated. Employees run to address or to solve the need or expectation. The need for expectation is a very important process of motivation. Managers of the business **organ**ization must pay proper consideration towards the needs and expectations of employees. Food is a relevant example of it.

2. **Drive/ Action:**

The drive is action-oriented. After the expectation, people seek a job. The action is needed to address the need or expectations. Without action, employees cannot solve food problems. Thus, when the need occurs the people move for its implementation.

3. **Incentives:**

An incentive is the last process of motivation. After having a job, employees should be provided for and competitive wages. It supports to solve and address the need or expectation. Employees come to an **organ**ization to sell their knowledge, skill, and labor. When they sell their labor, employees will get **incentives**.

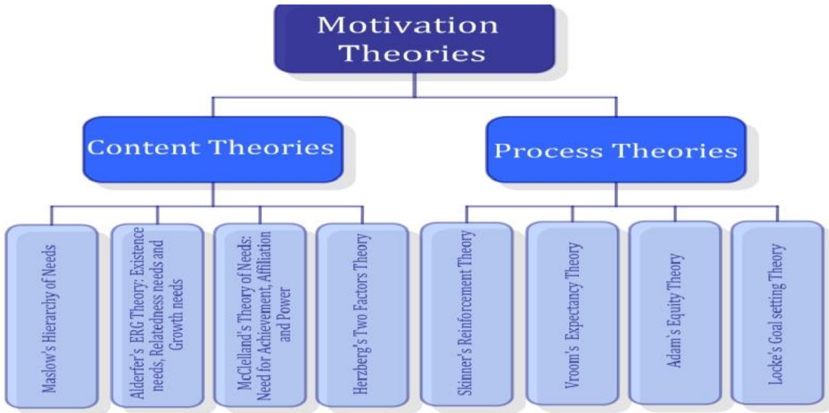
MOTIVATION THEORIES

We can distinguish between **content** and **process** motivation theories. Content theories focus on WHAT, while process theories focus on HOW human behaviour is motivated. Content theories are the earliest theories of motivation. Within the work environment they have had the greatest impact on management practice and policy, whilst within academic circles they are the least accepted. Content theories are also called needs theories: they try to identify what our needs are and relate motivation to the fulfilling of these needs. The content theories cannot entirely explain what motivate or demotivate us. Process theories are concerned with "*how*" motivation occurs, and what kind of process can influence our motivation.

The **main content theories** are: Maslow's needs hierarchy, Alderfer's ERG theory, McClelland's achievement motivation and Herzberg's two-factor theory.

The **main process theories** are: Skinner's reinforcement theory, Victor Vroom's expectancy theory, Adam's equity theory and Locke's goal setting theory (Figure 1).

No single motivation theory explains all aspects of people's motives or lack of motives. Each theoretical explanation can serve as the basis for the development of techniques for motivating.



Motivation theories (Source: Author's own figure)

Maslow – hierarchy of needs

This is the earliest and most widely known theory of motivation, developed by Abraham Maslow (1943) in the 1940s and 1950s.

This theory condenses needs into five basic categories. Maslow ordered these needs in his hierarchy, beginning with the basic psychological needs and continuing through safety, belonging and love, esteem and self-actualization (Figure 2). In his theory, the lowest unsatisfied need becomes the dominant, or the most powerful and significant need. The most dominant need activates an individual to act to fulfil it. Satisfied needs do not motivate. Individual pursues to seek a higher need when lower needs are fulfilled.

Maslow's hierarchy of needs is often shown in the shape of a pyramid: basic needs at the bottom and the most complex need (need for self-actualization) at the top. Maslow himself has never drawn a pyramid to describe these levels of our needs; but the pyramid has become the most known way to represent his hierarchy.

1. **Physiological needs** (e.g. food, water, shelter, sleep)

It includes the most basic needs for humans to survive, such as air, water and food. Maslow emphasized, our body and mind cannot function well if these requirements are not fulfilled.

These physiological needs are the most dominant of all needs. So if someone is missing everything in his/her life, probably the major motivation would be to fulfil his/her physiological needs rather than any others. A person who is lacking food, safety, love (also sex) and esteem, would most probably hunger for food (and also for money, salary to buy food) than for anything else.

If all the needs are unsatisfied, and the organism is then overruled by the physiological needs, all other needs may turn into the background. All capacities are put into the attendance of satisfying hunger. Any other things are forgotten or got secondary importance.

Maslow's Hierarchy of Needs (Source: Author's own figure)

2. **Safety and security** (secure source of income, a place to live, health and well-being)

If the physiological needs are relatively well contented, new needs will appear, the so called safety needs. Safety needs refer to a person's desire for security or protection. Basically everything looks less important than safety and protection (the physiological needs even sometimes). The healthy and fortunate adults in our culture are largely satisfied in their safety needs. The peaceful, sure, safety and unwavering society makes us feel in safety enough from criminal assaults, murder, unbelievable natural catastrophes, and so on. In that case people no longer have any safety needs as first-line motivators.

Meeting with safety needs demonstrated as a preference for insurance policies, saving accounts or job security, etc., we think about the lack of economic safety. Children have a greater need to feel safe. That is the reason why this level is more important for children.

Safety and security needs include: Personal security; Financial security; Health and well-being; Safety mesh against accidents, illnesses and their adverse impacts.

To tell the truth, in real dangers and traumas – like war, murder, natural catastrophes, criminal assault, etc. -, the needs for safety become an active, first-line and dominant mobilizer of human beings.

3. **Belongingness and love** (integration into social groups, feel part of a community or a group; affectionate relationships)

If both the physiological and the safety needs are fulfilled, the affection, love and belongingness needs come into prominence. Maslow claimed people need to belong and accepted among their social groups. Group size does not mean anything: social groups can be large or small. People need to love and be loved – both sexually and non-sexually – by others. Depending on the power and pressure of the peer group, this need for belonging may overbear the physiological and security needs.

Love needs involve giving and receiving affections (love is not synonymous with sex – sex is a physiological need). When they are unsatisfied, a person will immediately eliminate the lack of friends, peers and partner. Many people suffer from social nervousness, loneliness, social isolation and also clinical depression because of the lack of this love or belongingness factor.

4. **Esteem** (respect for a person as a useful, honourable human being)

In our society most people long for a stable and high valuation of themselves, for the esteem of others and for self-respect or self-esteem.

Esteem means being valued, respected and appreciated by others. Humans need to feel to be valued, such as being useful and necessary in the world. People with low self-esteem often need respect from others. Maslow divided two types of esteem needs: a 'lower' version and a 'higher' version. The 'lower' version of esteem is the need for respect from others: for example attention, prestige, status and loving their opinion. The 'higher' version is the need for self-respect: for example, the person may need independence, and freedom or self-confidence.

The most stable and therefore the healthiest self-esteem is based on respect from others. External fame or celebrity and unwarranted adulation won't cause self-esteem, although you feel better for a while.

5. **Self-actualization** (individual's desire to grow and develop to his or her fullest potential)
'What humans can be, they must be.' (Maslow, 1954)
Self-actualization reflects an individual's desire to grow and develop to his/her fullest potential. People like opportunities, choosing his/her own versions, challenging positions or creative tasks. Maslow described this level as the '*need to accomplish everything that one can, to become the most that one can be*'. Maslow believed that people must overcome their other needs – described above -, not only achieve them. At this level, individual differences are the largest.

As each level is adequately satisfied, we are then motivated to satisfy the next level in the hierarchy, always new and higher needs are coming. This is what we mean, when the basic human needs are drawn like a pyramid, a hierarchy. Life experiences, including divorce and loss of job, may cause an individual to fluctuate between levels of the hierarchy. These five different levels were further sub-categorised into two main groups: *deficiency and growth needs*.

Deficiency needs – The very basic needs for survival and security.

These needs include:
• *physiological needs*
• *safety and security needs*
• *social needs – belongingness and love*
• *esteem needs*

It may not cause a physical indication if these 'deficiency needs' are not fulfilled, but the individual will feel anxious and tense. So the most basic level of needs must be fulfilled before a person wants to focus on the secondary or higher level needs.
Growth needs – Personal growth and fulfilment of personal potential.

These needs include:

• *self-actualisation needs*

This hierarchy is not as rigid as we may have implied. For example, there are some humans for whom self-esteem or self-actualization seems to be more important than love or belonging. The popularity of this theory of motivation rooted in its simplicity and logic.

Alderfer – ERG theory: Existence needs, relatedness needs and growth needs

Alderfer (Furnham, 2008) distinguished three steps or classes of needs: *existence, relatedness and growth*. Maslow's physiological and safety needs belong together to existence needs. Relatedness can be harmonised to belongingness and esteem of others. Growth is the same as Maslow's self-esteem plus self-actualization. Both Maslow and Alderfer tried to describe how these needs, these stages of needs become more or less important to individuals.

• **Existence needs:** These include needs for basic material necessities. In short, it includes an individual's physiological and physical safety needs.

• **Relatedness needs:** Individuals need significant relationships (be with family, peers or superiors), love and belongingness, they strive toward reaching public fame and recognition. This class of needs contain Maslow's social needs and external component of esteem needs.

• **Growth needs:** Need for self-development, personal growth and advancement form together this class of need. This class of needs contain Maslow's self-actualization needs and intrinsic component of esteem needs.

Alderfer agreed with Maslow that unsatisfied needs motivate individuals. Alderfer also agreed that individuals generally move up the hierarchy in satisfying their needs; that is, they satisfy lower-order before higher-order needs. As lower-order needs are satisfied, they become less important, but Alderfer also said: as higher-order needs are satisfied they become more important. And it is also said that under some circumstances individuals might return to a lower need. Alderfer thought that individuals multiply the efforts invested in a lower category need when higher categorized needs are not consequent.

For example there is a student, who has excellent grades, friends, and high standard of living, maybe also work at the university. What happens if this individual finds that he or she is frustrated in attempts to get more autonomy and responsibility at the university, maybe also more scholarship that generally encourage individuals' growth? Frustration in satisfying a higher (growth) need has resulted in a regression to a lower level of (relatedness) needs ('*I need just my friends, some good wine, I do not want to go to the university anymore*.').

This event is known and called as the frustration-regression process. This is a more realistic approach as it recognises that, because when a need is met, it does not mean it will always remain met. ERG theory of motivation is very flexible: it explains needs as a range rather than as a hierarchy. Implication of this theory: Managers must understand that an employee has various needs that must be satisfied at the same time. ERG theory says, if the manager concentrates only on one need at a time, he or she won't be able to motivate the employee effectively and efficiently. Prioritization and sequence of these three categories, classes can be different for each individual.

McClelland – Need for achievement, affiliation and power

In the early 1960s McClelland – built on Maslow's work – described three human motivators. McClelland (Arnold et al., 2005) claimed that humans acquire, learn their motivators over time that is the reason why this theory is sometimes called the '*Learned Needs Theory'*. He affirms that we all have three motivating drivers, and it does not depend on our gender or age. One of these drives or needs will be dominant in our behaviour.

McClelland's theory differs from Maslow's and Alderfer's, which focus on satisfying existing needs rather than creating or developing needs. This dominant motivator depends on our culture and life experiences, of course (but the three motivators are permanent). The three motivators are:

- *achievement*: a need to accomplish and demonstrate competence or mastery
- *affiliation*: a need for love, belonging and relatedness
- *power*: a need for control over one's own work or the work of others

These learned needs could lead to diversity and variety between employees. More precisely, prioritization and importance of these motivational needs characterises a person's behaviour. As we wrote, although each person has all of these needs to some extent, only one of them tends to motivate an individual at any given time.

Achievement motivation – a need to accomplish and demonstrate competence or mastery. It pertains to a person's need for significant success, mastering of skills, control or high standards. It is associated with a range of actions. Individual seek achievement, attainment of challenging (and also realistic) goals, and advancement in the school or job.

This need is influenced by internal drivers for action (intrinsic motivation), and the pressure used by the prospects of others (extrinsic motivation). Low need for achievement could mean that individuals want to minimise risk of failure, and for this reason people may choose very easy or too difficult tasks, when they cannot avoid failure. In contrast, high need for achievement means that humans try to choose optimal, sufficiently difficult tasks, because they want to get the chance to reach their goals, but they have to work for it, they need to develop themselves.

Individuals with high need for achievement like to receive regular feedback on their progress and achievements; and often like to work alone; seek challenges and like high degree of independence.

Sources of high need for achievement can be: praise for success, goal setting skills, one's own competence and effort to achieve something, and it does not depend only on luck; of course positive feelings and also independence in childhood. McClelland said that training, teaching can increase an individual's need for achievement. For this reason, some have argued that need for achievement is not a need but a value.

Affiliation motivation – a need for love, belonging and relatedness

These people have a strong need for friendships and want to belong within a social group, need to be liked and held in popular regard. They are team players, and they may be less effective in leadership positions. High-need-for-affiliation persons have support from those with whom they have regular contact and mostly are involved in warm interpersonal relationships. After or during stressful situation individuals need much more affiliation. In these situations people come together and find security in one another. There are times when individuals want to be with others and at other times to be alone – affiliation motivation can become increased or decreased. Individuals do not like high risk or uncertainty.

Authority/power motivation – a need to control over one's own work or the work of others. These persons are authority motivated. There is a strong need to lead and to succeed in their ideas. It is also needed to increase personal status and prestige. This person would like to control and influence others. McClelland studied male managers with high need for power and high need for affiliation and found that managers with a high need for power tended to run more productive departments in a sales organization than did managers with a high need for affiliation.

It is important to speak about gender differences in need for power. It is said that men with high need for power mostly have higher aggression, drink more, act in sexually exploitative manner, and participate in competitive sports, and also political unrests. At the same time women with higher need for power show more socially acceptable and responsible manner, are more concerned and caring. These types of people prefer to work in big, multinational organisations, businesses and other influential professions.

McClelland argues that strong need for achievement people can become the best leaders – as we wrote it above. But at the same time there can be a tendency to request too much of their employees, because they think that these people are also highly achievement-focused and results-driven, as they are. Think about your teachers and professors! I am sure they all want the best for you, they would like to develop you, but I do not think you feel the same every time. McClelland said that most people have and show a combination of these characteristics.

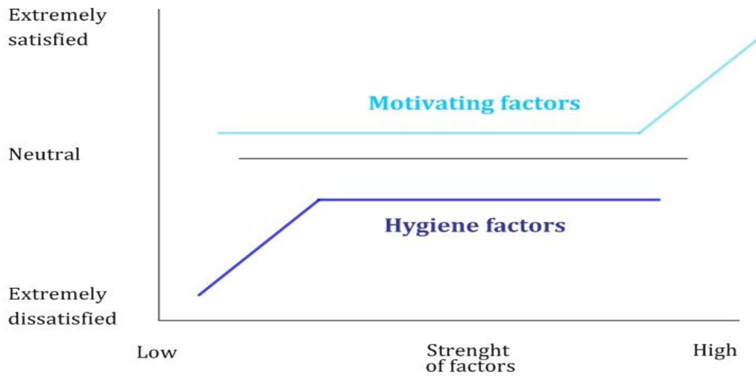
Herzberg – Two factor theory

It is also called motivation-hygiene theory.

This theory says that there are some factors (motivating factors) that cause job satisfaction, and motivation and some other also separated factors (hygiene factors) cause dissatisfaction (Figure 3).

That means that these feelings are not opposite of each other, as it has always previously been believed.

Opposite of satisfaction is not dissatisfaction, but rather, no satisfaction. According to Herzberg (1987) the job satisfiers deal with the factors involved in doing the job, whereas the job dissatisfiers deal with the factors which define the job context.



Herzberg's Two Factor Theory (Source: Author's own figure)

If the **hygiene factors**, for example salary, working conditions, work environment, safety and security are unsuitable (low level) at the workplace, this can make individuals unhappy, dissatisfied with their job. **Motivating factors**, on the other hand, can increase job satisfaction, and motivation is based on an individual's need for personal growth. If these elements are effective, then they can motivate an individual to achieve above-average performance and effort. For example, having responsibility or achievement can cause satisfaction (human characteristics) (Dartey-Baah, 2011).

Hygiene factors are needed to ensure that an employee is not dissatisfied. Motivation factors are needed to ensure employee's satisfaction and to motivate an employee to higher performance.

Herzberg's Two Factory Theory (Source: Author's own table)

Dissatisfaction – Low level	Hygiene factors
No dissatisfaction-High level	
No satisfaction – Low level	Motivating factors
Satisfaction – High level	

Herzberg's five factors of job satisfaction (motivating factors):

- *achievement*
- *recognition*
- *work itself*
- *responsibility*

• *advancement*

Only these factors can motivate us. But at the same time we need the lack of dissatisfactions (we need hygiene factors, "*workpeace*") to achieve more efficient work.

Herzberg's five factors of job dissatisfaction (hygiene factors – deficiency needs):

• *company policy and administration*

• *supervision*

• *salary*

• *interpersonal relationships*

• *working conditions*

Can we motivate with money, with higher salary? What did Herzberg and Maslow say? Is it just the same or something different?

Herzberg addressed salary not a motivator in the way that the primary motivators are, just like achievement and recognition. Salary can be a motivator, if you get always higher and higher salary, but we cannot say that it is an incentive. Maslow said, money or salary is needed to buy food to eat, to have some place to live and sleep, etc. It can be a physiological need.

Differences between Maslow's and Herzberg's theory

Points of view	**Maslow's theory**	**Herzberg's theory**
Date of the theory	in 1940's	in 1960's
Study group	ordinary American people	well-situated American people
About needs	Every level of needs give us satisfaction and give the opportunity to move on to the next level of needs.	Not every type of needs can give us satisfaction, just motivating factors.

Limitations of this theory:

• *This theory oversees situational variables.*

• *Herzberg supposed a correlation, linear between productivity, performance and satisfaction.*

• *The theory's reliability is uncertain.*

• *No comprehensive measure of satisfaction was used.*

• *The theory ignores blue-collar workers, only white-collar men's opinion was discussed.*

However, Herzberg tried to bring more humanity and caring into companies' life. His intention was not to develop a theory that is used as a 'motivational tool', but to provide a guidance to improve organisational performance.

Summary of Content Theories of Motivation

Maslow	**Alderfer**	**McClelland**	**Herzberg**
Physiological	Existence		Hygiene

Safety and security			
Belongingness and love	Relatedness	Need for Affiliation	
Self-esteem		Need for power	
Self-actualization	Growth	Need for achievement	Motivators

There are some critics for all need theories. Although, there is a consensus for the general concept: human behaviour is motivated by the strong wish for fulfilling a human need. Critics are:

• *Universality*: they do not care about gender, age, culture, religious or other factor differences.
• *Research support and methodology problems*: these theories were not based on reliable and creditable research results.
• *Work focus*: individuals have needs only at their workplaces, but not at any other places of their life.
• *Individual differences and stability over time.*
• *Process simplicity.*

Skinner's reinforcement theory

The Reinforcement theory, based on Skinner's operant conditioning theory, says that behaviour can be formed by its consequences (Gordon, 1987).

Positive reinforcements, for example praise, appreciation, a good mark/grade, trophy, money, promotion or any other reward can increase the possibility of the rewarded behaviours' repetition.

If a student gets positive verbal feedback and a good grade for his test, this reinforcement encourages the performance of the behaviour to recur. If the teacher doesn't tell precisely what he expects, then the positive reinforcements can drive the behaviour closer to the preferred. For example, when a student who is usually late to class gets positive feedback when he arrives on time, the student becomes more and more punctual. Positive reinforcement motivates to get the anticipated reinforcement of required behaviour.

We use **negative reinforcement** when we give a meal to a hungry person if he behaves in a certain manner/way.

In this case the meal is a negative reinforcement because it eliminates the unpleasant state (hunger).

Contrary to positive and negative reinforcement, **punishment** can be undesired reinforcement, or reinforce undesired behaviour.

For example, if a student is always late to class and thus he gets negative verbal feedback and also always has to tidy up the classroom at the end of the day, in this case the undesirable behaviour is reinforced with an undesirable reinforcer. The punishment declines the tendency to be late.

According to the theory, positive reinforcement is a much better motivational technique than punishment because punishment:
• *tries to stop undesirable behaviour and does not offer an alternative behaviour*
• *creates bad feelings, negative attitudes toward the activity, and the person who gives the punishment*

• *suppresses behaviour, but does not permanently eliminate it*.

Once certain behaviour has been conditioned through repetitive reinforcement, elimination of the reinforcement will decline the motivation to perform that behaviour. Therefore it is better not to give a reward every time. Reinforcement in the workplace usually takes place on a partial or irregular reinforcement schedule, when reward is not given for every response.

The reinforcement theory is included in many other motivation theories. Reward must meet someone's needs, expectations, must be applied equitably, and must be consistent. The desired behaviour must be clear and realistic, but the issue remains: which reinforcements are suitable and for which person?

Vroom's expectancy theory

The expectancy theory places an emphasis on the process and on the content of motivation as well, and it integrates needs, equity and reinforcement theories.

Victor Vroom's (1964) expectancy theory aims to explain how people choose from the available actions. Vroom defines motivation as a process that governs our choices among alternative forms of voluntary behaviour. The basic rationale of this theory is that motivation stems from the belief that decisions will have their desired outcomes.

The motivation to engage in an activity is determined by appraising three factors.

• **Expectancy** – a person's belief that more effort will result in success. If you work harder, it will result in better performance.
In this case the question is: "*Am I capable of making a good grade on a math test if I learn more?"* Appraisal of this factor is based on the effort to learn math, on knowledge of math, on the previous experience of math test results, on self-efficacy and specific self-rated abilities.

• **Instrumentality** – the person's belief that there is a connection between activity and goal. If you perform well, you will get reward.
In this case the question is that: "*Will I get the promised reward (a good mark) for performing well on a math test?*" Appraisal of this factor is based on the accuracy and consistency of marking. If one day I get a good grade and another day I get a bad grade for the same performance, then the motivation will decrease.

• **Valence** – the degree to which a person values the reward, the results of success.
In this case the question is that: "*Do I value the reward that I get?*" Appraisal of this factor is based on the importance of its subject (math), the good mark, and the good performance in general.

Vroom supposes that expectancy, instrumentality and valence are multiplied together to determine motivation. This means that if any of these is zero, then the motivation to do something will be zero as well.

Vroom's expectancy theory (Source: Author's own figure)

A person who doesn't see the connection between effort and performance will have zero expectancy. A person who can't perceive the link between performance and reward will have zero instrumentality. For a person who doesn't value the anticipated outcome, reward will have zero valence.

For example if I think:
- *that no matter how hard I'm studying I can't learn math due to lack of necessary skills or*
- *that no matter how good I perform on the test I don't always get good mark so the reward is unpredictable, not dependent on my success or*
- *the good mark from math is not important for me, and I'm not interested in math, so the reward is not attractive, then I won't be motivated to learn for the exam*.

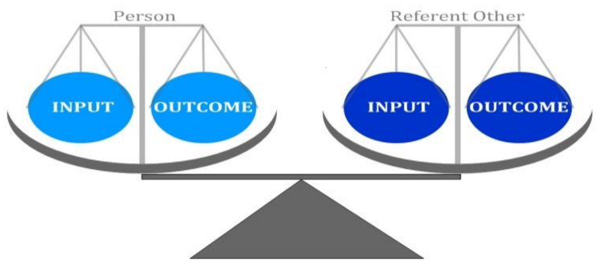
The expectancy theory highlights individual differences in motivation and contains three useful factors for understanding and increasing motivation. This theory implies equity and importance of consistent rewards as well (Konig & Steel 2006).

Adams' equity theory

The equity theory states that people are motivated if they are treated equitably, and receive what they consider fair for their effort and costs.

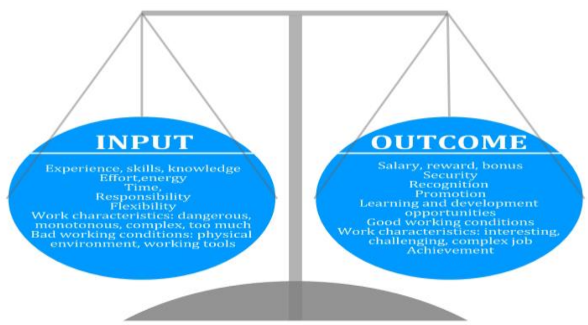
The theory was suggested by Adams (1965) and is based on Social Exchange theory.

According to this theory, people compare their contribution to work, costs of their actions and the benefits that will result to the contribution and benefits of the reference person. If people perceive that the ratio of their inputs-outputs to the ratio of referent other's input-output is inequitable, then they will be motivated to reduce the inequity



Adams' equity theory (Source: Author's own figure)

At the workplace the workers put inputs into the job, such as education, experience, effort, energy, and expect to get some outcomes such as salary, reward, promotion, verbal recognition, and interesting and challenging work each in equal amounts.



Examples for the inputs and outcomes in the equity theory (Source: Author's own figure)

The equity theory works not just in the workplace, but at school as well. For example, when for the same oral exam performance two students get different marks, then inequity exists. In this case, the student who gets the worse mark may lose his/her motivation to learn (reduce his/her efforts), or persuade the teacher to give him/her a better mark, or change the perception of the reference person's performance ("*I did not know everything, but my classmate could answer all the questions*"). At the school it can demotivate students if someone who never studies or who never performs better than the others always gets good mark. The greater the inequity the greater the distress an individual feels, which will motivate the endeavour to make the outcomes and the inputs equal compared to the reference person.

When inequity exists, a person might…

• *reduce his/her inputs, efforts, quantity or quality of his/her work*
• *try to increase his/her outputs* (ask for better mark, or pay raising)
• *adjust his/her perception of reference person or his/her outcomes or inputs* (re-evaluate his/her or the reference person's effort or outcome)
• *change the reference person*
• *quit the situation.*

The problem with equity theory is that it does not take into account differences in individual needs, values, and personalities. For example, one person may perceive a certain situation as inequitable while another does not. Nevertheless ensuring equity is essential to motivation.

Locke's goal-setting theory

Locke's (1990) goal setting theory is an integrative model of motivation just like the expectancy theory. It emphasizes that setting specific, challenging performance goals and the commitment to these goals are key determinants of motivation. Goals describe a desired future, and these established goals can drive the behaviour. Achieving the goals, the goal accomplishment further motivates individuals to perform.

We can distinguish goals according to specificity, difficulty and acceptance. A specific goal can be measured and lead to higher performance than a very general goal like "*Try to do your best!*" A difficult, but realistic goal can be more motivational than easy or extremely difficult ones. The acceptance of the goal is very important as well, therefore involvement in the goal setting is recommended.

For example, if I decide to pass a medium level language exam in German in six months – this goal is specific and difficult enough – because I want to work in Germany – this goal is very important for me, therefore the goal commitment is high – then I will be motivated to learn, and to pass the exam.

The following guidelines have been useful in the goal-setting:

- *Set challenging but attainable goals*. Too easy or too difficult/unrealistic goals don't motivate us.
- *Set specific and measurable goals*. These can focus toward what you want, and can measure the progress toward the goal.
- *Goal commitment should be obtained*. If people don't commit to the goals, then they will not put effort toward reaching the goals, even specific, or challenging ones. Strategies to achieve this could include participation in the goal setting process, use of extrinsic rewards (bonuses), and encouraging intrinsic motivation through providing workers with feedback about goal attainment. Pressure to achieve goals is not useful because it can result in dishonesty and superficial performance.
- *Support elements should be provided*. For example, encouragement, needed materials, resources, and moral support.
- *Knowledge of results is essential* – so goals need to be quantifiable and there needs to be feedback.

Goal-setting is a useful theory which can be applied in several fields, from sport to a wide range of work settings. Sports psychology in particular has adopted its recommendations. The concept of goal-setting has been incorporated into a number of incentive programmes and management by objectives (MBO) techniques in a number of work areas. Feedback accompanying goal attainment may also enhance a worker's job performance and ability to become more innovative and creative on the job through a trial-and-error learning process. Since goal-setting is a relatively simple motivational strategy, it has become increasingly popular.

Process of motivation according to goal-setting theory (Source: Author's own figure)

Unit V

COMMUNICATION

Communication is the act of conveying meanings from one entity or group to another through the use of mutually understood signs, symbols, and semiotic rules. The main steps inherent to all communication are: The formation of communicative motivation or reason. Message composition. Message encoding.

Communication is simply the act of transferring information from one place, person or group to another. Every **communication** involves (at least) one sender, a message and a recipient. These include our emotions, the cultural situation, the medium used to communicate, and even our location.

Communication is the act of giving, receiving, and sharing information -- in other words, talking or writing, and listening or reading. Good communicators listen carefully, speak or write clearly, and respect different opinions.

Communication serves five major **purposes**: to inform, to express feelings, to imagine, to influence, and to meet social expectations. Each of these **purposes** is reflected in a form of **communication**.

Being able to **communicate** effectively is one of the most **important** life skills. Those with good interpersonal skills are strong verbal and non-verbal communicators and are often considered to be "good with people". to learn. **Communication** is defined as transferring information to produce greater understanding.

When **communication** is **effective**, it leaves all parties involved satisfied and feeling accomplished. By delivering messages clearly, there is no room for misunderstanding or alteration of messages, which decreases the potential for conflict.

Communication is a Latin **word** which means 'to share'. It is the sharing of information between different individuals. It includes the sharing of ideas, concepts, imaginations, behaviours and written content. **Communication** is simply defined as the transfer of information from one place to another.

Communication is the process of passing information from one person to another. The **purpose of communication** understands of information. **Communication** thus helps understand people better removing misunderstanding and creating clarity of thoughts and expression. It also educates people.

Communication skills are the abilities you use when giving and receiving different kinds of information. Some examples include **communicating** new ideas, feelings or even an update on your project. **Communication skills** involve listening, **speaking**, observing and empathising.

Effective Communication is defined as the ability to convey information to another **effectively** and efficiently. Business managers with good verbal, nonverbal and written **communication** skills help facilitate the sharing of information between people within a company for its commercial benefit.

It involves the distribution of messages clearly and concisely, in a way that connects with the audience. **Good communication** is about understanding instructions, acquiring new skills, making requests, asking questions and relaying information with ease.

IMPORTANCE OF COMMUNICATION IN MANAGEMENT

1. Basis of Decision-Making and Planning:

Communication is essential for decision-making and planning. It enables the management to secure information without which it may not be possible to take any decision. The quality of managerial decisions depends upon the quality of communication. Further, the decisions and plans of the management need to be communicated to the subordinates. Without effective communication, it may not be possible to issue instructions to others. Effective communication helps in proper implementation of plans and policies of the management.

2. Smooth and Efficient Working of an Organisation:

In the words of George R. Terry, "It serves as the lubricant, fostering for the smooth operations of management process." Communication makes possible the smooth and efficient working of an enterprise. It is only through communication that the management changes and regulates the actions of the subordinates in the desired direction.

3. Facilitates Co-Ordination:

Management is the art of getting things done through others and this objective of management cannot be achieved unless there is unity of purpose and harmony of effort. Communication through exchange of ideas and information helps to bring about unity of action in the pursuit of common purpose. It binds the people together and facilitates co-ordination.

4. Increases Managerial Efficiency:

Effective communication increases managerial efficiency. It is rightly said that nothing happens in management until communication takes place. The efficiency of manager depends upon his ability to communicate effectively with the members of his organisation. It is only through communication that management conveys its goals and desires, issues instructions and orders, allocates jobs and responsibility and evaluates performance of subordinates.

5. Promotes Co-operation and Industrial Peace:

Effective communication creates mutual understanding and trust among the members of the organisation. It promotes co-operation between the employer and the employees. Without communication, there cannot be sound industrial relations and industrial peace. It is only through communication that workers can put in their grievances, problems and suggestions to the management.

6. Helps in Establishing Effective Leadership:

Communication is the basis of effective leadership. There cannot be any leadership action without the effective communication between the leader and the led. Communication is absolutely necessary for maintaining man to man relationship in leadership. It brings the manager (leader) and the subordinates (led) in close contact with each other and helps in establishing effective leadership.

7. Motivation and Morale:

Communication is the means by which the behaviour of the subordinates is modified and change is effected in their actions. Through communication workers are motivated to achieve the goals of the enterprise and their morale is boosted. Although motivation comes from within yet the manager can also motivate people by effective communication, e.g., proper drafting of message, proper timing of communication and the way of communication, etc.

8. Increases Managerial Capacity:

Effective communication increases managerial capacity too. A manager is a human being and has limitations as to time and energy that he can devote to his activities. He has to assign duties and responsibilities to his subordinates. Through communication, a manager can effectively delegate his authority and responsibility to others and thus, increases his managerial capacity.

9. Effective Control:

Managerial function of control implies the measurement of actual performance, comparing it with standards set by plans and taking corrective actions of deviations, if any, to ensure attainment of enterprise objectives according to preconceived and planned acts. Communication acts as a tool of effective control. The plans have to be communicated to the subordinates, the actual performance has to be measured and communicated to the top management and a corrective action has to be taken or communicated so as to achieve the desired goals. All this may not be possible without an efficient system of communication.

10. Job Satisfaction:

Effective communication creates job satisfaction among employees as it increases mutual trust and confidence between management and the employees. The gap between management and the employees is reduced through the efficient means of communication and a sense of belongingness is created among employees. They work with zeal and enthusiasm.

11. Democratic Management:

Communication is also essential for democratic management. It helps to achieve workers participation in management by involving workers in the process of decision-making. In the absence of an efficient system of communication, there cannot be any delegation and decentralization of authority.

12. Increases Productivity and Reduces Cost:

Effective communication saves time and effort. It increases productivity and reduces cost. Large- scale production involves a large number of people in the organisation. Without communication, it may not be possible to work together in a group and achieve the benefits of large-scale production.

13. Public Relations:

In the present business world, every business enterprise has to create and maintain a good corporate image in the society. It is only through communication that management can present a good corporate image to the outside world. Effective communication helps management in maintaining good relations with workers, customers, suppliers, shareholders, government and community at large.

Purpose of Communication:

Management is getting the things done through others. The people working in the organisation should therefore be informed how to do the work assigned to them in the best possible manner. The communication is essential in any organisation.

The purpose of the communication can be summed up into the following:

1. Flow of Information:

The relevant information must flow continuously from top to bottom and vice versa. The staff at all levels must be kept informed about the organisational objectives and other developments taking place in the organisation. A care should be taken that no one should be misinformed. The information should reach the incumbent in the language he or she can understand better. The use of difficult words should be avoided. The right information should reach the right person, at right time through the right person.

2. Coordination:

t is through communication the efforts of all the staff working in the organisation can be coordinated for the accomplishment of the organisational goals. The coordination of all personnel's and their efforts is the essence of management which can be attained through effective communication.

3. Learning Management Skills:

The communication facilitates flow of information, ideas, beliefs, perception, advice, opinion, orders and instructions etc. both ways which enable the managers and other supervisory staff to learn managerial skills through experience of others. The experience of the sender of the message gets reflected in it which the person at the receiving end can learn by analyzing and understanding it.

4. Preparing People to Accept Change:

The proper and effective communication is an important tool in the hands of management of any organisation to bring about overall change in the organisational policies, procedures and work style and make the staff to accept and respond positively.

5. Developing Good Human Relations:

Managers and workers and other staff exchange their ideas, thoughts and perceptions with each other through communication. This helps them to understand each other better. They realize the difficulties faced by their colleagues at the workplace. This leads to promotion of good human relations in the organisation.

6. Ideas of Subordinates Encouraged:

The communication facilitates inviting and encouraging the ideas from subordinates on certain occasions on any task. This will develop creative thinking. Honoring subordinates' ideas will further motivate them for hard work and a sense of belonging to the organisation will be developed. It will provide them with the encouragement to share information with their superiors without hesitation. The managers must know the ideas, thoughts, comments, reactions and attitudes of their subordinates and subordinates should know the same from the lowest level staff of their respective departments.

THE 7 CHARACTERISTICS OF EFFECTIVE COMMUNICATION

1. **Completeness**

Effective communications are complete, i.e. the receiver gets all the information he needs to process the message and take action. A complete message **reduces the need for follow-up** questions and smoothens the communication process.

2. **Conciseness**

Conciseness is about keeping your message to a point. This is more about the content of your message rather than its length. Even a short memo can include irrelevant or redundant information. Conciseness **helps the receiver focus** on what's important, speeds up the processing of information and caters for improved understanding.

3. **Consideration**

Effective communication takes into account the receiver's background and points of view. If your message hits a nerve or sounds as disrespectful, the emotional reaction of the receiver might affect the perception of your message. Also, tailoring your message to **your audience** – e.g. by using argumentations and examples which are relevant to their experience – makes it easier for them to **process the contents**.

4. **Concreteness**

A concrete message is specific, tangible, vivid. It's supported by facts and figures for **enhanced credibility**. It helps your audience gain an overview of the broader picture. Concreteness **mitigates the risk of misunderstanding**, fosters trust and encourages constructive criticism.

5. **Courtesy**

Courtesy and consideration complement each other in effective communications. Courtesy means **respecting the receiver's culture, values and beliefs** – i.e. crafting a message that is genuinely polite and unbiased.

6. **Clearness**

The clearer your message, the easier it gets for the receiver to decode it according to your original intent. While this sounds obvious, most communication pitfalls originate from lack of clarity. Want to deliver an effective message? Start with **a clear communication goal** and accurate thoughts. Clear communications build on exact terminology and concrete words, to **reduce ambiguities** and confusion in the communication process.

7. **Correctness**

Correct grammar and syntax vouch for **increased effectiveness and credibility** of your message. Formal errors might affect the clarity of your message, trigger ambiguity and raise doubts. They might also have a negative impact on the overall perception of the message, which could be seen as sloppy or negligent.

Communications Process

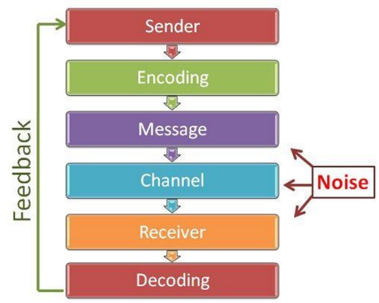
Communications is a continuous process which mainly involves three elements viz. sender, message, and receiver. The elements involved in the communication process are explained below in detail:

1. Sender

The sender or the communicator generates the message and conveys it to the receiver. He is the source and the one who starts the communication

2. Message

It is the idea, information, view, fact, feeling, etc. that is generated by the sender and is then intended to be communicated further.



3. Encoding

The message generated by the sender is encoded symbolically such as in the form of words, pictures, gestures, etc. before it is being conveyed.

4. Media

It is the manner in which the encoded message is transmitted. The message may be transmitted orally or in writing. The medium of communication includes telephone, internet, post, fax, e-mail, etc. The choice of medium is decided by the sender.

5. Decoding

It is the process of converting the symbols encoded by the sender. After decoding the message is received by the receiver.

6. Receiver

He is the person who is last in the chain and for whom the message was sent by the sender. Once the receiver receives the message and understands it in proper perspective and acts according to the message, only then the purpose of communication is successful.

7. Feedback

Once the receiver confirms to the sender that he has received the message and understood it, the process of communication is complete.

8. Noise

It refers to any obstruction that is caused by the sender, message or receiver during the process of communication. For example, bad telephone connection, faulty encoding, faulty decoding, inattentive receiver, poor understanding of message due to prejudice or inappropriate gestures, etc.

TYPES OF COMMUNICATION : FORMAL, INFORMAL, INTERPERSONAL(VERBAL), NON-VERBAL COMMUNICATION

Communication can be characterized as Formal, Informal, Inter-personal and Non-verbal communication:

1. Formal Communication

Formal communication means the communication which travels through the formally established channels. In other words, communication which travels through the formal chain of command or lines of hierarchy of authority is called the formal communication. Under it, information is given through the formally designed channel or network. It is designed, controlled and regulated by the management.

Advantages of Formal Communication

- It helps in the fixation of responsibility and accountability.
- It helps in maintaining the lines of authority in the organization.
- It helps in maintaining discipline.
- It ensures orderly flow of communication.

Disadvantages of Formal Communication

- It lacks personal contacts and relationship.
- It is time consuming. It takes much time to communicate.
- It creates a bottleneck in the flow of information because almost all information is channeled through a single executive.
- It obstructs free, smooth and accurate circulation of information in an organization.

Formal communication can be Horizontal, Vertical and Diagonal.

i. Horizontal Communication

When communication takes place between two or more persons of the same level or position of the same department or other departments of the organization, it is known as horizontal communication. When the finance manager communicates with the marketing manager concerning advertising expenditures, the flow of communication is horizontal. The objective of horizontal communication is to coordinate the efforts of different departments or persons.

Advantages of Horizontal Communication

- Coordinating in nature.
- Frequently informal and therefore simpler than vertical communication.
- Reassuring to those in charge of implementing department policy, since it provides them with the opportunity of checking with each other and comparing notes.
- Expedient in terms of communication time.

Disadvantages of Horizontal Communication

The major disadvantages of horizontal communication are listed as below:

- Department chiefs may remain uninformed about what their division heads are thinking.
- It can have a disuniting effect by fostering clique i.e. grouping among personal at the same levels of authority.
- It can distort the purpose of a department policy, and even render it inoperative by allowing too much discussion about it.
- It may actually increase misunderstanding among division heads by permitting informal (verbal) alterations of formal communications.

ii. Vertical Communication

The communication in which information is either transmitted from top to the bottom or from bottom to the top in structural hierarchy is a vertical communication. In this way, vertical communication may be of two types as:

a) Downward Communication

When messages are transmitted from superiors to subordinates along with the chain of command, it is said to be downward communication. It refers to the transmission of information from superior to subordinates. The most common downward communications are job instruction, official memos, policy statements, procedures, manuals and company publications.

b) Upward Communication

When messages are transmitted from bottom to top of the organizational hierarchy, it is said to be upward communication. This provides feedback on the extent of effectiveness of downward communication. It is also a means of informing the management about the viewpoints, reactions, feelings and state of employee morale. Widely used upward communication devices include suggestion boxes, group meetings, report to supervisors and appeal or grievance procedures. Usually upward communication is utilized in democratic and participative management. Effective upward communication channels are important because they provide employees with opportunities to have a say.

Advantages of Vertical Communication

- It is authoritative and official.
- It is binding to all parties involved.
- It is the most legitimate type of communication.

Disadvantages of Vertical Communication

The major disadvantages of vertical communication are listed as below:

- It is formal and informal.
- It is usually slow-moving, since it must be channeled through several levels of authority.
- It may conceal the true motives behind the formal message it carries.

iii. Diagonal Communication

Diagonal communication cuts across departmental lines. Such communication is in between people who are neither in the same department nor on the same level of organizational structure. In other words, it refers to interchange of messages between the managers and employees who are neither in the same department nor on the same level of organizational structure. Diagonal communication refers to communication between managers and workers located in different functional divisions. Although both vertical and horizontal communication continue to be important, these terms no longer adequately capture communication needs and flows in most modern organizations. The concept of diagonal communication was introduced to capture the new communication challenges associated with new organizational forms, such as matrix and project based organizations.

Advantages of Diagonal Communication

- It is the most direct method of communication.
- It is the most selective method of communication.
- It is one of the fastest methods of communication.
- In critical situations, it would seem to be the most essential and logical type of communication.

Disadvantages of Diagonal Communication

- It can destroy lines of authority and formal chains of command.
- It can leave immediate superiors uninformed of what their subordinates are doing.
- It can lead to conflicting orders so it may lead to further confusion.
- It is usually verbal and thus is untraceable if things go wrong.

2. Informal Communication

Informal communication refers to the communication which takes place on the basis of informal relations between the members of a group. It is personal communication in nature and not a positional communication. It does not flow along with the formal lines of authority or formal chain of command. Even it is not regulated by the formal rules and procedures. Normally, members of informal group use this form of communication in order to share their ideas, views, opinions and other information. There is lack of official instruction for communication. It is not controlled and designed by formal organizational structure. So, it is not used to communicate formal message.

Advantages of Informal Communication

- It is more flexible.
- It helps to improve decision-making.
- Informal communication is faster in speed than formal communication.
- It works as a powerful and effective tool of communication.
- It may provide feedback to managers on their actions and decisions.

Disadvantages of Informal Communication

- It is difficult to fix responsibility for the information.
- It may cause misunderstanding.
- It carries inaccurate, half-truth or distorted information.
- It is difficult to believe on information.
- It leads to leakage of secret information.

3. Inter-personal Communication (Verbal Communication)

Inter-personal communication is the sharing of information between two or more people face-to-face through any other direct channel. Since communicating parties get face-to-face, so it is two-way communication. Very simply, manager or supervisors give direction and guidance to their subordinates in their presence is the common example of inter-personal communication. Inter-personal communication can be oral or written.

i) Oral Communication

When message is expressed through the words of mouth or spoken words, it is said to be oral communication. It may take place either through face-to-face conversation or through any electronic mode such as telephone, cellular phone, intercom etc. In oral communication, source of message i.e. sender gives the information through oral means i.e. by speaking. This means of communication is more reliable because sender can get feedback quickly.

Advantages of Oral Communication

- It is quicker and saves in time.
- It establishes a personal touch and leads to better understanding.
- It is economical or less expensive as compared to written communication.
- It is flexible and the messages can be changed to suit the needs and response of the receiver.

Disadvantages of Oral Communication

- It has the tendency of being distorted.
- It is less reliable.
- It provides no record for future reference.
- It does not provide sufficient time for thinking before conveying the message.

ii. Written Communication

When message is expressed through written words, it is known as written communication. It may be expressed even through groups, charts, diagrams, pictures with or without words. In this form of communication, information is shared to the receiver by writing or drawing. It is the formal means of communication. Normally, information that should be kept for long time for future reference, are transmitted by means of written communication.

Advantages of Written Communication

- It tends to be complete, clear, precise and correct.
- It tends to reduce misunderstanding, conflicts and disputes.
- It ensures transmission of information in uniform manager, i.e. everyone concerned has the same information.
- It ensures little risk of unauthorized alternation in the messages.
- It is taken as a legal evidence by the courts.

Disadvantages of Written Communication

- It is time consuming.
- It is expensive.
- It may be interpreted in a different manner by different people.
- It tends to ineffective and unimpressive in case of poor drafting.
- It fails to provide feedback immediately.

4. Non-Verbal Communication

Communication through postures or gestures of body parts is known as the gestural or non-gestural or non-verbal communication. It is a mode of communication in which anything other than words may be used to transmit message from one person to another. In other words, the communication of information by means of facial expression, body movement, physical contact, gestures, etc. is called non-verbal communication. It is the communication in which neither written nor oral means are used. It is often used to encourage the subordinates like shaking hands, blinking eyes, smiling, clapping etc. It is most powerful means of communication. Good managers always use this type of communication frequently whenever necessary.

Grapevine communication

Grapevine communication is a form of informal **communications** in business that develops within an organisation. Large organisations, where there are many people who are working closely, create certain unofficial or informal **communication** channels.

These channels exist with or without authorised patronage. Even though they are secretly and officially patronised, they are not reliable. This kind of communication is usually known as "Grapevine" communication.

Types of Grapevine Communication

1. Single Strand Chain
2. Gossip Chain
3. Probability Chain
4. Cluster Chain

There are 4 types of grapevine communication are:

Single Strand Chain

It can seep from person to person in a strictly linear fashion. The information takes time to spread in this fashion.

Gossip Chain

In some circumstances, a person goes around communicating the information or message he or she thinks which he or she has obtained.

Probability Chain

The listeners are a selected few only. In some other condition, a person communicates information without any constraint to all those with whom he comes into contact. This is termed as Probability Chain and the message or information passed on may be interesting but not essential.

Cluster Chain

In yet another condition, one individual communicates to a few selected associates who in turn communicate the same to yet another group.

Advantages of Grapevine Communication

- It gives mental satisfaction to the participants and gradually reduces emotional outbursts and reactions.
- It provides informal feedback on the changes contemplated by the management.
- Grapevine communication brings about a strong bond among peer groups.
- It keeps the employees anticipating and acts as a buffer against Shockwaves.
- It develops because of the involvement of the persons connected with an organisation.
- It is fast and can supplement formal channels.

Disadvantages of Grapevine Communication

- It may provoke sudden unexpected and unwanted reactions from emotionally unstable persons.
- Grapevine, is definitely dangerous to the organisation health if permissible to grow without monitoring.
- Industries and Business houses adopt one or several of these strategies to keep grapevine under reasonable control so that it does not degenerate into a rumour mill and promote unwanted gossip sessions among the staffs.
- It has the potential to spread irrelevant gossip.
- A transparent administration policy, interaction sessions, employee-friendly attitude, parties, fruitful meetings of peer group, and outings where all those linked with the organisation participate are few strategies to monitor grapevine and use it to the benefit for the organisation.
- It may result in personal vilification and character assassination of persons.
- Grapevine channels can be moderated but not eradicated.
- Grapevine channel exaggerates or distorts the message content.

BARRIERS TO COMMUNICATION

A **communication barrier** is anything that prevents us from receiving and understanding the messages others use to convey their information, ideas and thoughts. They can interfere with or block the message you are trying to send.

A communication barrier is anything that prevents us from receiving and understanding the messages others use to convey their information, ideas and thoughts. There are five of these types of barriers to effective communication, including: Attitudinal Barriers, Behavioral Barriers, Cultural Barriers, Language Barriers and Environment Barriers.

A common cause of communication breakdown in a workplace situation is people holding different attitudes, values and discrimination. Valuing people who are different allows us to draw on a broader range of insights, ideas, experience and knowledge.

The behaviors like bias, generalizations and stereotyping can cause communication barriers. Empathy is important for overcoming barriers to communication based on culture. Language barriers occur when people do not speak the same language, or do not have the same level of ability in a language.

There are many environmental factors affecting the effective communication process. Communication means sharing meaning. With no sharing, there is no communication. To communicate successfully in a team or with others, at work or in the community, we have to understand the communication environment and the barriers which prevent messages being sent and received successfully.

COMMON BARRIERS TO EFFECTIVE COMMUNICATION:

***The use of jargon.** Over-complicated, unfamiliar and/or technical terms.

***Emotional barriers and taboos.** Some people may find it difficult to express their emotions and some topics may be completely 'off-limits' or taboo. Taboo or difficult topics may include, but are not limited to, politics, religion, disabilities (mental and physical), sexuality and sex, racism and any opinion that may be seen as unpopular.

***Lack of attention, interest, distractions, or irrelevance to the receiver.**

***Differences in perception and viewpoint.**

***Physical disabilities such as hearing problems or speech difficulties.**

***Physical barriers to non-verbal communication.** Not being able to see the non-verbal cues, gestures, posture and general body language can make communication less effective. Phone calls, text messages and other communication methods that rely on technology are often less effective than face-to-face communication

***Language differences and the difficulty in understanding unfamiliar accents.**
***Expectations and prejudices which may lead to false assumptions or stereotyping.** People often hear what they expect to hear rather than what is actually said and jump to incorrect conclusions.
***Cultural differences.** The norms of social interaction vary greatly in different cultures, as do the way in which emotions are expressed. For example, the concept of personal space varies between cultures and between different social settings.

VARIOUS COMMUNICATION BARRIERS

- **Psychological Barriers:**

The psychological condition of the receiver will power how the message is received. Stress management is a significant personal skill that affects our interpersonal relationships. For example, Anger is a psychological barrier to communication. When we are angry, it is simple to say things that we may afterwards regret and also to misunderstand what others are saying. Also, people with low self-esteem may be less self-assured and therefore may not feel comfortable communicating.

Following are psychological barriers:

i. Premature Evaluation:

This premature evaluation is the possible outcome of message before it is transmitted to the receiver. Such an evaluation may prematurely conclude the message may not bring the desired result, thereby he withholds the message. This is an important psychological factor of communication barrier.

ii. Inadequate Attention:

Normally, in a communication this happens at the receiver's end due to carelessness and not listening properly what the person at the other end is telling. This takes place in fact to face communication or in attending telephones.

iii. Transmission Losses and Poor Retention:

When communication passes through various hands and levels in an organisation, the transmission of the message by various persons tends to become inaccurate or corrupt. This happens in written as well as vocal communication. In the latter, the receiver may not retain the message as it was transmitted to him due to poor retention capability, thus leading to confusion at a later stage.

iv. Undue Stress on Written Message:

In an organisation every executive believes that written message, instructions and orders would be better, since the chances of any miscarriage of the message are almost nil. When face to face communication of a message takes place between a superior and subordinate, it not only makes better understanding but is also effective. It does instil confidence in the subordinate in so far as execution of the orders instructions is concerned. No doubt, it is a better medium of communication than the written one.

v. Lack of Trust in the Sender by the Receiver:

When a communicator (sender) frequently alters the original communication, the receiver at the other end will normally delay the action warranted by the message. This happens due to uncertain decisions often taken by the sender. Thus, the communication becomes ineffective, for various alterations and additions. This is an example of lack of confidence on the part of the sender.

vi. Failure to Communicate:

At times, the superior/manager fails to communicate the desired information/order, etc. This may be the cause of flippant attitude of the sender or his apathy. For instance, the sender's over confidence that the message has already been conveyed to the people is likely to create confusion and embarrassment.

- **Physical Barriers:**

Communication is usually easier over shorter distances as more communication channels are obtainable, and less technology is obligatory. Although modern technology often serves to decrease the crash of physical barriers, the advantages and disadvantages of each communication channel should be unspoken so that a suitable channel can be used to overcome the physical barriers.

- **Physiological Barriers:**

Physiological barriers may affect the receiver's physical condition. For example, a receiver with condensed hearing may not grab the sum of a spoken conversation, especially if there is significant surroundings noise.

- **Language Barriers:**

Language and linguistic aptitude may act as a barrier to communication. However, even when communicating in a similar language, the terms used in a message may act as a barrier if it is not easy to understand by the receiver.

- **Attitudinal Barriers:**

Attitudinal barriers are perceptions that stop people from communicating well. Attitudinal barriers to communication may effect from poor management, personality conflicts, and battle to change, or a lack of motivation. Active receivers of messages should challenge to overcome their attitudinal barriers to assist effective communication.

- **Emotional Barriers**

The emotional IQ of a person determines the ease and comfort with which they can communicate. A person who is emotionally mature will be able to communicate effectively. On the other hand, people who let their emotions take over will face certain difficulties.

A perfect mixture of emotions and facts is necessary for effective communication. Emotions like anger, frustration, humour, can blur the decision-making capacities of a person and thus limit the effectiveness of their communication.

- **Cultural Barriers of Communication**

Different cultures have a different meaning for several basic values of society. Dressing, Religions or lack of them, food, drinks, pets and the general behaviour will change drastically from one culture to another.
Hence it is a must that we must take these different cultures into account while communication. In many multinational companies, special courses are offered at the orientation stages that let people know about other cultures and how to be courteous and tolerant of others.

- **Organisational Structure Barriers**

As we saw there are many methods of communication at an organizational level. Each of these methods has its own problems and constraints that may become barriers to effective communication. Most of these barriers arise because of misinformation or lack of appropriate transparency available to the employees.

- **Perception Barriers**

Different people perceive the same things differently. This is a fact which we must consider during the communication process. Knowledge of the perception levels of the audience is crucial to effective communication. All the messages or communiqué must be easy and clear. There shouldn't be any room for a diversified interpretational set.

- **Technological Barriers & Socio-religious Barriers**

Other barriers include the technological barriers. The technology is developing fast and as a result, it becomes difficult to keep up with the newest developments. Hence sometimes the technological advance may become a barrier. In addition to this, the cost of technology is sometimes very high.
Most of the organizations will not be able to afford a decent tech for the purpose of communication. Hence, this becomes a very crucial barrier. Other barriers are socio-religious barriers. In a patriarchal society, a woman or a transgender may face many difficulties and barriers while communicating.

The barriers on this aspect are:

i. Restrictions Imposed by Rules of Organisation:

Normally, the information is to be passed to higher ups through proper channel. This gets delayed while passing through the hierarchical ladder. Instructions in general for passing messages must be given. Also, specific instructions for handling important messages need to be explained to all in order to avoid delays.

ii. Status/Hierarchical Positions Restrict the Flow of Communication:

Status and/or position of an individual make a lot of difference in personal dealings. Superior/subordinate capacity in formal organisation also prevents free flow of communication. This happens especially in case of upward communication. A person from the lower rung in the hierarchy may find it difficult to approach directly the top executive of the organisation.

iii. Complex Situation of the Organisation:

Large organisations, where there are a number of levels in managerial posts for communication may get distorted. This takes place due to censoring of the message when transmitted in the upward direction; since people are usually hesitant to inform the superiors about the adverse aspects.

- **Semantic Barriers:**

This denotes barriers of language and symbols and their interpretation. Every language consists of symbols used to transmit meaning from one person to another. Even the Morse code and mathematical symbols are used in a language for communication purpose. The barriers are from the linguistic capability of the individual involved in the communication.

The following are the different types of semantic barriers:

i. Poor Quality of Message:

When a message is prepared, it must be consistent in all respects like – clarity, precision and usage of appropriate words to express the 'idea' to be transmitted. It should be in simple words, easily understood by the receiver. Otherwise it becomes non-specific and the receiver will have a difficulty in following it properly.

ii. Faulty Transmission:

When message is received from the superior to the subordinate, the individual receiving it must be able to translate it to different categories of subordinates having the constraints of level of understanding and their IQ. It does require proper interpretation of the message received to help disseminate the information to the subordinates.

iii. Lack of Clarity:

In all the messages, there are certain ideas, which need to be understood correctly. In other words, the meaning between the lines of the message must be well-perceived by the receiver. If it is not, there is every likelihood of the message being misunderstood leading to confusion.

iv. Technical Language:

It is often seen that technical language is used by specialist persons i n their communication. This may not be known by a common man. As far as possible, when communicating to common people, it must be in a simple language, common to all. For example, take the case of a doctor, who prescribes medicine to a patient and writes 'TDS' (an abbreviation of three times a day). An ordinary patient may not be able to understand this unless it is written in a simple language, or the abbreviation is explained to him.

- **Personal Barriers:**

These barriers are those, which occur in communication, according to personal constraints at various levels of organisation such as:

i. Attitude of Superiors:

Attitude of the superiors play as vital role in the communication process; whether it is upward or downward or in any other direction. Therefore, the attitude of superior, either favourable or unfavourable affects the flow of communication, i.e., from superior to subordinate and vice versa.

ii. Insistence on Following Proper Channel:

Superiors instruct their subordinates to follow the proper channel, while communicating. They do not want that a subordinate bypasses them and goes direct to the next higher authority. They always want to be in touch with the communication process, so as to help them to know what is happening in their jurisdiction.

During emergency situation, there may be a need to bypass the superior; however, the superior may not like it. He may prevent it and instruct the subordinates to keep him in the picture with whatever information / message being passed to higher up, as and when occasion arises.

iii. Lack of Confidence in Subordinate:
It is a general perception that subordinates are not competent enough to advise superiors, since they do not possess the capacity to do so. This apprehension makes the superior to have lack of confidence in subordinates. However, this idea may not be correct, as there are more able subordinates than their superiors in many respects.
iv. Preoccupation of Superior:
A superior feels that there is no necessity to communicate him each and every matter, as he is always preoccupied with his own work. Supervisor's involvement with their subordinate is a major requirement for efficiency, which many superiors ignore due to lack of time as an excuse.
v. Lack of Awareness:
Inadequate knowledge about the importance of communication and its usefulness in various ways, at times, the superiors may not give desired attention to it. This may lead to restricted or poor transmission of communication affecting the organisation. This can lead to inefficiency and mismanagement.
vi. Hesitation to Communicate:
This happens to be a cause with subordinates not to communicate with their superiors. Subordinates show unwillingness to convey the superior certain information; since such part of information may have an adverse effect on them. Thus, the hesitation to communicate takes place.

- **Mechanical Barriers:**

Mechanical barriers are another group of factors putting barriers in the smooth flow of communication.
They are:
i. Inadequate arrangements for transmission of message
ii. Poor office layout
iii. Detective procedure and practices
iv. Use of wrong medium.
i. Inadequate Arrangement for Transmission of Message:
The arrangements include proper coding and decoding facilities. This is normally carried out through coding machines and trained staff to operate such machines. When important information is sent under different classification, top secret, secret, confidential, etc., adequate care has to be taken in its transmission. It should not be leaked out to unauthorised persons. Safety and security of classified information need to be handled by responsible staff.
ii. Poor Office Layout:
A proper information centre is an inescapable necessity to transmit the messages within the organisation and outside. Therefore, various types of information transmitting through like wireless sets, radio communication system, electronic machines- FAX, e-mail, etc., are required. The infrastructural facilities to accommodate these systems are very essential for effective communication. In their absence there can be various obstacles in the transmission of information.
iii. Defective Procedures and Practices:
There must be defined procedures for docketing of incoming and outgoing messages properly maintained in an information centre. Also, proper arrangements to allot priority messages like

immediate, most immediate, etc., and their subsequent transmissions, if all these are not looked into, the very purpose of communicating will be defeated.

iv. Use of Wrong Medium:

This is another barrier in mechanical communication. It is the responsibility of the sender of the message to select the right medium. For example, let us take dispatch of letters from one organisation to another at a distant place.

Whether the letter should go by an ordinary mail of Speed post, Courier, FAX or e-mail, depends on the exigency (urgency) of the action to be taken at the receiving end. This aspect needs to be decided by the sender himself at all times. Thus, the sender must select a proper medium of communication.

STEPS TO OVERCOME COMMUNICATION BARRIERS

- **Clarify the Ideas before Communication:**

Any issue to be communicated to a subordinate should be clearly and completely studied and analyzed by the superior. Moreover, it should be stated in such a manner that subordinate can easily understand it in the same sense in which the supervisor wants him to receive it.

- **Communicate According to the Need of Receiver:**

The level of understanding and education of the subordinates must be very clear to the manager. Manager should try to communicate according to their level.

- **Consult others before Communicating:**

It is desirable to involve others in developing a plan for communication. Consulting the subordinates before communicating the message helps to gain their ready acceptance and willing cooperation.

- **Be aware of Language, Tone and Content of Message:**

The language, tone and content of a message to be communicated are very important aspects of an effective communication. The language should be clear, simple and easily understandable. Similarly, the tone & content of the message should not provide any harm to the sentiments of listeners rather it should stimulate them to give response.

- **Convey Things of Help and Value to Listeners:**

It is always better to know the needs and interests of the listeners before communicating the message. The response from the listeners is surely obtained if the message is related directly or indirectly to their needs or interests.

- **Communicate for Present as well as Future:**

In order to maintain consistency, the communication should aim at meeting both present as well as future requirements of an organisation.

- **Eliminating differences in perception:**

The organization should ensure that it is recruiting right individuals on the job. It’s the responsibility of the interviewer to ensure that the interviewee has command over the written and spoken language. There should be proper Induction program so that the policies of the company are clear to all the employees. There should be proper trainings conducted for required employees (for eg: Voice and Accent training).

- **Reduction and elimination of noise levels:**

Noise is the main communication barrier which must be overcome on priority basis. It is essential to identify the source of noise and then eliminate that source.

- **Active Listening:** Listen attentively and carefully. There is a difference between "listening" and "hearing". Active listening means hearing with proper understanding of the message that is heard. By asking questions the speaker can ensure whether his/her message is understood or not by the receiver in the same terms as intended by the speaker.
- **Emotional State:** During communication one should make effective use of body language. He/she should not show their emotions while communication as the receiver might misinterpret the message being delivered. For example, if the conveyer of the message is in a bad mood then the receiver might think that the information being delivered is not good.
- **Simple Organizational Structure:** The organizational structure should not be complex. The number of hierarchical levels should be optimum. There should be a ideal span of control within the organization. Simpler the organizational structure, more effective will be the communication.
- **Avoid Information Overload:** The managers should know how to prioritize their work. They should not overload themselves with the work. They should spend quality time with their subordinates and should listen to their problems and feedbacks actively.
- **Give Constructive Feedback:** Avoid giving negative feedback. The contents of the feedback might be negative, but it should be delivered constructively. Constructive feedback will lead to effective communication between the superior and subordinate.
- **Proper Media Selection:** The managers should properly select the medium of communication. Simple messages should be conveyed orally, like: face to face interaction or meetings. Use of written means of communication should be encouraged for delivering complex messages. For significant messages reminders can be given by using written means of communication such as : Memos, Notices etc.
- **Flexibility in meeting the targets:** For effective communication in an organization the managers should ensure that the individuals are meeting their targets timely without skipping the formal channels of communication. There should not be much pressure on employees to meet their targets.

COORDINATION

Coordination is the process of organizing people or groups so that **they** work together properly and well. It is the harmonious functioning of parts for effective results The game requires excellent hand-eye **coordination**.

coordination is being able to move and use your body effectively and multiple people or things working well together.

Coordination is the **function** of management which ensures that different departments and groups work in sync. Therefore, there is unity of action among the employees, groups, and departments. It also brings harmony in carrying out the different tasks and activities to achieve the organization's objectives efficiently.

Coordination activates each function of management and makes them effective and purposeful. It helps in achieving harmony among individual efforts for attaining organisational goals. It is present in all the activities of an organisation such as production, sales, finance etc.

Coordination is a **process** of binding the activities of various departments and persons in the organization so that the desired can be easily achieved. Management achieves its basic functions of planning, organizing, staffing, directing and controlling through **co-ordination**.
"Co-ordination is the orderly arrangement of group effort, to provide unit of action in the pursuit of common purpose". – Alan C. Reiley and James D. Mooney

NATURE/CHARACTERISTICS OF COORDINATION:
The nature of coordination is as under:
1. Coordination Integrates Group Efforts:
Coordination gives a common direction to group efforts to ensure that work is performed according to the plans. Such need arises as individuals working in an organization have different backgrounds and styles of working.

2. Coordination Ensures Unity of Action:
Coordination integrates the functions of all departments and ensures that all activities aim at accomplishment of organisational objectives. For example, in a manufacturing business, the production department, sales department and purchase department are all reciprocally interdependent.
Sales department has to provide production department with information about the demand of the product and purchase department needs to know how much quantity of raw material is required to meet the demand. If even anyone of the three does not perform its jobs properly, all of them will be affected.

3. Coordination is a Continuous Process:
Coordination is a never ending process. It starts with the functions of planning and continues till controlling. It is an ongoing process, required for the efficient functioning of the organisation.

4. Coordination is all Pervasive Function:
All the activities of an organisation are interrelated and interdependent. Thus, coordination is required at all levels and in all departments. For example, the coordination among purchase, production and sales department is essential for achieving organisational goals.
The activities can be performed smoothly in the production department if purchase department provides the required raw material, in time. Similarly, the sales activities can be performed only when there is sufficient timely production of goods.

5. Coordination is the Responsibility of all Managers:
Every manager is required to perform the function of coordination. For example, top level managers coordinate the activities of their subordinates to ensure that the overall policies of an organisation are duly implemented. Operational level management coordinates the activities of its workers so that work is performed according to plans.

6. Coordination is a Deliberate Function:

A manager is required to coordinate the efforts of different people towards common goal of the organisation. Coordination gives common direction to the efforts of the employees who are willing to work and cooperate.

From the above discussion, it can be concluded that coordination is not a separate function of management, but rather it's the essence of management. It is required at all the levels, all departments and in all managerial functions.

NEED FOR CO-ORDINATION

The need for co-ordination arises due to the following

1. In every organization, the nature of work is such that it requires to be divided into homogeneous and specialized sub-tasks and then **without Integration and co-ordination the output of the organization will be nil**.

2. **Co-ordination applies to group effort** rather than to individual effort. It gives importance to unity of effort and united action. The outcome of coordinated group efforts will be much better than the sum results of various individuals.

3. **Coordination motivates the employees** to consider their work from the point of view of business and so the employees will willingly contribute towards the success of the concern. Therefore, **coordination is heartbeat of organization** which brings integration of efforts and action among employees in the organization.

3. **Coordination ensures commitment** on the part of divisions, groups, individuals toward organizational goals.

4. **Coordination ensures efficiency and economy** in the organization, enterprise to ensure smooth working. It also helps in saving of time by bringing efficiency and economy to the enterprise.

5. There may arise certain circumstances that may demand sacrifice of objective of one department in the welfare of the enterprise as a whole. In such situation, the need for co-ordination arises.

6. Coordination is directed towards channelizing the efforts, skills, energies of work groups along organizationally established lines. If the co-ordination is absent, group members may be pulled in different directions and work at cross purposes.

IMPORTANCE OF COORDINATION:

The importance of coordination is as under:

1. Size of the Organization:

The need of coordination arises when the organization grows in size. Growth here means increase in number of employees. Employees with different values, experiences and objectives become part of the organization to satisfy their needs. In order to bring harmony in the organization, management has to integrate personal goals with the organizational goals through coordination.

2. Functional Differentiation:

The organisation is divided into different departments, sections or divisions. They try to work in isolation and independently. The need of coordination is required to ensue these units remain a part of the organisation and move towards the realization of pre-determined organisation goal.

3. Specialisation:

In modem organisation, diversification and complexities of technology give rise to specialisation. The organisation hire specialists who that they are competent to handle their jobs. They do not consult departmental heads. This often leads to conflict among specialists and departmental heads. Therefore, coordination is needed to reconcile differences to ensure unity of action achieve organisational objective.

KEY ELEMENTS OF COORDINATION:

The main elements of Coordination are as:

(i) Integration, (ii) Balancing and (iii) Timing.

(i) Integration:

Coordination integrates all diverse interests and efforts of all individuals to achieve common goals of an organisation.

(ii) Balancing:

Coordination provides mutual support to various activities so that goals of different units are in line with one another.

(iii) Timing:

Coordination adjusts the time schedules of different activities so that they can support one another to deliver the final result in time.

COORDINATION – TYPES:

- **On the Basis of Scope and Flow in an Organisation and**
- **On the Basis of Relationship**

Coordination can be of various types, which are as follows:

1. On the Basis of Scope and Flow in an Organization:

i. Internal Coordination:

This refers to the coordination between different departments and various individuals working in the enterprise. It involves synchronization of the activities and efforts of individuals in various departments, plants, and offices of an organization.

ii. External Coordination:

The coordination between an organization and its external environment is known as external coordination. Here, external environment consists of outside parties who are interested about the affairs of the organization (such as Government, customers, investors, suppliers, competitors, etc.). No organization operates in isolation. An organization has to establish external relations and coordination for its success and survival in the long run. Management should take necessary steps to satisfy the conflicting needs and demands of interested external parties.

2. On the Basis of Relationship:

i. Vertical Coordination:

This refers to the coordination between different levels in the organization. Vertical coordination is achieved by the top management through delegation of authority. The management should ensure the harmonious working of different levels (top, middle, and lower) according to the overall organizational policies and programmes.

ii. Horizontal Coordination:

This refers to the coordination between various departments (or positions) at the same level in the organization. For instance, coordination between various functional managers such as production manager, marketing manager, finance manager, etc., can be termed as horizontal coordination. Horizontal coordination is achieved through mutual consultations and cooperation. Horizontal coordination between various departments is essential for synchronization of diverse activities of an organization.

TECHNIQUES OF EFFECTIVE COORDINATION IN ORGANIZATION

Some of the techniques that are used to achieve effective coordination are given below:

1. **Direct Contact**: One of the most effective means of achieving coordination is direct contact. Written communication, modern electronic, mechanical devices, etc., can also be used.

2. **Group Meetings**: Group meetings are said to be an effective means of achieving coordination. At the time of meeting, superior comes into personal contact with those connected with the actual problems. Such meetings encourage the people to integrate their efforts. Coordination can be achieved through regular meetings of superiors and subordinates.

3. **Organizational Structure**: Coordination can be achieved only when the authority and responsibility of each and every person are clearly defined. In this connection, it was quoted by J.O. Shaughnessy as follows

In other words, the organizational structure should be designed properly so as to permit coordination among various activities along the line itself.

4. **Effective Communication**: In achieving coordination, effective communication plays a vital role. Communication greatly helps in coordination. The purpose of communication is to promote deep understanding among members by bringing and maintaining coordination in order to achieve the ultimate goals.

Effective Communication is a process whereby ideas and images of one person are transmitted to another person. Coordination between various individuals and activities is brought out by communication. Effective communication facilitates information and exchange of ideas which helps to achieve the common purpose. Coordination is facilitated by exchange of such ideas and information and brings people together.

5. **Committees**: In order to coordinate the various activities, various types of committees may be appointed. Committees provide the means for synchronizing various efforts. Committees develop better understanding and morale among the members. They are greatly advisory in nature and make use of the best efforts of the members.

The success of the committee depends very much on its composition and the manner in which it functions. Examples of such committees are – committees on manufacturing methods, complaint committee, suggestion committee on welfare work, etc.

6. **Staff Meetings**: Staff meetings at regular intervals helps in achieving effective coordination because such meetings provides opportunities for frank discussions and better exchange of ideas of people from different sections. This infuse a feeling of unity among the members which makes them to jointly work for the organization.

7. **Effective Leadership**: Leader inculcates a feeling of collectivism in the employees and forces them to work as a team. Individuals within the group, may possess varied interests and multiple goals. Leader reconciles these conflicting goals and restores equilibrium. A good leader can achieve coordination at all stages. Hence, effective leadership is essential for achieving coordination.

8. **Informal Coordination**: Many organizations adopt informal means of coordination through processes of social, unofficial interactions, relationship and mutual adjustments. They are very often more effective than formal means.

PROBLEMS FACED IN CO-ORDINATION

The following factors are responsible in the way of effective coordination:

i. Lack of Administrative Talent:

This arises due to the selection of inefficient personnel. They do not know the administrative procedure properly. This results in ineffective coordination.

ii. Clash of Interests:

Often individuals are pursuing narrow personal interests by sacrificing organizational interests. Sometimes, individuals fail to understand how the achievement of organizational goals will satisfy their own goals. As a result, there exists a conflict between individual goals and organizational goals.

iii. Differences in Attitudes and Working Styles:

Every individual has his own way of dealing with problems. Moreover, there are differences in attitudes of individuals to attain a specific goal. Above all, the capacity and talent of people differ widely. This results in ineffective coordination.

iv. Complexity of Operations:

In a big organization, a large number of people process the work at various levels. It may be difficult to communicate the policies, orders, and managerial actions on a face-to-face basis. If the operations of an organization are diversified and complex, then the need for coordination is felt everywhere. The huge size of an operation brings about problems of coordination.

v. Specialization:

Specialists take care of various specialized functions (such as purchasing, production, finance, marketing, etc.). They are more interested in developing their own departments. They pursue their own special interests at the cost of organizational goals. This results in ineffective coordination.

UNIT VI

CONTROLLING

Controlling can be defined as that function of management which helps to seek planned results from the subordinates, managers and at all levels of an organization. The **controlling** function helps in measuring the progress towards the organizational goals & brings any deviations, & indicates corrective action.

Controlling helps managers monitor the effectiveness of their planning, organizing, and leading activities. **Controlling** determines what is being accomplished — that is, evaluating the performance and, if **necessary**, taking corrective measures so that the performance takes place according to plans.

Control is a primary goal-oriented function of management in an organisation. It is **a process of comparing the actual performance with the set standards of the company** to ensure that activities are performed according to the plans and if not then taking corrective action.

Every manager needs to monitor and evaluate the activities of his subordinates. It helps in taking corrective actions by the manager in the given timeline to avoid contingency or company's loss. Controlling is performed at the lower, middle and upper levels of the management.

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, the meaning of controlling function can be defined as ensuring that activities in an organization are performed as per the plans. Controlling also ensures that an organization's resources are being used effectively & efficiently for the achievement of predetermined goals.

- Controlling is a goal-oriented function.
- It is a primary function of every manager.
- Controlling the function of a manager is a pervasive function.

IMPORTANCE OF CONTROLLING

After the meaning of control, let us see its importance. Control is an indispensable function of management without which the controlling function in an organization cannot be accomplished and the best of plans which can be executed can go away. A good control system helps an organization in the following ways:

1**. Accomplishing Organizational Goals**

The controlling function is an accomplishment of measures that further makes progress towards the organizational goals & brings to light the deviations, & indicates corrective action. Therefore it helps in guiding the organizational goals which can be achieved by performing a controlling function.

2. **Judging Accuracy of Standards**

A good control system enables management to verify whether the standards set are accurate & objective. The efficient control system also helps in keeping careful and progress check on the changes which help in taking the major place in the organization & in the environment and also helps to review & revise the standards in light of such changes.

3. **Making Efficient use of Resources**

Another important function of controlling is that in this, each activity is performed in such manner so an in accordance with predetermined standards & norms so as to ensure that the resources are used in the most effective & efficient manner for the further availability of resources.

4. **Improving Employee Motivation**

Another important function is that controlling help in accommodating a good control system which ensures that each employee knows well in advance what they expect & what are the standards of performance on the basis of which they will be appraised. Therefore it helps in motivating and increasing their potential so to make them & helps them to give better performance.

5. **Ensuring Order & Discipline**

Controlling creates an atmosphere of order & discipline in the organization which helps to minimize dishonest behavior on the part of the employees. It keeps a close check on the activities of employees and the company can be able to track and find out the dishonest employees by using computer monitoring as a part of their control system.

6. **Facilitating Coordination in Action**

The last important function of controlling is that each department & employee is governed by such pre-determined standards and goals which are well versed and coordinated with one another. This ensures that overall organizational objectives are accomplished in an overall manner.

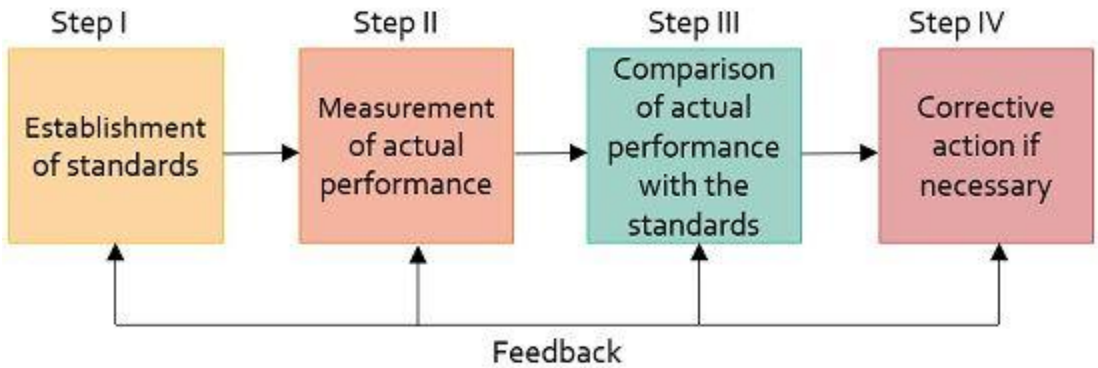
FEATURES OF CONTROLLING

- An effective control system has the following features:
- It helps in achieving organizational goals.
- Facilitates optimum utilization of resources.
- It evaluates the accuracy of the standard.
- It also sets discipline and order.
- Motivates the employees and boosts employee morale.
- Ensures future planning by revising standards.
- Improves overall performance of an organization.
- It also minimises errors.

Controlling and planning are interrelated for controlling gives an important input into the next planning cycle. Controlling is a **backwards-looking function** which brings the management cycle back to the planning function. Planning is a forward-looking process as it deals with the forecasts about the future conditions.

Process of Controlling

Control process involves the following steps as shown in the figure:



- **Establishing standards**: This means setting up of the target which needs to be achieved to meet organisational goals eventually. Standards indicate the criteria of performance.

Control standards are categorized as quantitative and qualitative standards. **Quantitative standards** are expressed in terms of money. **Qualitative standards**, on the other hand, includes intangible items.

- **Measurement of actual performance**: The actual performance of the employee is measured against the target. With the increasing levels of management, the measurement of performance becomes difficult.

- **Comparison of actual performance with the standard**: This compares the degree of difference between the actual performance and the standard.

- **Taking corrective actions**: It is initiated by the manager who corrects any defects in actual performance.

Controlling process thus regulates companies' activities so that actual performance conforms to the standard plan. An effective control system enables managers to avoid circumstances which cause the company's loss.

TYPES OF CONTROL

There are three types of control viz.,

1. **Feedback Control**: This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.
2. **Concurrent control**: It is also called real-time control. It checks any problem and examines it to take action before any loss is incurred. Example: control chart.
3. **Predictive/ feedforward control**: This type of control helps to foresee problem ahead of occurrence. Therefore action can be taken before such a circumstance arises.

TECHNIQUES OF CONTROLLING:

There are many controlling techniques which were also commonly known as controlling aids.

Generally these controlling techniques can be categorized into two types i.e., Traditional Techniques and Modern Techniques. Now in this article we can concentrate on both the techniques in detail. So that one can understand them well and can practice well in their organizations to achieve their predetermined objectives.

1. Traditional Control Techniques:

The essence of control function is to confirm whether the actions are going according to plans or not. If they are not accordance with the plans then management should take a corrective action to overcome such deviations. For this purpose management should determine standards so that they can easily be compared with them.

For this purpose many techniques have been developed. Among them traditional such as Budgeting and Budgetary Control, Cost Control, Production Planning and Control, Inventory Control etc. are the best examples. Though modern techniques have been developed to improve the quality of controlling process but still today these techniques are being used extensively in the organizations.

I. Budgeting and Budgetary Control:

Budgeting:

A widely used tool for management control is budget. It is a quantitative expression of plan of action. It refers to the plan of an organization expressed in financial terms. It determines financial estimations relating to various activities of an organization for a fixed period of controlling actual performance.

The following are the important definitions of a budget:

"A budget is pre-determined statement of management policy during a given period provided a standard for comparison with the results actually achieved". — J. L. Brown & L.R. Howard

"A budget is a financial or quantitative statement prepared prior to a defined period of time of the policy to be pursued during that period for the purpose attaining a given objective".— I. C. W. A England

From the above definitions the following characteristics can be summarized:

(1) A budget generally relates to a given future period

(2) It differs from objectives or policies because it is set down in specific numerical terms

(3) It should be flexible

(4) It is fundamental to the organization and hence, it receives the attentions and support of the top management.

Importance of Budgeting:

(1) Budgeting involves drawing up budgets based on well-defined plans of action.

(2) It serves another important purpose i.e., coordinating plans and activities of various departments and sections.

(3) It facilitate control over expenses, income, costs and profits.

Types of Budget:

There are many types of Budgets which are generally used in an organization.

They are:

(i) Sales budget – It represents the plan of sales for a given period.

(ii) Purchase budget – It presents the quantities of raw materials and other consumable items to be purchased by a manufacturing company.

(iii) Cash budget – It is a statement of the anticipated receipts and payments for a given period along with the resulting surplus or deficit.

(iv) Expense budget – It lays down the estimates of the standard or norm of operating expenses of an enterprise for a given period.

(v) Capital budget – This type of budget outlines the anticipated expenditure on plant, machinery, equipment and other items of a capital nature.

(vi) Revenue budget – It indicates the income or revenue expected to be earned from sale of goods produced or purchased for re-sale.

(vii) Production budget – It shows the volume of production to be undertaken for a given period together with the material, labour and machinery requirements sometimes production budgets also show the anticipated cost of production.

(viii) Labour budget – It indicates the types of skills of labourers and the numbers in each category estimated to be required in a given period along with the standard wages payable.

(ix) Master budget – This is prepared for the whole enterprise by compiling the different sectional budgets which is finally adopted and worked upon.

Budgetary Control:

It is the process of preparing various budgeted figures for the organization for the future period and then comparing with the actual performance for finding out variances. This enables management to find out deviations and take corrective measures at a proper time. Hence, a budget is a means and budgetary control is the end result.

(1) "Budgetary control is system which uses budget as a means of planning and controlling all aspects of producing and or selling commodities or services".

(2) "Budgetary control is the planning in advance of the various functions of business so that the business as a whole can be controlled".

From the above two definitions, the following characteristics of budgetary control can be extracted:

(1) It implies the planning of activities for each department.

(2) It involves recording of actual performance for sake of comparison and control.

(3) It involves taking the necessary steps to improve the situation and to prevent further deviations.

(4) It involves the co-ordination among various department plans and budgets.

Advantages:

(1) The budgetary control aims at the maximization of profits of an organization.

(2) It provides the management with a means of control over planned programmes.

(3) It facilitates co-ordination among various activities of an organization.

(4) Wastage is minimized and hence efficiency can be achieved.

(5) Budgetary control enables the introduction of incentives schemes of remuneration.

(6) It creates consciousness among the employees.

(7) The national resources will be used economically and wastage will be eliminated.

(8) It provides an effective means by which top management can delegate authority and responsibility without disturbing overall control.

Limitations of Budgetary Control:

(1) The future uncertainties reduce the utility of budgetary control system.

(2) Budgetary control may lead to conflicts among functional departments.

(3) The lack of co-ordination among different departments results in poor performance.
(4) The cost of employing additional staff for budgeting increases the expenditure of an organization which generally cannot be afford by small enterprises.

II. Cost Control:

The cost of production is an important factor in calculating the income of an organization. Hence, every organization tries it level best to keep the cost within the reasonable limits. The techniques of cost control involve the setting of cost standards for various components of cost and making comparison of actual cost data with standard cost. This process is known as standard costing. This standard costing refers to a pre-determined estimate of cost with can be used as a standard.

This standard cost forms the basis of control under standard costing. Actual cost is compared with the standards, variations are analysed and suitable action are taken to overcome such variations. Thus standard costing may be regarded essentially as a tool of cost control.

Advantages:

(1) It helps in discovering efficient and inefficient activities in an organization.
(2) It provides valuable information for submitting tenders or quoting prices of products and services.
(3) It reduces cost of an organization.
(4) Cost records become a basis for planning future production policies.
(5) The reasons for variations in profit can be ascertained.

Limitations:

(1) It is very expensive to apply.
(2) The success of this method depends on the reliability and accuracy of standards.

III. Production Planning and Control:

It is an important function of production manager. This is the function of looking ahead, estimating difficulties to be occurred and remedial steps to remove them. It guides and directs flow of production so that products are manufactured in a best way.

Following techniques are helpful in production planning and control:

(i) Routing – It is the determination of exact path which will be followed in production. It determines the cheapest and best sequence of activities to be followed.
(ii) Scheduling – It is the determining of time and date when each operational activity is to be started and completed.
(iii) Dispatching – It refers to the process of actually ordering the work to be done.
(iv) Follow up and Expediting – It is related to evaluation and appraisal of work performed.
(v) Inspection – It is to see whether the products manufactured are of requisite quality or not.

IV. Inventory Control:

It refers to the control of materials in an efficient manner, which ensures maximum return on working capital. It is very important for the smooth functioning of production department. Its main objective is to maintain a suitable supply of material at the lowest cost.

This control is exercised at three phases:

(i) Purchasing of materials

(ii) Storing of materials
(iii) Issuing of materials.
This can be exercised by establishing various criteria such as:
(i) Safety inventory level
(ii) Maximum inventory level
(iii) Reordering level
(iv) Danger level

V. Profit and Loss Control:
It is a simple and commonly used overall control tool to find out the immediate profit or cost factors responsible for either the success or failure of business. As a controlling device it enables the management to influence in advance revenues, the expenses and consequently even profits.
The sales, expenses and profit of different departments are compared. The department becomes a cost centre. The in charge of the department is responsible for its performance. Even historical comparison is done to assess the performance. In case there are deviations in performance than immediate steps are taken to rectify them.

VI. Statistical Data Analysis:
It is an important control technique. This analysis is possible by means of comparison of ratios, percentages, averages, trends etc., of different periods with a view to find out deviations and causes. This method is applicable in case of inventory control, production control and quality control. The minimum and maximum control limits are fixed and deviations with in these limits are allowed.
It variations go beyond limitations then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits are plotted. This chart will give an idea whether everything is going as per the plans or not. Hence, analysis of data is important device of control.

2. Modern Techniques:
Besides the traditional techniques which were discussed above, there are many other techniques which have been evolved in modern times. These techniques are also called non-budgetary techniques.
I. Return on Investment Control (ROI):
One of the most successfully used control technique of measuring both the absolute and the relative success of a company is by the ratio of net earnings to investment the company has made. This approach often referred to a ROI. If the rate of return on investment is satisfactory, it will be considered as good performance. The return on investment can be compared over a period of time as well as with that of other similar concerns.
The return on investment can be computed with the following formula:

$$\text{Return on investment} = \frac{\text{Net Profit before interest and tax}}{\text{Capital employed}}$$

II. Programme Evaluation and Review Techniques (PERT):

The success of organization depends on its activities for the accomplishment of an objective within stipulated time and cost. Management should determine activities to be performed and their inter-relationships so that estimated resources and time needed to complete these activities as per schedule and to monitor and control the time and cost of the project.

Through network analysis technique the time can be minimized to complete the project and also overall project cost can be minimized. For this purpose PERT and CPM are the two important types of network analysis used in modern management.

It is a technique of project which is used in the following managerial functions:

i. Planning:

The planning of project includes the listing of different jobs that has to be performed to complete the venture. Here, requirements of men, material and equipment are determined along with the costs and duration for the various jobs, in the process of planning.

ii. Scheduling:

It is the arrangement of the actual jobs of the project according to sequence of the time in which they have to be performed. At this stage calculation of manpower and materials required are calculated along with the expected time of completion of each job.

iii. Control:

The process of control starts with comparison of the difference between schedules and actual results. They analyse of difference and the corrective action taken is the essence of control process.

The most important condition for implementing PERT is the breaking up of the project into activities and determining the order of occurrence of these activities i.e., deciding activities which are to be completed before. The next step is to draw graph, which explains the activities outlining the predecessor and successor relations among them. A thorough understanding of the steps associated with the construction of the graph is important for understanding of PERT.

Advantages:

The following are the important advantages of PERT are:

(1) It forces managers to chalk-out a plan to integrate all the activities as a whole.

(2) It is instrumental for concentrating attention on critical elements that may need modifications.

(3) It is helpful in solving problems of scheduling the activities of one-time projects i.e., the projects which are not taken on routine basis.

(4) It helps in completing a project on schedule by coordinating different jobs involved in its completion.

Limitations:

(1) The expected time for each activity of any programme cannot be determined with certainty.

(2) It is suitable for programmes where time is essential consideration.

III. Critical Path Method (CPM):

The technique is helpful in finding out the more strategic elements of a plan for the purpose of better designing, planning, coordinating and controlling the entire project. It was developed by walker of Dupont Company in 1950s, under this technique a project is broken into different operations or activities and their relationships are determined.

These relations are shown with the help of diagram known as network diagram. The network diagram may be used for optimizing the use of resources and time. This technique is based on the assumption that activity times are proportional to the magnitude of resources allocated to them and by making a change in the level of resources, the activity times and the project completion time can be varied.

Objectives of CPM Analysis:

The following are the main objectives of critical path analysis in a network:

(1) To estimate a route or path between two or more activities which maximizes some measures of performance.

(2) To locate the points of hurdles and difficulties in the implementation of any project.

(3) To determine starting and ending times for each activity.

(4) To determine the slack associated with each non-critical activity.

Advantages:

The application of CPM leads to the following advantages:

(1) It determines most critical elements and pays more attention to these activities.

(2) It results in the maximum utilization of resources and facilities.

(3) It provides standard method for communicating project plans, schedules and costs.

(4) It concentrates on the timely completion of the whole project.

(5) It improves the quality of planning and controlling.

(6) It eliminates waste of time, energy and money on unimportant activities.

Limitations:

CPM is having two major limitations:

(1) It has limited use and application in routine activities for recurring projects.

(2) Time given for different activities may prove to unrealistic.

PERT and CPM Compared:

PERT and CPM as techniques of planning and control have certain similarities as well as differences.

The two techniques are similar in the following respects:

(1) Both CPM and PERT use the project network as their basis.

(2) The concept of critical paths and activity slack are common to both.

(3) Both the techniques are basically time-oriented. They are now used for cost control as well.

The differences between the two techniques are the following:

(1) PERT is used for new industries with rapidly changing technology having more uncertainties, while CPM is used for construction projects where uncertainties are limited.

(2) CPM is activity-oriented while PERT is event-oriented.

(3) CPM lays stress on the element of costs whereas PERT is concerned essentially with the time factor.

IV. Management Information System (MIS):

This system emphasizes on providing timely, adequate and accurate information to the right person in the organization which in turn helps in making right decisions. It is a planned technique for transferring of intelligence within an organization for better management. Under this method data from all possible sources are collected and properly processed for using in future. So this system should be designed in such a way that helps management in exercising effective control over all aspects of the organization.

MIS is of two types:

(1) Management operating system and

(2) Management reporting system.

The first one meant for meeting the information needs of the lower and middle level managements and second one is to supply information to top level management for decision-making.

V. Break Even Analysis:

A significant and popularly used control technique among the business enterprises and industries is the analysis of break-even point which explains the relationship between sales and expenses in such a way as to show at what volume revenue exactly covers expenses. This technique measures profit corresponding to the different levels of output. Hence, the study of cost- volume-profit relationship is frequently referred to as break even analysis.

In the words of Matz and Curry "Break-even analysis indicates at which level costs and revenue are in equilibrium". Thus, break-even analysis is associated with the calculation of break-even point. It is also known as no profit, no loss point. This point can be calculated mathematically and charted on graph paper also.

The method of calculating break-even point is as follows:

$$\text{Break even point} = \frac{\text{Fixed cost}}{\text{Selling price} - \text{variable cost}}$$

$$= \frac{\text{Fixed cost}}{\text{Contributing margin per unit}}$$

Assumption:

The break even analysis is based on the following assumptions:

(i) All elements of cost i.e., production, administration and selling and distribution can be segregated into fixed and variable components.

(ii) Variable cost remains constant per unit of output and thus fluctuates directly in proportion to changes in the volume of output.

(iii) Fixed cost remains constant at all volumes of output.

(iv) Volume of production is the only factor that influences.

(v) There is a synchronization between production and sales.

Advantages:

The break even analysis renders many advantages for managerial guidance.

(i) It helps in calculating of profit for different sales volumes.

(ii) Calculation of sales volume to produce desired profit can be possible.

(iii) It emphasizes on calculation of selling price per unit for a particular break-even point.

(iv) It helps in determination of margin of safety.

(v) It helps in calculating of sales required to offset price reduction.

(vi) It helps in choosing the most profitable alternatives.

(vii) It helps in determining the optimum sales mix.

(viii) It helps in calculation of sales volume required to meet proposed expenditures.

Limitations:

The break even analysis is based on number of assumptions which are rarely found in real life. Hence, its managerial utility becomes limited.

Its main limitations are as follows:

(i) This analysis overlooks the time lag between production and sale.

(ii) The assumption of keeping factors like plant-size, technology and methodology of production constant in order to get an effective break-even chart is unrealistic in actual life.

(iii) The sales-mix is also not a constant variable.

(iv) The valuation and allocation of costs in an organization is usually arbitrary and hence it reduces the usefulness of this analysis.

(v) This analysis does not take into account the capital invested in the production and its costs which is very important factor in profitability decisions.

VI. Management Audit:

This audit reveals irregularities and defects in the working of management. It also suggests the ways to improve the efficiency of the management. It examines and the reviews various policies and functions of the management on the bases of certain standards. It emphasis to evaluate the performance of various management processes of an organization.

According to Taylor and Perry, "Management audit is the comprehensive examination of an enterprise to appraise its organizational structure, policies and procedures in order to determine whether sound management exists at all levels, ensuring effective relationships with the outside world".

According to the Institute of Internal Auditors, Management audit is a "future oriented, independent and systematic evaluation of the activities of all levels of management for the purpose of improving organizational profitability and increasing the attainment of the other organizational objectives".

Hence, from the above two definitions it can be concluded that management audit concentrates on the examination of policies and functions of the management on the basis of certain standards and norms.

Objectives:

The following are the main objectives of management audit:

(i) It assists management in achieving co-ordination among various departments of the organization.

(ii) It detects any irregularity in the process of management and also it suggests improvement to achieve best results.

(iii) It assists all levels of management through constant watch of all activities of the organization.

(iv) It suggests changes in the policies and procedures for a better future.

(v) It ensures most effective relationship with the outsiders and the most efficient internal organization.

(vi) It concentrates on performance of the management through close observation of inputs and outputs.

(vii) It ensures the establishing good relations with the employees and to elaborate duties, rights and liabilities of the entire staff.

(viii) It recommends better human relation approach, new management development and overall organizational plans and objectives.

Importance:

Management audit is very important for its usefulness and is outlined as follows:

(i) It assesses the soundness of plans adopted and the adequacy of control system for making plans successful.
(ii) It is useful in giving advices to the prospective investors.
(iii) It is very much useful in reviewing plans and policies.
(iv) It gives proper advice to the management to perform their functions well.
(v) Financial institutions may get management audit conducted to ensure that their investment in the company would be safe and secured in the hands of the management.

Advantages of Management Audit:

It provides us following advantages:

(i) It helps the management in preparing plans, objectives and policies and suggests the ways and means to implement those plans and policies.
(ii) Proper management audit techniques help the business to stop capital erosion.
(iii) Management audit increases the overall profitability of a business through constant review of solvency, profitability and efficiency position of the concern.
(iv) Management audit eradicates the inefficiencies and ineffectiveness on the part of the management.
(v) The techniques of management audit are not only applicable to all factors of production but also to all elements of cost.
(vi) It helps the top management to take effective decisions in time.
(vii) It helps the management in strengthening its communication system within and outside the business.
(viii) It helps management in preparation of budgets and resources management policies.
(ix) It helps management in training of personnel and marketing policies.

Disadvantages:

The disadvantages of management audit can briefly be stated as follows:

(i) The installation of this audit technique involves heavy expenditure.
(ii) Due to ineffectiveness and inefficiency of the management auditor, management audit cannot provide result oriented service.
(iii) Management auditors may be engaged in some activities detrimental to social objects of auditing for example evasion of tax.

Advantages of controlling

- Saves time and energy
- Allows managers to concentrate on important tasks. This allows better utilization of the managerial resource.
- Helps in timely corrective action to be taken by the manager.
- Managers can delegate tasks so routinely chores can be completed by subordinates.

On the contrary, controlling suffers from the constraint that the organization has no control over external factors. It can turn out to be a costly affair, especially for small companies.

Limitations of Controlling:

The defects or limitations of controlling are as following:

1. Difficulty in Setting Quantitative Standards:

It becomes very difficult to compare the actual performance with the predetermined standards, if these standards are not expressed in quantitative terms. This is especially so in areas of job satisfaction, human behaviour and employee morale.

2. No Control on External Factors:

An organization fails to have control on external factors like technological changes, competition, government policies, changes in taste of consumers etc.

3. Resistance from Employees:

Often employees resist the control systems since they consider them as curbs on their freedom. For example, surveillance through closed circuit television (CCTV).

4. Costly Affair:

Controlling involves a lot of expenditure, time and effort, thus it is a costly affair. Managers are required to ensure that the cost involved in installing and operating a control system should not be more than the benefits expected from it.